NACCO INDUSTRIES INC
Form 10-Q
August 01, 2018

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, 2018

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, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth 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	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 July 27, 2018: 5,374,894
Number of shares of Class B Common Stock outstanding at July 27, 2018: 1,569,250

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Part I
FINANCIAL INFORMATION
Item 1. Financial Statements

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

	JUNE 30 2018	DECEMBER 31 2017
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$79,952	$ 101,600
Accounts receivable, net	17,908	14,611
Accounts receivable from affiliates	12,664	19,919
Inventories, net	29,159	30,015
Prepaid expenses and other	12,703	10,843
Total current assets	152,386	176,988
Property, plant and equipment, net	123,632	120,068
Intangibles, net	42,056	43,554
Deferred income taxes	2,663	5,962
Investments in unconsolidated subsidiaries	18,444	16,335
Deferred costs	3,527	3,582
Other non-current assets	23,310	23,063
Total assets	$366,018	$ 389,552
LIABILITIES AND EQUITY		
Accounts payable	$9,120	$ 7,575
Accounts payable to affiliates	4,609	1,925
Revolving credit agreements	12,000	15,000
Current maturities of long-term debt	1,037	1,125
Accrued payroll	9,627	17,204
Asset retirement obligations	3,092	3,092
Other current liabilities	6,436	8,055
Total current liabilities	45,921	53,976
Long-term debt	14,946	42,021
Asset retirement obligations	36,348	37,005
Pension and other postretirement obligations	10,917	11,827
Deferred compensation	12,939	12,939
Other long-term liabilities	13,975	12,336
Total liabilities	135,046	170,104
Stockholders' equity		
Common stock:		
Class A, par value $1 per share, 5,374,722 shares outstanding (December 31, 2017 - 5,282,106 shares outstanding)	5,375	5,282
Class B, par value $1 per share, convertible into Class A on a one-for-one basis, 1,569,422 shares outstanding (December 31, 2017 - 1,570,146 shares outstanding)	1,569	1,570
Capital in excess of par value	5,269	4,447
Retained earnings	231,761	216,490
Accumulated other comprehensive loss	(13,002)	(8,341)
Total stockholders' equity	230,972	219,448

Total liabilities and equity	$366,018	$ 389,552

See notes to Unaudited Condensed Consolidated Financial Statements.

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Revenues	$33,681	$28,100	$64,881	$56,400
Cost of sales	28,835	23,503	54,611	47,245
Gross profit	4,846	4,597	10,270	9,155
Earnings of unconsolidated operations	15,423	13,475	30,978	28,430
Operating expenses				
Selling, general and administrative expenses	11,863	10,566	22,490	20,086
Amortization of intangible assets	814	619	1,498	1,206
Gain on sale of assets	(210)	(2,625)	(263)	(3,025)
	12,467	8,560	23,725	18,267
Operating profit	7,802	9,512	17,523	19,318
Other expense (income)				
Interest expense	569	928	1,215	1,860
Income from other unconsolidated affiliates	(318)	(311)	(633)	(619)
Closed mine obligations	343	352	722	735
Other, net, including interest income	(373)	(29)	(342)	(49)
	221	940	962	1,927
Income from continuing operations before income tax provision	7,581	8,572	16,561	17,391
Income tax provision from continuing operations	1,188	1,340	1,992	1,939
Income from continuing operations	6,393	7,232	14,569	15,452
Discontinued operations, net of tax expense of $2,443 and $3,514 in the three and six months ended June 30, 2017, respectively.	—	(444)	—	(3,686)
Net income	$6,393	$6,788	$14,569	$11,766
Basic earnings (loss) per share:				
Continuing operations	$0.92	$1.06	$2.11	$2.27
Discontinued operations	—	(0.07)	—	(0.54)
Basic earnings per share	$0.92	$0.99	$2.11	$1.73
Diluted earnings (loss) per share:				
Continuing operations	$0.92	$1.06	$2.10	$2.26
Discontinued operations	—	(0.07)	—	(0.54)
Diluted earnings per share	$0.92	$0.99	$2.10	$1.72
Dividends per share	$0.1650	$0.2725	$0.3300	$0.5400
Basic weighted average shares outstanding	6,940	6,835	6,914	6,818
Diluted weighted average shares outstanding	6,940	6,850	6,939	6,847

See notes to Unaudited Condensed Consolidated Financial Statements.

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2018	2017	2018	2017
	(In thousands)			
Net income	$6,393	$6,788	$14,569	$11,766
Foreign currency translation adjustment	—	672	—	1,743
Deferred gain on equity securities	—	238	—	464
Current period cash flow hedging activity, net of $283 and $369 tax benefit in the three and six months ended June 30, 2017, respectively.	—	(620)	—	(859)
Reclassification of hedging activities into earnings, net of $77 and $89 tax benefit in the three and six months ended June 30, 2017, respectively.	—	134	—	140
Reclassification of pension and postretirement adjustments into earnings, net of $26 and $61 tax benefit in the three and six months ended June 30, 2018, respectively, net of $140 and $190 tax benefit in the three and six months ended June 30, 2017, respectively.	105	148	245	324
Total other comprehensive income	105	572	245	1,812
Comprehensive income	$6,498	$7,360	$14,814	$13,578

See notes to Unaudited Condensed Consolidated Financial Statements.

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

	SIX MONTHS ENDED JUNE 30	
	2018	2017
	(In thousands)	
Operating activities		
Net income	$14,569	$11,766
Loss from discontinued operations	—	(3,686)
Income from continuing operations	14,569	15,452
Adjustments to reconcile income from continuing operations to net cash provided by (used for) operating activities:		
Depreciation, depletion and amortization	7,120	6,423
Amortization of deferred financing fees	167	185
Deferred income taxes	3,299	2,514
Other	(3,138)	(1,179)
Working capital changes:		
Affiliates receivable/payable	6,420	8,685
Accounts receivable	(1,350)	(7,351)
Inventories	857	533
Other current assets	(2,062)	(2,850)
Accounts payable	4,174	388
Income taxes receivable/payable	(1,481)	(121)
Other current liabilities	(9,879)	(8,165)
Net cash provided by operating activities of continuing operations	18,696	14,514
Net cash used for operating activities of discontinued operations	—	(16,261)
Net cash provided by (used for) operating activities	18,696	(1,747)
Investing activities		
Expenditures for property, plant and equipment	(9,182)	(5,700)
Proceeds from the sale of property, plant and equipment	274	1,453
Other	628	617
Net cash used for investing activities of continuing operations	(8,280)	(3,630)
Net cash used for investing activities of discontinued operations	—	(2,378)
Net cash used for investing activities	(8,280)	(6,008)
Financing activities		
Additions to long-term debt	691	193
Reductions of long-term debt	(30,411)	(24,814)
Cash dividends paid	(2,289)	(3,690)
Cash dividends received from Hamilton Beach Brands Holding Co. (See Note 10)	—	3,000
Purchase of treasury shares	(55)	—
Net cash used for financing activities of continuing operations	(32,064)	(25,311)
Net cash provided by financing activities of discontinued operations	—	12,562
Net cash used for financing activities	(32,064)	(12,749)
Effect of exchange rate changes on cash of discontinued operations	—	65

Cash and cash equivalents		
Total decrease for the period	(21,648)	(20,439)
Net change related to discontinued operations	—	6,012
Balance at the beginning of the period	101,600	69,308
Balance at the end of the period	$79,952	$54,881

See notes to Unaudited Condensed Consolidated Financial Statements.

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT 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) Deferred Gain (Loss) on Equity Securities	Accumulated Other Comprehensive Income (Loss) Pension and Postretirement Plan Adjustment	Total Stockholders' Equity
	(In thousands, except per share data)						
Balance, January 1, 2018	$5,282	$1,570	$4,447	$216,490	$2,727	$ (11,068)	$ 219,448
ASC 606 adoption (See Note 2)	—	—	—	(2,075)	—	—	(2,075)
ASU 2016-01 reclassification (See Note 2)	—	—	—	2,727	(2,727)	—	—
ASU 2018-02 reclassification (See Note 2)	—	—	—	2,339	—	(2,179)	160
Stock-based compensation	94	—	875	—	—	—	969
Purchase of treasury shares	(2)	—	(53)	—	—	—	(55)
Conversion of Class B to Class A shares	1	(1)	—	—	—	—	—
Net income	—	—	—	14,569	—	—	14,569
Cash dividends on Class A and Class B common stock: $0.33 per share	—	—	—	(2,289)	—	—	(2,289)
Reclassification adjustment to net income	—	—	—	—	—	245	245
Balance, June 30, 2018	$5,375	$1,569	$5,269	$231,761	$—	$ (13,002)	$ 230,972

See notes to Unaudited Condensed Consolidated Financial Statements.

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(In thousands, except as noted and per share amounts)

NOTE 1—Nature of Operations and Basis of Presentation

Nature of Operations: 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. NACCO is the public holding company for The North American Coal Corporation. The North American Coal Corporation and its affiliated companies (collectively, “NACoal”) operate surface mines that supply coal primarily to power generation companies under long-term contracts, and provide other value-added services to natural resource companies. In addition, its North American Mining ("NAM") business operates and maintains draglines and other equipment under contracts with sellers of aggregates.

On September 29, 2017, the Company spun-off Hamilton Beach Brands Holding Company ("HBBHC"), a former wholly owned subsidiary. The financial position, results of operations and cash flows of HBBHC are reflected as discontinued operations for all periods presented through the date of the spin-off. See Note 10 to the Unaudited Condensed Consolidated Financial Statements for further details regarding the spin-off.

NACoal has the following operating coal mining subsidiaries: Bisti Fuels Company, LLC ("Bisti"), Caddo Creek Resources Company, LLC (“Caddo Creek”), Camino Real Fuels, LLC (“Camino Real”), The Coteau Properties Company (“Coteau”), Coyote Creek Mining Company, LLC (“Coyote Creek”), Demery Resources Company, LLC (“Demery”), The Falkirk Mining Company (“Falkirk”), Mississippi Lignite Mining Company (“MLMC”) and The Sabine Mining Company (“Sabine”). Liberty Fuels Company, LLC ("Liberty") ceased all mining and delivery of lignite in 2017 and commenced mine reclamation in 2018.

All of the operating coal mining subsidiaries other than MLMC are unconsolidated (collectively, the "Unconsolidated Operations"). The unconsolidated coal mining subsidiaries were formed to develop, construct and/or 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. Although NACoal owns 100% of the equity and manages the daily operations of the Unconsolidated Operations, 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 operations of the Unconsolidated Operations are solely the responsibility of the Company. The pre-tax income from the Unconsolidated Operations is reported on the line “Earnings of unconsolidated operations” in the Consolidated Statements of Operations, with related taxes included in the provision for income taxes. The Company has included the pre-tax earnings of the Unconsolidated Operations above operating profit as they are an integral component of the Company's business and operating results.

The contracts with the customers of the unconsolidated subsidiaries eliminate exposure to spot coal market price fluctuations and are based on a "management fee" approach, whereby compensation includes reimbursement of all operating costs, plus a fee based on the amount of coal or limestone delivered. The fees earned adjust over time in line with various indices which reflect general U.S. inflation rates.

MLMC is a consolidated entity because NACoal pays all operating costs and provides the capital for the mine. MLMC sells coal to its customer at a contractually agreed upon price which adjusts monthly, primarily based on changes in the level of established indices which reflect general U.S. inflation rates. Centennial Natural Resources, LLC ("Centennial"), which ceased coal production at the end of 2015, is also a consolidated entity.

NAM provides value-added services for independently owned limestone quarries and is reimbursed by its customers based on actual costs plus a management fee per unit of limestone delivered. The financial results for NAM are included in the consolidated operations or Unconsolidated Operations based on each entity's structure.

NACoal also provides coal handling, processing and drying services for a number of customers. For example, NoDak Energy Services, LLC ("NoDak") operates and maintains a coal processing facility for a customer's power plant. The pre-tax income from NoDak is reported on the line "Income from other unconsolidated affiliates" in the "Other expense (income)" section of the Consolidated Statements of Operations, with the related income taxes included in the provision for income taxes. North

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American Coal Royalty Company, a consolidated entity, provides surface and mineral acquisition and lease maintenance services related to the Company's operations.

All of the unconsolidated subsidiaries are accounted for under the equity method. See Note 6 for further discussion.

Basis of Presentation: 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, 2018, the results of its operations, comprehensive income and cash flows for the six months ended June 30, 2018 and 2017 and the changes in equity for the six months ended June 30, 2018 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, 2017.

The balance sheet at December 31, 2017 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.

Reclassifications: As a result of the reclassification of HBBHC to discontinued operations and the adoption of new accounting standards, certain amounts in the prior period Unaudited Condensed Consolidated Financial Statements have been reclassified to conform to the current period's presentation.

NOTE 2—Recently Issued Accounting Standards

Revenue Recognition: The Company accounts for revenue in accordance with Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers", which NACCO adopted on January 1, 2018, using the modified retrospective method. The adoption of ASC 606 resulted in the establishment of a $2.6 million contract liability and a $2.1 million cumulative effect adjustment to beginning retained earnings (net of tax of $0.5 million) as of January 1, 2018 to reflect the impact of changing the accounting for lease bonus payments received under certain royalty contracts. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period results are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605.

Revenues are recognized when control of the promised goods or services is transferred to the Company’s customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Nature of Performance Obligations
At contract inception, the Company assesses the goods and services promised in its contracts with customers and identifies a performance obligation for each promised good or service that is distinct. To identify the performance obligations, the Company considers all of the goods or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices.
Each mine or mine area has a contract with its respective customer that represents a contract under ASC 606. For its consolidated entities, NACoal’s performance obligations vary by contract and consist of the following:
At MLMC, each MMBtu delivered during the production period is considered a separate performance obligation. Revenue is recognized at the point in time that control of each MMBtu of lignite transfers to the customer. Fluctuations in revenue from period to period generally result from changes in customer demand.
At NAM entities, the management service to oversee the operation of the equipment and delivery of limestone is the performance obligation accounted for as a series. Performance momentarily creates an asset that the customer

simultaneously receives and consumes; therefore, control is transferred to the customer over time. Consistent with the conclusion that the customer simultaneously receives and consumes the benefits provided, an input-based measure of progress is appropriate. As each month of service is completed, revenue is recognized for the amount of actual costs incurred, plus the management fee and the general and administrative fee (as applicable). Fluctuations in revenue from period to period result from changes in customer demand and variances in reimbursable costs primarily due to increases and decreases in activity levels on individual contracts.

NACoal enters into royalty contracts which grant the right to its customers to explore, develop, produce and sell minerals controlled by the Company. These arrangements result in the transfer of mineral rights to a customer for a period of time;

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however, no rights to the actual land are granted other than access for purposes of exploration, development, and production. The mineral rights revert back to NACoal at the expiration of the contract.

Under these royalty contracts, granting exclusive right, title, and interest in and to minerals, if any, is the performance obligation. The performance obligation under these contracts represents a series of distinct goods or services whereby each day of access that is provided is distinct. The transaction price consists of a variable sales-based royalty and, in certain arrangements, a fixed component in the form of an up-front lease bonus payment. As the amount of consideration the Company will ultimately be entitled to is entirely susceptible to factors outside its control, the entire amount of variable consideration is constrained at contract inception. The fixed portion of the transaction price will be recognized over the primary term of the contract, which is generally five years.

Significant Judgments

The Company's contracts with its customers contain different types of variable consideration including, but not limited to, management fees that adjust based on limestone yards or coal volumes or MMBtu delivered, however, the terms of these variable payments relate specifically to our efforts to satisfy one or more, but not all of, the performance obligations (or to a specific outcome from satisfying the performance obligations), in the contract. Therefore, the Company allocates each variable payment (and subsequent changes to that payment) entirely to the specific performance obligation to which it relates. Management fees, as well as general and administrative charges, are also adjusted based on changes in specified indices (e.g. CPI) to compensate for general inflation changes. Index adjustments, if applicable, are effective prospectively. Certain contracts include reimbursement of actual costs incurred.

Disaggregation of Revenue

In accordance with ASC 606-10-50, the Company disaggregates revenue from contracts with customers into major goods and service lines and timing of transfer of goods and services. The Company determined that disaggregating revenue into these categories achieves the disclosure objective of depicting how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. As noted in the segment information footnote, the Company's business consists of one operating segment, NACoal.

The following table disaggregates revenue by major sources (in thousands):

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
Major Goods/Service Lines	2018	2017 [1]	2018	2017[1]
Consolidated operations - long-term contracts	$29,960	$24,878	$57,983	$50,079
Royalty	3,721	3,222	6,898	6,321
Total revenues	$33,681	$28,100	$64,881	$56,400
Timing of Revenue Recognition				
Goods transferred at a point in time	$20,174	$17,492	$37,195	$34,407
Services transferred over time	13,507	10,608	27,686	21,993
Total revenues	$33,681	$28,100	$64,881	$56,400

[1] As noted above, prior period amounts have not been adjusted under the modified retrospective method.

Contract Balances

The opening and closing balances of the Company's current and long-term contract liability, and receivables are as follows:

	Contract balances	
	Accounts Receivable	Contract liability
		Contract liability

		(current)	(long-term)
Balance, January 1, 2018	$14,611	$ 860	$ 1,766
Balance, June 30, 2018	17,908	685	1,356
Increase (decrease)	$3,297	$ (175)	$ (410)

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As described above, NACoal enters into royalty contracts that grant exclusive right, title, and interest in and to minerals. The transaction price consists of a variable sales-based royalty and, in certain arrangements, a fixed component in the form of an up-front lease bonus payment. The timing of the payment of the fixed portion of the transaction price is upfront, however, the performance obligation is satisfied over the primary term of the contract, which is generally five years. Therefore, at the time any such up-front payment is received, a contract liability is recorded which represents deferred revenue. The difference between the opening and closing balance of this contract liability, which is shown above, primarily results from the difference between new lease bonus payments received and amortization of up-front lease bonus payments received in previous periods.

The amount of revenue recognized in the three and six month periods ended June 30, 2018 that was included in the opening contract liability was $0.3 million and $0.6 million, respectively. This revenue consists of up-front lease bonus payments received under royalty contracts that are recognized over the primary term of the royalty agreement, which is generally five years. The Company expects to recognize an additional $0.4 million in the remainder of 2018, $0.5 million in 2019, $0.4 million in both 2020 and 2021 and $0.2 million in 2022. The difference between the opening and closing balances of the Company’s accounts receivable and contract liabilities results from the timing difference between the Company’s performance and the customer’s payment. Contracts with payments in arrears are recognized as receivables.

The Company has no contract assets recognized from the costs to obtain or fulfill a contract with a customer.

Practical Expedients & Accounting Policy Elections
Remaining performance obligations - The Company has not disclosed the value of unsatisfied performance obligations for contracts with an original expected length of one year or more as the Company recognized revenue at the amount to which it has the right to invoice for goods delivered or services performed.
ASC 606 requires that the Company disclose the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied. However, the guidance provides certain practical expedients that limit this requirement, including when variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a series.
As discussed above, the Company allocates the variable consideration in its contract entirely to each specific performance obligation to which it relates. Therefore, any remaining variable consideration in the transaction price is allocated entirely to wholly unsatisfied performance obligations. As such, the Company has not disclosed the value of unsatisfied performance obligations pursuant to the practical expedient.
Other Accounting Standards Adopted in 2018: In January 2016, the FASB issued Accounting Standard Update ("ASU") No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which NACCO adopted on January 1, 2018. The adoption of this guidance resulted in a $2.7 million reclassification within the Unaudited Condensed Consolidated Statement of Changes in Equity and did not have a material effect on the Company’s financial position, results of operations, cash flows and related disclosures. See Note 5 for further discussion.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which NACCO adopted on January 1, 2018. The adoption of this guidance resulted in a $2.3 million reclassification within the Unaudited Condensed Consolidated Statement of Changes in Equity and did not have a material effect on the Company’s financial position, results of operations, cash flows and related disclosures.
Accounting Standards Not Yet Adopted: In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)," which requires an entity to recognize assets and liabilities for the rights and obligations created by leased assets. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, or as of January 1, 2019 for NACCO. The new standard requires lessees to record assets and liabilities on the balance sheet for all leases with

terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Company is currently in the process of evaluating its existing lease portfolio, including accumulating all of the information required to properly account for the leases under the new standard and any changes to processes and internal controls to meet the standard's reporting and disclosure requirements. The Company has selected a lease management system to assist with lease accounting. While the Company is still evaluating how and to what extent ASU 2016-02 will affect the Company's financial position, results of operations and related disclosures, it expects the adoption will result in a material increase to the assets and liabilities recorded on the Unaudited Condensed Consolidated Balance Sheet. The ASU is not expected to have a material impact on cash flows, liquidity or debt-covenant compliance.

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NOTE 3—Inventories

Inventories are summarized as follows:

	JUNE 30 2018	DECEMBER 31 2017
Coal	$ 11,434	$ 13,416
Mining supplies	17,725	16,599
Total inventories	$ 29,159	$ 30,015

NOTE 4—Stockholders' Equity

Stock Repurchase Program: On February 14, 2018, the Company's Board of Directors approved a stock repurchase program ("2018 Stock Repurchase Program") providing for the repurchase of up to $25 million of the Company's outstanding Class A Common Stock through December 31, 2019. During the three and six months ended June 30, 2018, the Company repurchased $0.1 million of Class A Common Stock under the 2018 Stock Repurchase Program. The timing and amount of any repurchases under the 2018 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, market conditions for the Company's Class A Common Stock and other legal and contractual restrictions. The 2018 Stock Repurchase Program does not require the Company to acquire any specific number of shares and may be modified, suspended, extended or terminated by the Company without prior notice and may be executed through open market purchases, privately negotiated transactions or otherwise. All or part of the repurchases under the 2018 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 restricted from doing so under applicable securities laws.

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, 2018			
Assets:				
Equity securities	$ 9,285	$9,285	$ —	$ —
	$ 9,285	$9,285	$ —	$ —
	December 31, 2017			
Assets:				

Equity securities	$ 9,166	$9,166	$ —	$ —
Interest rate swap agreements	42	—	42	—
	$ 9,208	$9,166	$ 42	$ —

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 to assure the long-term treatment of post-mining discharges. Bellaire's Mine Water Treatment Trust invests in equity 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.

On January 1, 2018, the Mine Water Treatment Trust's unrealized gain was reclassified within the Unaudited Condensed Consolidated Statement of Changes in Equity upon adoption of ASU No. 2016-01. See Note 2 for further information. The

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Mine Water Treatment Trust realized a gain of $0.2 million and $0.1 million in the three and six months ended June 30, 2018, respectively, reported on the line "Other, net, including interest income" in the "Other expense (income)" section of the Consolidated Statements of Operations.

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

There were no transfers into or out of Levels 1, 2 or 3 during the six months ended June 30, 2018 and 2017.

NOTE 6—Unconsolidated Subsidiaries

Each of NACoal's wholly owned unconsolidated subsidiaries meet the definition of a variable interest entity. See Note 1 for a discussion of these entities.

The investment in the unconsolidated subsidiaries and related tax positions totaled $18.4 million and $16.3 million at June 30, 2018 and December 31, 2017, respectively. The Company's maximum risk of loss relating to these entities is limited to its invested capital, which was $5.8 million and $5.2 million at June 30, 2018 and December 31, 2017, respectively.

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 NACoal would be required to perform under the guarantees is remote, and no amounts related to these guarantees have been recorded.

Summarized financial information for the unconsolidated subsidiaries is as follows:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2018	2017	2018	2017
Revenues	$182,018	$174,554	$365,064	$368,728
Gross profit	$20,405	$19,857	$41,468	$41,854
Income before income taxes	$15,456	$13,616	$31,578	$29,326

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. 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. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. The Company does not accrue liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated or when the liability is believed to be

only reasonably possible or remote. For contingencies where an unfavorable outcome is probable or reasonably possible and which are material, the Company discloses the nature of the contingency and, in some circumstances, an estimate of the possible loss.

These matters are subject to inherent uncertainties, and unfavorable rulings could occur. If an unfavorable ruling were to occur, there exists the possibility of an adverse impact on the Company’s financial position, results of operations and cash flows of the period in which the ruling occurs, or in future periods.

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NOTE 8—Business Segments

Two of the Company’s former segments, Hamilton Beach Brands and Kitchen Collection, were spun-off on September 29, 2017. See Note 1 and Note 10 for a discussion of the Company's industry and the spin-off. There were no changes to the composition of the remaining segments, NACoal and NACCO and Other. NACCO's non-operating segment, NACCO and Other, includes the accounts of the parent company and Bellaire.

Financial information for each of NACCO's reportable segments is presented in the following table:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2018	2017	2018	2017
Revenues				
NACoal	$33,681	$28,100	$64,881	$56,400
Total	$33,681	$28,100	$64,881	$56,400
Operating profit (loss)				
NACoal	$9,522	$10,876	$20,804	$22,202
NACCO and Other	(1,720)	(1,364)	(3,281)	(2,884)
Total	$7,802	$9,512	$17,523	$19,318

NOTE 9—Income Taxes

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (“TCJA”), which significantly revised U.S. tax law. Subsequent to the enactment of the TCJA, the SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”), which provides a measurement period of up to one year after the enactment date for companies to finalize the recognition of the income tax effects of the TCJA. As a result of the TCJA and pursuant to SAB 118, the Company provisionally recorded a discrete net tax benefit of $3.1 million during the year ended December 31, 2017. The ultimate impact of the TCJA may differ from these provisional amounts due to, among other things, changes in interpretations and assumptions, additional regulatory guidance that may be issued, and the computation of state income taxes as there is uncertainty on conformity to the U.S. federal tax system following the TCJA. During the three and six months ended June 30, 2018, no adjustments were recorded to the provisional amount recognized in 2017. Any adjustment to the provisional amount will be recorded within the one year measurement period provided by SAB 118.

NOTE 10—Other Events and Transactions

HBBHC Spin-Off: On September 29, 2017, the Company spun-off HBBHC, a former wholly owned subsidiary. To complete the spin-off, the Company distributed one share of HBBHC Class A common stock and one share of HBBHC Class B common stock to NACCO stockholders for each share of NACCO Class A common stock or Class B common stock owned. The Company accounted for the spin-off based on the historical carrying value of HBBHC.

In connection with the spin-off of HBBHC, the Company and HBBHC entered into a Transition Services Agreement ("TSA"). Under the terms of the TSA, the Company provides various services to HBBHC on a transitional basis, as needed, for varying periods after the spin-off date. The transition services are materially complete. NACCO received fees of $0.2 million and $0.4 million in the three and six months ended June 30, 2018, recorded as a reduction to selling, general and administrative expenses.

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As a result of the spin-off, the financial position, results of operations and cash flows of HBBHC are reflected as discontinued operations through the date of the spin-off in the Unaudited Condensed Consolidated Financial Statements. Discontinued operations includes the following results of HBBHC for the three and six months ended June 30, 2017:

	THREE MONTHS ENDED JUNE 30, 2017	SIX MONTHS ENDED JUNE 30, 2017
HBBHC Operating Statement Data:		
Revenues	$152,976	$293,258
Cost of goods sold	114,145	219,850
Gross profit	38,831	73,408
Operating expenses	36,667	73,682
Operating profit (loss)	2,164	(274)
Interest expense	462	877
Other income, net	(297)	(979)
Income (loss) before income taxes	1,999	(172)
Income tax expense (benefit)	760	(53)
HBBHC net income (loss)	$1,239	$(119)
NACCO discontinued operations income tax expense adjustment	1,683	3,567
NACCO discontinued operations	$(444)	$(3,686)

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

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based upon management's current expectations and are subject to various uncertainties and changes in circumstances. Important factors that could cause actual results to differ materially from those described in these forward-looking statements are set forth below under the heading “Forward-Looking Statements."
Management's Discussion and Analysis of Financial Condition and Results of Operations includes NACCO Industries, Inc. (the “parent company” or “NACCO”) and its wholly owned subsidiaries (collectively, the “Company”). NACCO is the public holding company for The North American Coal Corporation. The North American Coal Corporation and its affiliated companies (collectively, “NACoal”) operate surface mines that supply coal primarily to power generation companies under long-term contracts, and provide other value-added services to natural resource companies. In addition, its North American Mining ("NAM") business operates and maintains draglines and other equipment under contracts with sellers of aggregates. NACoal’s service-based business model aligns its operating goals with customers’ objectives.

Coal is surface mined from NACoal's mines in North Dakota, Texas, Mississippi, Louisiana and on the Navajo Nation in New Mexico. NACoal has the following operating coal mining subsidiaries: Bisti Fuels Company, LLC ("Bisti"), Caddo Creek Resources Company, LLC (“Caddo Creek”), Camino Real Fuels, LLC (“Camino Real”), The Coteau Properties Company (“Coteau”), Coyote Creek Mining Company, LLC (“Coyote Creek”), Demery Resources Company, LLC (“Demery”), The Falkirk Mining Company (“Falkirk”), Mississippi Lignite Mining Company (“MLMC”) and The Sabine Mining Company (“Sabine”). Liberty Fuels Company, LLC ("Liberty") ceased all mining and delivery of lignite in 2017 and commenced mine reclamation in 2018.

NAM provides value-added services for independently owned limestone quarries and is reimbursed by its customers based on actual costs plus a management fee per unit of limestone delivered. The financial results for NAM are included in the consolidated mining operations or unconsolidated mining operations based on each entity's structure.

NACoal also provides coal handling, processing and drying services for a number of customers. For example, NoDak Energy Services, LLC ("NoDak") operates and maintains a coal processing facility for a customer's power plant. North American Coal Royalty Company provides surface and mineral acquisition and lease maintenance services related to the Company's operations.
NACCO and Other includes the parent company operations and Bellaire Corporation ("Bellaire"), a non-operating subsidiary of NACCO. Although Bellaire’s operations are immaterial, it has long-term liabilities related to closed mines, primarily from former Eastern U.S. underground coal mining activities.

On September 29, 2017, the Company spun-off Hamilton Beach Brands Holding Company ("HBBHC"), a former wholly owned subsidiary. As a result of the spin-off, NACCO stockholders received one share of HBBHC Class A common stock and one share of HBBHC Class B common stock for each share of NACCO Class A or Class B common stock owned on the record date for the spin-off. The financial position, results of operations and cash flows of HBBHC are reflected as discontinued operations for all periods presented through the date of the spin-off.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company has updated its revenue recognition policy in connection with the adoption of ASC 606 as further described in Note 2 to the accompanying Unaudited Condensed Consolidated Financial Statements. Please also refer to the discussion of the Company's Critical Accounting Policies and Estimates as disclosed on pages 28 through 31 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The Company's remaining

Critical Accounting Policies and Estimates have not materially changed since December 31, 2017.

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CONSOLIDATED FINANCIAL SUMMARY

The results of operations for NACCO were as follows for the six months ended June 30:

	THREE MONTHS		SIX MONTHS	
	2018	2017	2018	2017
NACoal operating profit [a]	$9,522	$10,876	$20,804	$22,202
NACCO and Other operating loss [a]	(1,720)	(1,364)	(3,281)	(2,884)
Operating profit [a]	7,802	9,512	17,523	19,318
Interest expense	569	928	1,215	1,860
Income from other unconsolidated affiliates	(318)	(311)	(633)	(619)
Closed mine obligations	343	352	722	735
Other, net, including interest income	(373)	(29)	(342)	(49)
Other expense, net	221	940	962	1,927
Income from continuing operations before income tax provision	7,581	8,572	16,561	17,391
Income tax provision	1,188	1,340	1,992	1,939
Income from continuing operations, net of tax	$6,393	$7,232	$14,569	$15,452
Discontinued operations, net of tax	—	(444)	—	(3,686)
Net income	$6,393	$6,788	$14,569	$11,766
Effective income tax rate from continuing operations	15.7 %	15.6 %	12.0 %	11.1 %

[a] All of NACCO's Revenues are attributable to NACoal. As a result, the Company's results of operations, including Revenues, Operating profit and Other expense, net, for NACoal and NACCO and Other are discussed below in "Segment Results." Amounts below income before income tax provision are analyzed on a consolidated basis.

Income Taxes

The Company evaluates and updates its estimated annual effective income tax rate on a quarterly basis based on current and forecasted operating results and tax laws. Consequently, based upon the mix and timing of actual earnings compared to projections of earnings between entities that benefit from percentage depletion and those that do not, the effective tax rate may vary quarterly. The quarterly income tax provision is generally comprised of tax expense on income or benefit on loss at the most recent estimated annual effective income tax rate, adjusted for the effect of discrete items. See Note 9 to the Unaudited Condensed Consolidated Financial Statements for further discussion of the Company's income taxes.

Liquidity and Capital Resources of NACCO

Financing arrangements are obtained and maintained at the subsidiary level. NACCO has not guaranteed any borrowings of its subsidiaries. The credit agreement at NACoal allows for the payment to NACCO of dividends and advances under certain circumstances as described below under "The North American Coal Corporation - Liquidity and Capital Resources - Financing Activities." Dividends (to the extent permitted by NACoal's credit agreement) and management fees are the primary sources of cash for NACCO and enable the Company to pay dividends to stockholders.

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Capital Structure

NACCO's consolidated capital structure is presented below:

	JUNE 30 2018	DECEMBER 31 2017	Change
Cash and cash equivalents	$79,952	$ 101,600	$(21,648)
Other net tangible assets	157,784	153,791	3,993
Intangible assets, net	42,056	43,554	(1,498)
Net assets	279,792	298,945	(19,153)
Total debt	(27,983)	(58,146)	30,163
Bellaire closed mine obligations	(20,837)	(21,351)	514
Total equity	$230,972	$ 219,448	$11,524
Debt to total capitalization	11%	21%	(10)%

The components of change are discussed below in "Segment Results."

NACCO Industries, Inc. Consolidated Outlook

In the second half of 2018, NACCO expects consolidated income before income tax from continuing operations to increase substantially compared with the second half of 2017, resulting in an overall moderate increase in 2018 full year income before income tax from continuing operations over 2017. The Company expects an overall effective income tax rate in the range of 9% - 12% for 2018, compared with an effective income tax rate of 2.2% in 2017. In 2017, the Company applied the intraperiod tax allocation rules to allocate the provision for income taxes between continuing operations and discontinued operations, which produced results in 2017 that were neither comparable nor indicative of future expectations. As a result of the increase in the effective income tax rate, consolidated income from continuing operations in the second half of 2018 is expected to be comparable to the second half of 2017 and be down modestly for the 2018 full year compared with 2017.

Income before income tax in the second half of 2017 included $2.1 million of gains on sales of assets. Excluding these gains, NACCO expects income before income tax in the second half of 2018 to increase compared with the prior year primarily due to improved income at the consolidated operations, lower operating expenses mainly related to lower employee-related costs and reduced interest expense. These improvements are expected to be partially offset by a decrease in royalty and other income. Royalties on oil, gas and coal extracted by third parties are subject to changes in market forces and the activities of third parties, making it difficult to forecast whether recent high levels of income will continue.

At the consolidated operations, MLMC's pre-tax income in the second half of 2018 is expected to increase substantially over the second half of 2017 and the first half of 2018, primarily as a result of a reduction in the cost per ton of coal delivered during the second half of 2018. In general, cost per ton delivered is lowest when the power plant requires a consistently high level of coal deliveries, primarily because costs are spread over more tons. Historically, periods of reduced or fluctuating deliveries, such as during planned or unplanned power plant outages or periods of fluctuating demand for electricity generated by the plant, have adversely affected MLMC's tons delivered, resulting in an increase in cost per ton delivered and reduced profitability. Customer demand in the second half of 2018 is expected to return to higher levels because fewer plant outage days are expected compared with the prior year. Improved income in the second half of the year, primarily in the third quarter, is expected to offset the lower income in the first half of 2018 resulting in full-year 2018 income at MLMC that is comparable to 2017. If customer demand does not improve as expected at MLMC, it could unfavorably affect NACoal's 2018 earnings significantly.

Centennial's pre-tax loss in the second half of 2018 is expected to be comparable to 2017, excluding a $2.8 million reduction in its mine reclamation liability and a $1.0 million asset impairment charge realized in the prior year fourth

quarter. Centennial will continue to evaluate strategies to optimize cash flow, including the continued assessment of a range of strategies for its remaining Alabama mineral reserves, including holding reserves with substantial unmined coal tons for sale or contract mining when conditions permit. Cash expenditures related to mine reclamation will continue until reclamation is complete, or ownership of, or responsibility for, the remaining mines is transferred.

Earnings from the unconsolidated operations in the second half of 2018 are expected to be comparable to the second half of 2017. An increase in tons delivered at Bisti as a result of the completion of work to install additional environmental controls at the customer's power plant and higher compensation at Liberty for mine closure work is expected to be offset by fewer tons

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delivered at other unconsolidated operations. Production at Bisti is anticipated to be 5 million to 6 million tons of coal per year when the plant is operating at expected levels, which is currently anticipated to occur in 2019.

Cash flow before financing activities is expected to decrease substantially in the second half of 2018 compared with the second half of 2017, resulting in an overall decrease in cash flow before financing activities for the 2018 full year. Capital expenditures are expected to be up to approximately $31 million in 2018, of which $9.1 million was expended in the first half of 2018. Planned expenditures at MLMC and NAM include expenditures for new and replacement equipment and land required for future mining. The timing and amount of capital expenditures may vary based on further refinement of capital needs and mine plans.

While the current regulatory environment for development of new coal projects has improved, continued low natural gas prices and growth in renewable energy sources, such as solar and wind, could unfavorably affect the amount of electricity generation attributable to coal-fired power plants over the longer term. NACoal continues to seek opportunities for new coal mining projects, although future opportunities are likely to be very limited. In addition, NACoal continues to pursue additional non-coal mining opportunities, principally related to its NAM business and elsewhere where it might provide value-added services. During the second quarter of 2018, NAM signed two new contracts with limestone customers. Operations under one contract are expected to commence in the fourth quarter of 2018, while operations under the second contract are expected to commence in early 2019.

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SEGMENT RESULTS

THE NORTH AMERICAN COAL CORPORATION

FINANCIAL REVIEW

Tons of coal delivered by NACoal's operating mines were as follows for the three and six months ended June 30 (in millions):

	THREE MONTHS		SIX MONTHS	
	2018	2017	2018	2017
Coteau	3.0	3.5	6.8	7.3
Falkirk	1.9	1.3	4.0	3.0
Sabine	0.9	0.5	2.0	1.5
Bisti	0.9	0.7	1.2	2.0
Camino Real	0.6	0.7	1.1	1.2
Coyote Creek	0.6	0.5	1.2	1.0
Other	0.1	0.3	0.2	0.7
Unconsolidated operations	8.0	7.5	16.5	16.7
MLMC	0.8	0.7	1.5	1.4
Total tons delivered	8.8	8.2	18.0	18.1

Cubic yards of limestone delivered by NAM were as follows for the three and six months ended June 30 (in millions):

	THREE MONTHS		SIX MONTHS	
	2018	2017	2018	2017
Unconsolidated operations	1.2	0.5	2.7	0.7
Consolidated operations	7.2	7.4	15.0	15.0
Total yards delivered	8.4	7.9	17.7	15.7

The results of operations for NACoal were as follows for the three and six months ended June 30:

	THREE MONTHS		SIX MONTHS	
	2018	2017	2018	2017
Revenue - consolidated operations	$29,960	$24,878	$57,983	$50,079
Revenue - royalty	3,721	3,222	6,898	6,321
Total revenues	33,681	28,100	64,881	56,400
Cost of sales - consolidated operations	28,381	22,894	53,741	46,078
Cost of sales - royalty	379	562	742	1,086
Total cost of sales	28,760	23,456	54,483	47,164
Gross profit	4,921	4,644	10,398	9,236
Earnings of unconsolidated operations[(a)]	15,423	13,475	30,978	28,430
Selling, general and administrative expenses	10,219	9,249	19,337	17,283
Amortization of intangible assets	814	619	1,498	1,206
Gain on sale of assets	(211)	(2,625)	(263)	(3,025)
Operating profit	9,522	10,876	20,804	22,202
Interest expense	569	928	1,215	1,860
Other (income) expense, including income from other unconsolidated affiliates	(407)	(307)	(689)	(550)
Income before income tax provision	$9,360	$10,255	$20,278	$20,892

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

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Second Quarter of 2018 Compared with Second Quarter of 2017

The following table identifies the components of change in revenues for the second quarter of 2018 compared with the second quarter of 2017:

	Revenues
2017	$ 28,100
Increase (decrease) from:	
Consolidated operations	5,221
Royalty	360
2018	$ 33,681

Revenues increased $5.6 million in the second quarter of 2018 compared with the second quarter of 2017 primarily due to an increase in tons sold at MLMC as a result of increased customer requirements and higher reimbursed costs at NAM's consolidated operations.

The following table identifies the components of change in operating profit for the second quarter of 2018 compared with the second quarter of 2017:

	Operating Profit
2017	$ 10,876
Increase (decrease) from:	
Net gain on sale of assets	(2,415)
Consolidated operations, excluding Centennial	(1,010)
Selling, general and administrative expenses	(967)
Earnings of unconsolidated operations	1,948
Centennial, excluding the net gain on sales of assets	604
Royalty	486
2018	$ 9,522

NACoal's operating profit decreased in the second quarter of 2018 compared with the second quarter of 2017 primarily due to $2.6 million of gains on sales of assets in the second quarter of 2017, a decrease in results at the consolidated mines, principally MLMC, and an increase in Selling, general and administrative expenses due to an increase in professional fees. The decrease in operating profit at MLMC was primarily due to an increase in the cost per ton delivered, principally driven by higher repairs and maintenance. These decreases were partially offset by an increase in earnings of unconsolidated operations mainly due to an increase in tons delivered and higher compensation at Liberty during the mine reclamation period, as well as an improvement in Centennial's operating results and higher royalty income.

Income before income tax provision decreased primarily due to the items impacting operating profit, partially offset by a $0.3 million decrease in interest expense attributable to lower average borrowings under NACoal's revolving credit facility in the second quarter of 2018 compared with 2017.

First Six Months of 2018 Compared with First Six Months of 2017

The following table identifies the components of change in revenues for the first six months of 2018 compared with the first six months of 2017:

	Revenues
2017	$ 56,400
Increase (decrease) from:	

Consolidated operations	7,735
Royalty	746
2018	$ 64,881

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Revenues increased $8.5 million in the first six months of 2018 compared with the first six months of 2017 primarily due to higher reimbursed costs at NAM's consolidated operations and an increase in tons sold at MLMC as a result of increased customer requirements.

The following table identifies the components of change in operating profit for the first six months of 2018 compared with the first six months of 2017:

	Operating Profit
2017	$22,202
Increase (decrease) from:	
Net gain on sale of assets	(2,762)
Consolidated operations, excluding Centennial	(2,107)
Selling, general and administrative expenses	(2,054)
Earnings of unconsolidated operations	2,547
Centennial, excluding the net gain on sales of assets	1,982
Royalty	996
2018	$20,804

NACoal's operating profit decreased in the first six months of 2018 compared with the first six months of 2017 primarily due to $3.0 million of gains on sales of assets in the first six months of 2017, a decrease in results at the consolidated operations and an increase in Selling, general and administrative expenses. The decrease in the consolidated operations was primarily due to an increase in the cost per ton delivered at MLMC. The increase in selling, general and administrative expenses was due to an increase in professional fees, higher employee-related expenses and additional business development costs. These decreases were partially offset by an increase in earnings of unconsolidated operations mainly due to an increase in tons delivered at certain mines and higher compensation at Liberty during the mine reclamation period. Centennial's results improved primarily due to lower costs and a $1.0 million revision of estimated cash flows for Centennial's asset retirement obligation.

Income before income tax provision decreased due to the items impacting operating profit, partially offset by a $0.6 million decrease in interest expense attributable to lower average borrowings under NACoal's revolving credit facility in the first six months of 2018 compared with 2017.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following tables detail NACoal's changes in cash flow for the six months ended June 30:

	2018	2017	Change
Operating activities:			
Net cash provided by operating activities	$34,528	$17,334	$17,194
Investing activities:			
Expenditures for property, plant and equipment	(9,052)	(5,697)	(3,355)
Other	860	2,030	(1,170)
Net cash used for investing activities	(8,192)	(3,667)	(4,525)
Cash flow before financing activities	$26,336	$13,667	$12,669

The change in net cash provided by operating activities was primarily the result of a favorable working capital change during the first six months of 2018 compared with the first six months of 2017. The change in working capital was

mainly the result of a larger increase in accounts receivable due to timing during the first six months of 2017 compared with 2018, and a reduction in intercompany accounts receivable during the first six months of 2018 compared with 2017.

The change in net cash used for investing activities was primarily attributable to an increase in expenditures for property, plant and equipment at MLMC.

	2018	2017	Change
Financing activities:			
Net reductions to long-term debt and revolving credit agreements	$(29,720)	$(24,621)	$(5,099)
Net cash used for financing activities	$(29,720)	$(24,621)	$(5,099)

The change in net cash used for financing activities was primarily from a reduction in borrowings on NACoal's revolving credit facility during the first six months of 2018 when compared with the first six months of 2017.

Financing Activities

NACoal has an unsecured revolving line of credit of up to $150.0 million (the “NACoal Facility”) that expires in August 2022. Borrowings outstanding under the NACoal Facility were $20.0 million at June 30, 2018. At June 30, 2018, the excess availability under the NACoal Facility was $128.5 million, which reflects a reduction for outstanding letters of credit of $1.5 million.

The NACoal Facility has performance-based pricing, which sets interest rates based upon achieving various levels of debt to EBITDA ratios, as defined in the NACoal Facility. Borrowings bear interest at a floating rate plus a margin based on the level of debt to EBITDA ratio achieved. The applicable margins, effective June 30, 2018, for base rate and LIBOR loans were 1.00% and 2.00%, respectively. The NACoal Facility has a commitment fee which is based upon achieving various levels of debt to EBITDA ratios. The commitment fee was 0.35% on the unused commitment at June 30, 2018. The floating rate of interest applicable to the NACoal Facility at June 30, 2018 was 4.10%.

The NACoal Facility contains restrictive covenants, which require, among other things, NACoal to maintain a maximum debt to EBITDA ratio of 3.00 to 1.00 and an interest coverage ratio of not less than 4.00 to 1.00. The NACoal Facility provides the ability to make loans, dividends and advances to NACCO, with some restrictions based on maintaining a maximum debt to EBITDA ratio of 2.00 to 1.00, or if greater than 2.00 to 1.00, a Fixed Charge Coverage Ratio of 1.10 to 1.00, in conjunction with maintaining unused availability thresholds of borrowing capacity, as defined in the NACoal Facility, of $15.0 million. At June 30, 2018, NACoal was in compliance with all financial covenants in the NACoal Facility.

NACoal believes funds available from cash on hand at the Company, the NACoal Facility and operating cash flows will provide sufficient liquidity to meet its operating needs and commitments arising during the next twelve months and until the expiration of the NACoal Facility.

Contractual Obligations, Contingent Liabilities and Commitments

Since December 31, 2017, there have been no significant changes in the total amount of NACoal's contractual obligations, contingent liabilities or commercial commitments, or the timing of cash flows in accordance with those obligations as reported on page 39 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. See Note 6 to the Unaudited Condensed Consolidated Financial Statements for a discussion of certain guarantees related to Coyote Creek.

Capital Expenditures

Expenditures for property, plant and equipment were $9.1 million during the first six months of 2018. NACoal estimates that its capital expenditures for the remainder of 2018 could be up to $22.1 million for new and replacement equipment and land required for future mining. These expenditures are expected to be funded from internally generated funds and/or bank borrowings.

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Capital Structure

NACoal's capital structure is presented below:

	JUNE 30 2018	DECEMBER 31 2017	Change
Cash and cash equivalents	$3,297	$ 6,681	$(3,384)
Other net tangible assets	139,610	149,085	(9,475)
Coal supply agreements, net	42,056	43,554	(1,498)
Net assets	184,963	199,320	(14,357)
Total debt	(27,983)	(58,146)	30,163
Total equity	$156,980	$ 141,174	$15,806
Debt to total capitalization	15%	29%	(14)%

The decrease in net assets was primarily due to the change in other net tangible assets as a result of a change in intercompany accounts receivable and the change in cash and cash equivalents due to the repayment of borrowings on NACoal's revolving credit facility during the first six months of 2018.

NACCO AND OTHER

FINANCIAL REVIEW

Operating Results

The results of operations at NACCO and Other were as follows for the six months ended June 30:

	THREE MONTHS		SIX MONTHS	
	2018	2017	2018	2017
Revenues	$—	$—	$—	$—
Operating loss	$(1,720)	$(1,364)	$(3,281)	$(2,884)
Other expense	$59	$319	$436	$617
Loss before income tax provision (benefit)	$(1,779)	$(1,683)	$(3,717)	$(3,501)

Second Quarter of 2018 Compared with Second Quarter of 2017 and First Six Months of 2018 Compared with First Six Months of 2017

The increase in NACCO and Other's operating loss for both the three and six months ended June 30, 2018 compared with 2017 comparable periods was primarily due to a reduction in management fees charged to the subsidiaries, partially offset by lower employee-related expenses. The management fees charged to NACoal represent an allocation of corporate overhead of the parent company. The three and six months ended June 30, 2017 included $1.0 million and $2.0 million of management fees related to HBBHC, respectively.

In connection with the spin-off of HBBHC, the Company and HBBHC entered into a Transition Services Agreement ("TSA"). Under the terms of the TSA, the Company provides various services to HBBHC on a transitional basis, as needed, for varying periods after the spin-off date. The transition services are materially complete. NACCO received fees of $0.2 million and $0.4 million in the three and six months ended June 30, 2018, recorded as a reduction to selling, general and administrative expenses.

Contractual Obligations, Contingent Liabilities and Commitments

Since December 31, 2017, there have been no significant changes in the total amount of NACCO and Other contractual obligations, contingent liabilities or commercial commitments, or the timing of cash flows in accordance with those obligations as reported on page 43 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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FORWARD-LOOKING STATEMENTS

The statements contained in this Form 10-Q that are not historical facts are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are made subject to certain risks and uncertainties, which could cause actual results to differ materially from those presented. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Among the factors that could cause plans, actions and results to differ materially from current expectations are, without limitation: (1) changes in tax laws or regulatory requirements, including changes in mining or power plant emission regulations and health, safety or environmental legislation, (2) changes in costs related to geological conditions, repairs and maintenance, new equipment and replacement parts, fuel or other similar items, (3) regulatory actions, changes in mining permit requirements or delays in obtaining mining permits that could affect deliveries to customers, (4) weather conditions, extended power plant outages, liquidity events or other events that would change the level of customers' coal or limestone requirements, (5) weather or equipment problems that could affect deliveries to customers, (6) changes in the power industry that would affect demand for NACoal's reserves, (7) changes in the costs to reclaim NACoal mining areas, (8) costs to pursue and develop new mining and value-added service opportunities, (9) changes to or termination of a long-term mining contract, or a customer default under a contract, (10) delays or reductions in coal or limestone deliveries at NACoal's or NAM's operations, (11) increased competition, including consolidation within the industry, and (12) the possibility that the impact of the U.S. Tax Cuts and Jobs Act could be less favorable than current estimates.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

INTEREST RATE RISK

The Company entered into certain financing arrangements that require interest payments based on floating interest rates. As such, the Company's financial results are subject to changes in the market rate of interest. There is an inherent rollover risk for borrowings as they mature and are renewed at current market rates. Based on the average interest rate and the borrowings outstanding on these financing arrangements during the three and six months ended June 30, 2018, the Company does not believe that a 10% change in the interest rate would have a material effect on the Unaudited Condensed Consolidated Financial Statements.

COMMODITY PRICE RISK

The Company uses certain commodities, including steel and diesel fuel, in the normal course of its operations. As such, the cost of operations is subject to variability as the market for these commodities changes. The Company monitors this risk and utilizes forward purchase contracts to manage a portion of NACoal's exposure related to diesel fuel volatility. There were no material changes in the Company's commodity price risk during the second quarter of 2018.

Item 4. Controls and Procedures

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

Changes in internal control over financial reporting: During the second quarter of 2018, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II
OTHER INFORMATION

Item 1 Legal Proceedings
None.

Item 1A Risk Factors
No material changes to the risk factors from the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers
Issuer Purchases of Equity Securities [1]

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of the Publicly Announced Program	(d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program [1]
Month #1 (April 1 to 30, 2018)	1,668	$ 32.91	1,668	$24,945,106
Month #2 (May 1 to 31, 2018)	—	$ —	—	$24,945,106
Month #3 (June 1 to 30, 2018)	—	$ —	—	$24,945,106
Total	1,668	$ 32.91	1,668	$24,945,106

(1) In February 2018, the Company established a new stock repurchase program allowing for the purchase of up to $25.0 million of the Company's Class A Common Stock outstanding through December 31, 2019.

Item 3 Defaults Upon Senior Securities
None.

Item 4 Mine Safety Disclosures
Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 filed with this Quarterly Report on Form 10-Q for the period ended June 30, 2018.

Item 5 Other Information
None.

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Item 6 Exhibits

Exhibit Number*	Description of Exhibits
31(i)(1)	Certification of J.C. Butler, Jr. pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act
31(i)(2)	Certification of Elizabeth I. Loveman pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act
32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed and dated by J.C. Butler, Jr. and Elizabeth I. Loveman
95	Mine Safety Disclosure Exhibit
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

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Signatures

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

NACCO Industries, Inc.
(Registrant)

Date: August 1, 2018 /s/ Elizabeth I. Loveman
Elizabeth I. Loveman
Vice President and Controller
(principal financial and accounting officer)