

NACCO INDUSTRIES INC  
Form 10-Q  
November 01, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark  
One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended September 30, 2017

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the transition period from  
Commission file number 1-9172

to

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  NO

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

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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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.

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

YES  NO

Number of shares of Class A Common Stock outstanding at October 27, 2017: 5,276,050

Number of shares of Class B Common Stock outstanding at October 27, 2017: 1,570,148

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## Part I

## FINANCIAL INFORMATION

## Item 1. Financial Statements

## NACCO INDUSTRIES, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30 2017	DECEMBER 31 2016
	(In thousands, except share data)	
<b>ASSETS</b>		
Cash and cash equivalents	\$93,938	\$ 69,308
Accounts receivable, net	9,070	13,389
Accounts receivable from affiliates	22,964	7,404
Inventories, net	30,580	28,927
Assets held for sale	1,373	2,016
Prepaid expenses and other	6,323	8,273
Current assets of discontinued operations	—	252,415
Total current assets	164,248	381,732
Property, plant and equipment, net	116,336	115,106
Intangibles, net	44,036	45,678
Deferred income taxes	7,145	10,876
Investments in unconsolidated subsidiaries	27,281	31,054
Deferred costs	3,163	2,069
Other non-current assets	22,740	23,089
Long-term assets of discontinued operations	—	58,417
Total assets	\$384,949	\$ 668,021
<b>LIABILITIES AND EQUITY</b>		
Accounts payable	\$8,466	\$ 6,995
Accounts payable to affiliates	3,228	3,565
Current maturities of long-term debt	1,168	1,744
Accrued payroll	12,400	15,482
Asset retirement obligations	3,555	3,843
Accrued income taxes	3,442	—
Other current liabilities	10,964	9,954
Current liabilities of discontinued operations	—	180,245
Total current liabilities	43,223	221,828
Long-term debt	57,573	94,295
Asset retirement obligations	39,482	38,262
Pension and other postretirement obligations	12,924	14,271
Deferred compensation	13,571	13,578
Other long-term liabilities	11,113	9,737
Long-term liabilities of discontinued operations	—	55,757
Total liabilities	177,886	447,728
Stockholders' equity		
Common stock:		
Class A, par value \$1 per share, 5,276,050 shares outstanding (December 31, 2016 - 5,207,955 shares outstanding)	5,276	5,208
	1,570	1,571

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Class B, par value \$1 per share, convertible into Class A on a one-for-one basis, 1,570,148 shares outstanding (December 31, 2016 - 1,570,915 shares outstanding)		
Capital in excess of par value	2,219	—
Retained earnings	207,447	239,441
Accumulated other comprehensive loss	(9,449 )	(25,927 )
Total stockholders' equity	207,063	220,293
Total liabilities and equity	\$384,949	\$ 668,021

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 SEPTEMBER 30 2017		NINE MONTHS ENDED SEPTEMBER 30 2016	
	(In thousands, except per share data)			
Revenues	\$21,941	\$32,402	\$78,341	\$85,778
Cost of sales	19,466	30,755	66,711	75,926
Gross profit	2,475	1,647	11,630	9,852
Earnings of unconsolidated mines	16,197	15,102	44,627	40,785
Operating expenses				
Selling, general and administrative expenses	11,723	10,765	31,809	30,786
Centennial asset impairment charge	—	17,443	—	17,443
(Gain) loss on sale of assets	(475 )	502	(3,500 )	1,424
Amortization of intangible assets	435	818	1,641	1,936
Operating profit (loss)	11,683	29,528	29,950	51,589
Other expense (income)	6,989	(12,779 )	26,307	(952 )
Interest expense	946	1,036	2,806	3,182
Income from other unconsolidated affiliates	(313 )	(307 )	(932 )	(913 )
Closed mine obligations	336	223	1,071	948
Other, net, including interest income	64	(10 )	15	2,229
	1,033	942	2,960	5,446
Income (loss) from continuing operations before income tax provision (benefit)	5,956	(13,721 )	23,347	(6,398 )
Income tax provision (benefit) from continuing operations	2,625	(11,589 )	4,564	(13,970 )
Income (loss) from continuing operations	3,331	(2,132 )	18,783	7,572
Discontinued operations, net of tax expense of \$236 and \$2,655 in the three and nine months ended September 30, 2017, respectively, and net of tax expense of \$11,044 and \$12,966 in the three and nine months ended September 30, 2016, respectively.	\$5,067	\$1,691	\$1,381	\$(2,096 )
Net income (loss)	\$8,398	\$(441 )	\$20,164	\$5,476
Basic earnings (loss) per share:				
Continuing operations	\$0.49	\$(0.31 )	\$2.75	\$1.11
Discontinued operations	0.74	0.25	0.20	(0.31 )
Basic earnings (loss) per share	\$1.23	\$(0.06 )	\$2.95	\$0.80
Diluted earnings (loss) per share:				
Continuing operations	\$0.49	\$(0.31 )	\$2.74	\$1.10
Discontinued operations	0.74	0.25	0.20	(0.30 )
Diluted earnings (loss) per share	\$1.23	\$(0.06 )	\$2.94	\$0.80
Dividends per share	\$0.2725	\$0.2675	\$0.8125	\$0.7975

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Basic weighted average shares outstanding	6,839	6,786	6,825	6,831
Diluted weighted average shares outstanding	6,866	6,786	6,854	6,858

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 2017		NINE MONTHS ENDED SEPTEMBER 30 2016	
	2017	2016	2017	2016
	(In thousands)			
Net income (loss)	\$8,398	\$(441)	\$20,164	\$5,476
Foreign currency translation adjustment	(18 )	(517 )	1,725	(1,335 )
Deferred gain on available for sale securities	78	134	542	298
Current period cash flow hedging activity, net of \$1,310 and \$941 tax expense in the three and nine months ended September 30, 2017, and \$169 tax expense and \$819 tax benefit in the three and nine months ended September 30, 2016, respectively.	2,402	340	1,543	(1,541 )
Reclassification of hedging activities into earnings, net of \$1,344 and \$1,255 tax expense in the three and nine months ended September 30, 2017, respectively, and \$149 and \$254 tax benefit in the three and nine months ended September 30, 2016, respectively.	(2,509 )	312	(2,369 )	420
Reclassification of pension and postretirement adjustments into earnings, net of \$38 and \$228 tax benefit in the three and nine months ended September 30, 2017, and \$88 and \$271 tax benefit in the three and nine months ended September 30, 2016, respectively.	191	166	515	468
Total other comprehensive income (loss)	\$144	\$435	\$1,956	\$(1,690)
Comprehensive income (loss)	\$8,542	\$(6 )	\$22,120	\$3,786

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	
	2017	2016
	(In thousands)	
Operating activities		
Net income	\$20,164	\$5,476
Income (loss) from discontinued operations	1,381	(2,096 )
Income from continuing operations	18,783	7,572
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation, depletion and amortization	9,580	9,870
Amortization of deferred financing fees	387	278
Centennial asset impairment charge	—	17,443
Deferred income taxes	3,731	14,858
Other	610	506
Working capital changes:		
Affiliates receivable/payable	513	5,892
Accounts receivable	(2,792 )	(9,840 )
Inventories	(1,693 )	5,860
Other current assets	(100 )	984
Accounts payable	2,289	(638 )
Income taxes receivable/payable	5,594	(20,966 )
Other current liabilities	(2,084 )	(10,525 )
Net cash provided by operating activities of continuing operations	34,818	21,294
Net cash (used for) provided by operating activities of discontinued operations	(7,700 )	24,864
Net cash provided by (used for) operating activities	27,118	46,158
Investing activities		
Expenditures for property, plant and equipment	(9,211 )	(7,297 )
Proceeds from the sale of property, plant and equipment	2,006	4,281
Other	901	(2,587 )
Net cash used for investing activities of continuing operations	(6,304 )	(5,603 )
Net cash used for investing activities of discontinued operations	(4,345 )	(4,326 )
Net cash used for investing activities	(10,649 )	(9,929 )
Financing activities		
Reductions of long-term debt	(35,008 )	(1,389 )
Cash dividends paid	(5,552 )	(5,450 )
Cash dividends received from Hamilton Beach Brands Holding Co. (See Note 10)	38,000	10,000
Purchase of treasury shares	—	(6,044 )
Other	(1,324 )	(3 )
Net cash used for financing activities of continuing operations	(3,884 )	(2,886 )
Net cash provided by (used for) financing activities of discontinued operations	3,747	(41,472 )
Net cash used for financing activities	(137 )	(44,358 )

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Effect of exchange rate changes on cash of continuing operations	—	—
Effect of exchange rate changes on cash of discontinued operations	71	(104 )
Cash and cash equivalents		
Total increase (decrease) for the period	16,403	(8,233 )
Net decrease related to discontinued operations	8,227	11,395
Balance at the beginning of the period	69,308	35,701
Balance at the end of the period	\$93,938	\$38,863

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				
	Class A	Class B	Capital	Retained	Foreign	Deferred	Deferred	Pension and	Total
	Common	Common	in	Earnings	Currency	Gain	Gain	Postretirement	Stockholders'
	Stock	Stock	Excess		Translation	(Loss)	(Loss)	Plan	Equity
			of Par		Adjustment	on	on	Adjustment	
			Value			Available	Cash		
						for Sale	Flow		
						Securities	Hedging		
(In thousands, except per share data)									
Balance, January 1, 2016	\$5,265	\$1,572	\$—	\$217,745	\$(5,455)	\$1,480	\$(112)	\$(19,357)	\$201,138
Stock-based compensation	48	—	2,830	—	—	—	—	—	2,878
Conversion of Class B to Class A shares	1	(1)	—	—	—	—	—	—	—
Purchase of treasury shares	(109)	—	(2,830)	(3,105)	—	—	—	—	(6,044)
Net income	—	—	—	5,476	—	—	—	—	5,476
Cash dividends on Class A and Class B common stock:	—	—	—	(5,450)	—	—	—	—	(5,450)
\$0.7975 per share									
Current period other comprehensive income (loss)	—	—	—	—	(1,335)	298	(1,541)	—	(2,578)
Reclassification adjustment to net income	—	—	—	—	—	—	420	468	888
Balance, September 30, 2016	\$5,205	\$1,571	\$—	\$214,666	\$(6,790)	\$1,778	\$(1,233)	\$(18,889)	\$196,308
Balance, January 1, 2017	\$5,208	\$1,571	\$—	\$239,441	\$(7,533)	\$1,893	\$393	\$(20,680)	\$220,293
Stock-based compensation	67	—	2,219	—	—	—	—	—	2,286
Conversion of Class B to Class A shares	1	(1)	—	—	—	—	—	—	—
Net income	—	—	—	20,164	—	—	—	—	20,164
Cash dividends on Class A and Class B common stock:	—	—	—	(5,552)	—	—	—	—	(5,552)
\$0.8125 per share									
Current period other comprehensive income (loss)	—	—	—	—	1,725	542	1,543	—	3,810
	—	—	—	—	—	—	(2,369)	515	(1,854)

Reclassification adjustment to net income										
Hamilton Beach Brands Holding Company stock dividend (See Note 10)	—	—	—	(46,606 )	5,808	—	433	8,281	(32,084 )	
Balance, September 30, 2017	\$5,276	\$1,570	\$2,219	\$207,447	\$—	\$2,435	\$—	\$(11,884 )	\$207,063	

See notes to Unaudited Condensed Consolidated Financial Statements.

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017  
(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. The Company's primary operating subsidiary operates in the mining industry. The North American Coal Corporation and its affiliated companies (collectively, “NACoal”) mine coal primarily for use in power generation and provide value-added services for natural resource companies.

On September 29, 2017, the Company spun-off Hamilton Beach Brands Holding Company (“HBBHC”), a former wholly owned subsidiary. HBBHC is an operating holding company for two separate businesses: consumer, commercial and specialty small appliances (Hamilton Beach Brands, Inc. or “HBB”) and specialty retail (The Kitchen Collection, LLC or “KC”). 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”), Liberty Fuels Company, LLC (“Liberty”), Mississippi Lignite Mining Company (“MLMC”) and The Sabine Mining Company (“Sabine”).

All of the operating coal mining subsidiaries other than MLMC are unconsolidated (collectively the “Unconsolidated Mines”). The Unconsolidated Mines 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. The contracts with the customers of the Unconsolidated Mines provide for reimbursement to the company at a price based on actual costs plus an agreed upon pre-tax profit per ton of coal sold or actual costs plus an agreed upon fee per btu of heating value delivered. The fees earned at each mine adjust over time in line with various indices which reflect general U.S. inflation rates.

Although NACoal owns 100% of the equity and manages the daily operations of the Unconsolidated Mines, the Company has determined that the equity capital provided by NACoal is not sufficient to adequately finance the ongoing activities or absorb any expected losses without additional support from the customers. The customers have a controlling financial interest and have the power to direct the activities that most significantly affect the economic performance of the entities. As a result, NACoal is not the primary beneficiary and therefore does not consolidate these entities' financial position or results of operations. The income taxes resulting from operations of the Unconsolidated Mines are solely the responsibility of the Company. The pre-tax income from the Unconsolidated Mines is reported on the line “Earnings of unconsolidated mines” in the 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 Mines above operating profit as they are an integral component of the Company's business and operating results.

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 in the fourth quarter of 2015, is also a consolidated entity.

NACoal provides value-added mining services for independently owned limerock quarries through its North American Mining ("NAM") division. NAM is reimbursed by its customers based on actual costs plus a management fee. The financial results for NAM are included in consolidated mining operations or unconsolidated mining operations based on each NAM entity's structure.

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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 (income) expense" section of the Consolidated Statements of Operations, with the related income taxes included in the provision for income taxes. North 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 September 30, 2017 and the results of its operations, comprehensive income (loss), cash flows and changes in equity for the nine months ended September 30, 2017 and 2016 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, 2016.

The balance sheet at December 31, 2016 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.

## NOTE 2—Recently Issued Accounting Standards

### Accounting Standards Not Yet Adopted

In May 2014, the FASB codified ASC 606, "Revenue Recognition - Revenue from Contracts with Customers," which supersedes most current revenue recognition guidance, including industry-specific guidance, and requires an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to customers and provide additional disclosures. As amended, the effective date for public entities is annual reporting periods beginning after December 15, 2017 and interim periods therein.

The Company anticipates adopting the new revenue guidance effective January 1, 2018 using the modified retrospective method with the cumulative effect of initially applying the standard recognized as an adjustment to equity. The Company has developed a project plan with respect to its implementation of this standard, including identification of revenue streams and review of contracts and procedures currently in place. The Company is in the process of completing its review of customer contracts at its NACoal subsidiary, including the contracts for the Company's Unconsolidated Mines, and finalizing its conclusions on a variety of specific contractual terms. These include identification of additional performance obligations, specifically during the pre- and post-coal production periods, variable compensation considerations and the timing of recognition of royalty revenue. While the revenue of the Unconsolidated Mines is not consolidated within the Company's financial statements, any change in the amount or timing of revenue recognition at the Unconsolidated Mines could have an impact on the company's recognition of earnings from the unconsolidated mines. The Company is also in the process of identifying and implementing any necessary changes to processes and controls to meet the standard's updated reporting and disclosure requirements. The Company continues to assess the potential impact of the standard and has not yet reached a conclusion as to how the adoption of the standard will impact the Company's financial position, results of operations or cash flows. The adoption of this guidance will result in increased disclosures to help users of financial statements understand the

nature, amount and timing of revenue and cash flows arising from contracts.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which modifies how entities measure equity investments and present changes in the fair value of financial liabilities; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; changes presentation and disclosure requirements; and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is evaluating the impact that this new guidance will have on the Company's financial position, results of operations, cash flows and related disclosures.

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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, and early adoption is permitted. The Company is currently evaluating how and to what extent ASU 2016-02 will affect the Company's financial position, results of operations, cash flows and related disclosures.

## NOTE 3—Inventories

Inventories are summarized as follows:

	SEPTEMBER 30 2017	DECEMBER 31 2016
Coal	\$ 14,695	\$ 13,137
Mining supplies	15,885	15,790
Total inventories	\$ 30,580	\$ 28,927

## NOTE 4—Stockholders' Equity

Stock Repurchase Program: On May 10, 2016, the Company's Board of Directors approved a stock repurchase program (the "2016 Stock Repurchase Program") providing for the purchase of up to \$50 million of the Company's Class A Common Stock outstanding through December 31, 2017. The Company's previous \$60 million stock repurchase program, announced in December 2013, was completed in October 2015. The timing and amount of any repurchases under the 2016 Stock Repurchase Program are determined at the discretion of the Company's management based on a number of factors, including the availability of capital, other capital allocation alternatives and market conditions for the Company's Class A Common Stock. The 2016 Stock Repurchase Program does not require the Company to acquire any specific number of shares. It may be modified, suspended, extended or terminated by the Company at any time without prior notice and may be executed through open market purchases, privately negotiated transactions or otherwise. All or part of the repurchases under the 2016 Stock Repurchase Program may be implemented under a Rule 10b5-1 trading plan, which would allow repurchases under pre-set terms at times when the Company might otherwise be prevented from doing so.

During the three and nine months ended September 30, 2017, the Company did not repurchase any shares of Class A Common Stock and approximately \$44 million is still available to be repurchased under the 2016 Stock Repurchase Program.

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## 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:

Description	Date	Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	September 30, 2017				
Assets:					
Available for sale securities	\$ 8,715	\$8,715	\$ —	\$ —	—
	\$ 8,715	\$8,715	\$ —	\$ —	—
Liabilities:					
Interest rate swap agreements	\$ 3	\$—	\$ 3	\$ —	—
	\$ 3	\$—	\$ 3	\$ —	—
	December 31, 2016				
Assets:					
Available for sale securities	\$ 7,882	\$7,882	\$ —	\$ —	—
	\$ 7,882	\$7,882	\$ —	\$ —	—
Liabilities:					
Interest rate swap agreements	\$ 339	\$—	\$ 339	\$ —	—
	\$ 339	\$—	\$ 339	\$ —	—

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 available for sale securities that are reported at fair value based upon quoted market prices in active markets for identical assets; therefore, they are classified as Level 1 within the fair value hierarchy.

The Company uses significant other observable inputs to value derivative instruments used to hedge 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 three and nine months ended September 30, 2017 and 2016.

NOTE 6—Unconsolidated Subsidiaries

NACoal's wholly owned unconsolidated subsidiaries each 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 \$27.3 million and \$31.1 million at September 30, 2017 and December 31, 2016, respectively. The Company's maximum risk of loss relating to these entities is limited to its invested capital, which was \$17.8 million and \$4.6 million at September 30, 2017 and December 31, 2016, 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

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remaining scheduled debt payments over the principal amount. In addition, in the event Coyote Creek's LSA is terminated on or after January 1, 2024 by Coyote Creek's customers, NACoal is obligated to purchase Coyote Creek's dragline and rolling stock for the then net book value of those assets. To date, no payments have been required from NACoal since the inception of these guarantees. The Company believes that the likelihood of NACoal's future performance under the guarantees is remote, and no amounts related to these guarantees have been recorded.

Summarized financial information for the unconsolidated subsidiaries is as follows:

	THREE MONTHS ENDED SEPTEMBER 30 2017		NINE MONTHS ENDED SEPTEMBER 30 2017	
	2016	2017	2016	2017
Revenues	\$203,134	\$178,009	\$571,862	\$483,360
Gross profit	\$23,126	\$21,367	\$64,981	\$59,788
Income before income taxes	\$16,602	\$14,755	\$45,928	\$41,122

## 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 asbestos-related claims 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. 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.

## NOTE 8—Business Segments

Two of the Company's former segments, HBB and KC, were spun-off on September 29, 2017. See Note 1 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 SEPTEMBER 30 2017		NINE MONTHS ENDED SEPTEMBER 30 2017	
	2016	2017	2016	2017
Revenues				
NACoal	\$21,941	\$32,402	\$78,341	\$85,778
Total	\$21,941	\$32,402	\$78,341	\$85,778

Operating profit (loss)				
NACoal	\$8,925	\$(10,912)	\$31,127	\$3,653
NACCO and Other	(1,936 )	(1,867 )	(4,820 )	(4,605 )
Total	\$6,989	\$(12,779)	\$26,307	\$(952 )

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## NOTE 9—Income Taxes

A reconciliation of the income tax provision (benefit) based on the U.S. federal statutory rate of 35% to the effective income tax rate is as follows:

	THREE MONTHS		NINE MONTHS	
	ENDED		ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2017	2016	2017	2016
Income (loss) before income tax provision (benefit)	\$5,956	\$(13,721)	\$23,347	\$(6,398 )
Statutory taxes (benefit) at 35.0%	\$2,085	\$(4,802 )	\$8,171	\$(2,239 )
Percentage depletion	(1,033 )	(7,889 )	(5,531 )	(12,034 )
State and local income taxes	119	(758 )	187	(788 )
Domestic production deduction	(75 )	(628 )	(371 )	(666 )
Non-deductible expenses	(469 )	991	168	1,701
Valuation allowances	1,923	1,673	1,692	1,690
Uncertain tax positions	7	190	55	(2,015 )
Other, net	68	(366 )	193	381
Income tax provision (benefit)	\$2,625	\$(11,589)	\$4,564	\$(13,970)
Effective income tax rate	44.1 %	84.5 %	19.5 %	218.3 %

The effective income tax rates for the three and nine months ended September 30, 2017 include discrete income tax expense of \$1.9 million and \$1.6 million, respectively, primarily due to the establishment of a valuation allowance on deferred tax assets. The valuation allowance was established because the Company expects to be subject to Alternative Minimum Tax ("AMT") beginning in 2018 due to the change in the mix of earnings as a result of the spin-off of Hamilton Beach Holding. As a result of being subject to AMT beginning in 2018, the Company remeasured its deferred tax assets and liabilities using the AMT rate that is expected to apply to taxable income in future years in which those tax assets and liabilities are expected to be realized or settled.

## 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.

On September 28, 2017, prior to the spin-off, HBBHC paid NACCO a one-time \$35.0 million cash dividend. This payment was in addition to \$3.0 million in dividends HBBHC paid to NACCO from January 1, 2017 to June 30, 2017.

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 will provide various services to HBBHC on a transitional basis, as needed, for varying periods after the spin-off date. None of the transition services are expected to exceed one year. NACCO expects to receive net aggregate fees of approximately \$1.0 million over the term of the TSA from HBBHC.

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. In connection with the spin-off of HBBHC, NACCO and Other recognized non-deductible expenses directly attributable to the spin-off of \$1.7 million and \$2.8 million for the three and nine months ended September 30, 2017, respectively, which are reflected as discontinued operations in the Unaudited Condensed Consolidated Financial Statements.



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Discontinued operations includes the following results of HBBHC for the three and nine months ended September 30, 2017 and 2016:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2017	2016	2017	2016
HBBHC Operating Statement Data:				
Revenues	\$ 181,713	\$ 188,390	\$ 474,971	\$ 486,442
Cost of goods sold	133,586	138,329	353,436	364,052
Gross profit	48,127	50,061	121,535	122,390
Operating expenses <sup>(a)</sup>	40,697	36,583	114,379	110,117
Operating profit	7,430	13,478	7,156	12,273
Interest expense	423	286	1,300	1,115
Other expense, net	40	457	(939	) 288
Income before income taxes	6,967	12,735	6,795	10,870
Income tax expense	2,708	4,003	2,655	3,323
HBBHC net income	\$ 4,259	\$ 8,732	\$ 4,140	\$ 7,547
NACCO expenses related to the spin-off	1,664	—	2,759	—
NACCO discontinued operations income tax expense (benefit) adjustments	(2,472	) 7,041	—	9,643
NACCO discontinued operations	\$ 5,067	\$ 1,691	\$ 1,381	\$ (2,096 )

(a) HBBHC's operating profit includes the recognition of \$2.5 million of expenses related to the spin-off in the three and nine months ended September 30, 2017.

Centennial asset impairment charge: Centennial ceased coal production in the fourth quarter of 2015 and the Company began actively marketing Centennial's mine machinery and equipment. The Company classified these assets as held for sale during the fourth quarter of 2015 when management approved and committed to a formal plan of sale. The coal land and real estate did not meet the held-for-sale criteria and remained within property, plant and equipment as a long-lived asset. As a result of various unfavorable conditions, including but not limited to weakness in the U.S. and global coal markets and certain asset-specific factors, the Company determined the carrying value of Centennial's coal land and real estate were not recoverable. The Company also conducted a review of the carrying value of Centennial's mine machinery and equipment classified as assets held for sale. The fair values of these assets were calculated using a combination of a market and income approach and reduced the carrying value of coal land and real estate to zero and assets held for sale to approximately \$5.0 million. The Company recognized an aggregate impairment charge of \$17.4 million during the third quarter of 2016. The asset impairment charge was recorded as "Centennial asset impairment charge" in the Unaudited Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2016.

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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 include NACCO Industries, Inc. (the "parent company" or "NACCO") and its wholly owned subsidiaries (collectively, the "Company"). The Company's primary operating subsidiary operates in the mining industry. The North American Coal Corporation and its affiliated coal companies (collectively, "NACoal") mine coal primarily for use in power generation and provide value-added mining services for natural resource companies.

Coal is surface mined from NACoal's mines in North Dakota, Texas, Mississippi, Louisiana and on the Navajo Nation in New Mexico. NACoal provides value-added services such as maintaining and operating draglines for independently owned limerock quarries through its North American Mining ("NAM") division and provides ash hauling services for power plants and other facilities.

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"), Liberty Fuels Company, LLC ("Liberty"), Mississippi Lignite Mining Company ("MLMC") and The Sabine Mining Company ("Sabine"). Centennial Natural Resources, LLC ("Centennial"), which ceased coal production in the fourth quarter of 2015, was also a coal mining subsidiary.

NAM provides value-added services for independently owned limerock quarries and is reimbursed by its customers based on actual costs plus a management fee. The financial results for NAM are included in the consolidated mining operations or unconsolidated mining operations based on each NAM 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"). 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.

On September 29, 2017, the Company spun-off Hamilton Beach Brands Holding Company ("Hamilton Beach Holding" or "HBBHC"), a former wholly owned subsidiary. As a result of the spin-off, NACCO stockholders received shares in HBBHC, in addition to retaining their shares of NACCO common stock. HBBHC has two classes of stock, similar to NACCO. In 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's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities (if any). On an ongoing basis, the Company evaluates its estimates based on historical experience, actuarial valuations and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

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The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

**Revenue recognition:** Revenues are generally recognized when title transfers and risk of loss passes to the customer. Under its mining contracts, the Company recognizes revenue as the coal or limerock is delivered or services are performed.

**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. Prior to 2016, the Company amended the Combined Defined Benefit Plan for NACCO Industries, Inc. and its subsidiaries to freeze pension benefits for all employees, including those for certain unconsolidated mines' employees. All eligible employees of the Company, including employees whose pension benefits are frozen, receive retirement benefits under defined contribution retirement plans. The Company's policy is to periodically make contributions to fund the defined benefit pension plans within the range allowed by applicable regulations. The defined benefit pension plan assets consist primarily of publicly traded stocks and government and corporate bonds. There is no guarantee the actual return on the plans' assets will equal the expected long-term rate of return on plan assets or that the plans will not incur investment losses. The expected long-term rate of return on defined benefit plan assets reflects management's expectations of long-term rates of return on funds invested to provide for benefits included in the projected benefit obligations. In establishing the expected long-term rate of return assumption for plan assets, the Company considers the historical rates of return over a period of time that is consistent with the long-term nature of the underlying obligations of these plans as well as a forward-looking rate of return. The historical and forward-looking rates of return for each of the asset classes used to determine the Company's estimated rate of return assumption were based upon the rates of return earned or expected to be earned by investments in the equivalent benchmark market indices for each of the asset classes.

Expected returns for pension plans are based on a calculated market-related value for pension plan assets. Under this methodology, asset gains and losses resulting from actual returns that differ from the Company's expected returns are recognized ratably in the market-related value of assets over three years.

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

The basis for the selection of the discount rate for each plan is determined by matching the timing of the payment of the expected obligations under the defined benefit plans and health care plans against the corresponding yield of high-quality corporate bonds of equivalent maturities.

Changes to the estimate of any of these factors could result in a material change to the Company's pension obligation causing a related increase or decrease in reported net operating results in the period of change in the estimate. Because the 2016 assumptions are used to calculate 2017 pension expense amounts, a one percentage-point change in the expected long-term rate of return on plan assets would result in a change in pension expense for 2017 of approximately \$0.4 million for the plans. A one percentage-point change in the discount rate would result in a change in pension expense for 2017 of less than \$0.1 million. A one percentage-point increase in the discount rate would have lowered the plans' projected benefit obligation as of the end of 2016 by approximately \$4.7 million; while a one percentage-point decrease in the discount rate would have raised the plans' projected benefit obligation as of the end of 2016 by approximately \$5.7 million.

**Self-insurance liabilities:** The Company is generally self-insured for medical claims, certain workers' compensation claims and certain closed mine liabilities. An estimated provision for claims reported and for claims incurred but not yet reported under the self-insurance programs is recorded and revised periodically based on industry trends, historical experience and management judgment. In addition, industry trends are considered within management's judgment for valuing claims. Changes in assumptions for such matters as legal judgments and settlements, inflation rates, medical costs and actual experience could cause estimates to change in the near term. Changes in any of these factors could materially change the Company's estimates for these self-insurance obligations causing a related increase or decrease in reported net operating results in the period of change in the estimate.

Accounting for Asset Retirement Obligations: The Company's asset retirement obligations are principally for costs to dismantle certain mining equipment at the end of the life of the mine as well as for costs to close its surface mines and reclaim the land it has disturbed as a result of its normal mining activities. Under certain federal and state regulations, the Company is required to reclaim land disturbed as a result of mining. The Company determined the amounts of these obligations based on estimates adjusted for inflation, projected to the estimated closure dates, and then discounted using a credit-adjusted risk-free interest rate. Changes in any of these estimates could materially change the Company's estimates for these asset retirement obligations causing a related increase or decrease in reported net operating results in the period of change in the estimate. The accretion of the liability is being recognized over the estimated life of each individual asset retirement obligation. The

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Company has capitalized an asset's retirement cost as part of the cost of the related long-lived asset. These capitalized amounts are subsequently amortized to expense using a systematic and rational method.

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. These legacy liabilities include obligations for water treatment and other environmental remediation that arose as part of the normal course of closing these underground mining operations. The Company determined the amounts of these obligations based on estimates adjusted for inflation and then discounted using a credit-adjusted risk-free interest rate. The accretion of the liability is recognized over the estimated life of the asset retirement obligation. Since Bellaire's properties are no longer active operations, no associated asset has been capitalized. Changes in any of these estimates could materially change the Company's estimates for these asset retirement obligations causing a related increase or decrease in reported net operating income in the period of change in the estimate.

Long-lived assets: The Company periodically evaluates long-lived assets for impairment when changes in circumstances or the occurrence of certain events indicate the carrying amount of an asset may not be recoverable. Upon identification of indicators of impairment, the Company evaluates the carrying value of the asset by comparing the estimated future undiscounted cash flows generated from the use of the asset and its eventual disposition with the asset's net carrying value. If the carrying value of an asset is considered impaired, an impairment charge is recorded for the amount that the carrying value of the long-lived asset exceeds its fair value. Fair value is estimated as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Centennial ceased coal production in the fourth quarter of 2015 and the Company began actively marketing Centennial's mine machinery and equipment. The Company classified these assets as held for sale during the fourth quarter of 2015 when management approved and committed to a formal plan of sale. The coal land and real estate did not meet the held-for-sale criteria and remained within property, plant and equipment as a long-lived asset.

As a result of various unfavorable conditions, including but not limited to weakness in the U.S. and global coal markets and certain asset-specific factors, the Company determined the carrying value of Centennial's coal land and real estate were not recoverable during the third quarter of 2016. The Company also conducted a review of the carrying value of Centennial's mine machinery and equipment classified as assets held for sale during the third quarter of 2016. The fair values of these assets were calculated using a combination of a market and income approach and reduced the carrying value of coal land and real estate to zero and assets held for sale to approximately \$5.0 million as of September 30, 2016. The Company recognized an aggregate impairment charge of \$17.4 million during the third quarter of 2016. The asset impairment charge was recorded as "Centennial asset impairment charge" in the Unaudited Condensed Consolidated Statement of Operations during the three and nine months ended September 30, 2016.

Income taxes: Tax law requires certain items to be included in the tax return at different times than the items are reflected in the financial statements. Some of these differences are permanent, such as expenses that are not deductible for tax purposes, and some differences are temporary, reversing over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities using currently enacted tax rates. The objective of accounting for income taxes is to recognize the amount of taxes payable or refundable for the current year, and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the financial statements or tax returns. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the provision for income taxes in the period that includes the enactment date. Management is required to estimate the timing of the recognition of deferred tax assets and liabilities, make assumptions about the future deductibility of deferred tax assets and assess deferred tax liabilities based on enacted law and tax rates for the appropriate tax jurisdictions to determine the amount of such deferred tax assets and liabilities. Changes in the calculated deferred tax assets and liabilities may occur in certain circumstances, including statutory income tax rate changes, statutory tax law changes, or changes in the structure or tax status of the Company.

The Company's tax assets, liabilities, and tax expense are supported by historical earnings and losses and the Company's best estimates and assumptions of future earnings. The Company assesses whether a valuation allowance

should be established against its deferred tax assets based on consideration of all available evidence, both positive and negative, using a more likely than not standard. This assessment considers, among other matters, scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates the Company is using to manage the underlying businesses. When the Company determines, based on all available evidence, that it is more likely than not that deferred tax assets will not be realized, a valuation allowance is established.

Since significant judgment is required to assess the future tax consequences of events that have been recognized in the Company's financial statements or tax returns, the ultimate resolution of these events could result in adjustments to the Company's financial statements and such adjustments could be material. The Company believes the current assumptions,

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judgments and other considerations used to estimate the current year accrued and deferred tax positions are appropriate. If the actual outcome of future tax consequences differs from these estimates and assumptions, due to changes or future events, the resulting change to the provision for income taxes could have a material impact on the Company's results of operations and financial position.

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## CONSOLIDATED FINANCIAL SUMMARY

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

	THREE MONTHS		NINE MONTHS	
	2017	2016	2017	2016
NACoal operating profit (loss) <sup>(a)</sup>	\$8,925	\$(10,912)	\$31,127	\$3,653
NACCO and Other operating loss <sup>(a)</sup>	(1,936 )	(1,867 )	(4,820 )	(4,605 )
Operating profit (loss) <sup>(a)</sup>	6,989	(12,779 )	26,307	(952 )
Interest expense	946	1,036	2,806	3,182
Income from other unconsolidated affiliates	(313 )	(307 )	(932 )	(913 )
Closed mine obligations	336	223	1,071	948
Other, net, including interest income	64	(10 )	15	2,229
Other expense, net	1,033	942	2,960	5,446
Income (loss) before income tax provision (benefit)	5,956	(13,721 )	23,347	(6,398 )
Income tax provision (benefit)	2,625	(11,589 )	4,564	(13,970)
Income (loss) from continuing operations	\$3,331	\$(2,132 )	\$18,783	\$7,572
Discontinued operations	5,067	1,691	1,381	(2,096 )
Net income (loss)	\$8,398	\$(441 )	\$20,164	\$5,476
Effective income tax rate from continuing operations	44.1 %	84.5 %	19.5 %	218.3 %

(a) All of NACCO's Revenues are attributable to NACoal. As a result, the Company's results of operations, including Revenues, Operating profit (loss) and Other expense, net, for NACoal and NACCO and Other are discussed below in "Segment Results." Amounts below income (loss) before income tax provision (benefit) 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 and may make quarterly comparisons not meaningful. 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.

The effective income tax rates from continuing operations for the three and nine months ended September 30, 2017 was a 44.1% and 19.5% expense on income, respectively, compared to an 84.5% and 218.3% benefit on loss for the three and nine months ended September 30, 2016. The change in income taxes was primarily due to a change in the effective income tax rate driven by a change in the mix of earnings, primarily the impact in three and nine months ended September 30, 2016 of the \$17.4 million asset impairment charge, and the impact of discrete items. The effective income tax rates from continuing operations for the three and nine months ended September 30, 2017 include discrete income tax expense of \$1.9 million and \$1.6 million, respectively, primarily due to the establishment of a valuation allowance on deferred tax assets. The valuation allowance was established because the Company expects to be subject to Alternative Minimum Tax ("AMT") beginning in 2018 due to the change in the mix of earnings as a result of the spin-off of Hamilton Beach Holding. As a result of being subject to AMT beginning in 2018, the Company remeasured its deferred tax assets and liabilities using the AMT rate that is expected to apply to taxable income in future years in which those tax assets and liabilities are expected to be realized or settled. In addition, intraperiod tax allocation rules require the Company to allocate the income tax provision between continuing operations and other categories of earnings, such as discontinued operations. The income tax provision in the third quarter of 2017 reflects a change in estimate attributed to higher pretax income within continuing operations at

companies that do not benefit from percentage depletion. According to the ordering rules of intraperiod tax allocation, the residual amount of change after determining the effective rate for continuing operations is allocated to discontinued operations.

The effective income tax rates from continuing operations for the three and nine months ended September 30, 2016 include discrete income tax expense of \$0.7 million and discrete income tax benefit of \$1.3 million, respectively. The income tax benefit for the three and nine months ended September 30, 2016, includes the effect of Centennial's asset impairment. See Note 10 to the Unaudited Condensed Consolidated Financial Statements for further discussion of the 2016 Centennial asset impairment charge.

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In addition, 2017 and 2016 effective tax rates from continuing operations include the effect of benefits from percentage depletion. The benefit of percentage depletion is not directly related to the amount of pre-tax income recorded in a period. Accordingly, in periods where income before tax is relatively small, the proportional effect of the benefit from percentage depletion on the effective tax rate may be significant.

## Liquidity and Capital Resources of NACCO

NACCO has not guaranteed NACoal's borrowings. The borrowing agreement at NACoal allows for the payment to NACCO of dividends and advances under certain circumstances. Dividends (to the extent permitted by NACoal's borrowing agreement) and management fees are the primary sources of cash for NACCO and enable the Company to pay dividends to stockholders.

## Capital Structure

NACCO's consolidated capital structure is presented below:

	SEPTEMBER 30 2017	DECEMBER 31 2016	Change
Cash and cash equivalents	\$ 93,938	\$ 69,308	\$24,630
Other net tangible assets	149,181	222,983	(73,802 )
Goodwill and intangible assets, net	44,036	45,678	(1,642 )
Net assets	287,155	337,969	(50,814 )
Total debt	(58,741 )	(96,039 )	37,298
Bellaire closed mine obligations	(21,351 )	(21,637 )	286
Total equity	\$ 207,063	\$ 220,293	\$(13,230)
Debt to total capitalization	22%	30%	(8)%

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

## NACCO Industries, Inc. Outlook - Fourth Quarter 2017

Overall, in the fourth quarter of 2017, NACCO expects a substantial increase in consolidated income before income taxes from continuing operations compared with 2016 primarily driven by improvements at NACoal. The fourth quarter effective income tax rate related to continuing operations, excluding discrete items, is expected to be approximately 15%. Including discrete items recognized in the first nine months of 2017, NACCO expects the full year effective income tax rate related to continuing operations to be between 20 and 25%.

NACoal expects a modest increase in tons sold in the fourth quarter of 2017 compared with the fourth quarter of 2016. Income before income tax is also expected to increase in the fourth quarter of 2017 compared with the fourth quarter of 2016, resulting in a substantial increase in full-year 2017 income before income tax, including and excluding the effect of Centennial's 2016 third quarter asset impairment and \$3.3 million of legal resolution charges in the fourth quarter of 2016. However, fourth quarter 2017 income before income tax is expected to be lower than the 2017 third quarter due to a decrease in earnings from unconsolidated mines as a result of reduced customer requirements and a reduction in royalty and other income.

Income before income tax at NACoal's consolidated operations in the fourth quarter of 2017 is expected to improve over the prior year due to lower operating expenses, including a reduction in lease expense. These improvements are expected to be partially offset by a substantial decrease in MLMC's fourth-quarter 2017 results primarily as a result of an increase in cost of sales attributable to the recognition of production costs capitalized into inventory during the

outage at the customer's power plant in the third quarter. In the fourth quarter of 2017, Centennial's operating loss is expected to be modestly higher than in 2016, excluding Centennial's legal resolution charges and mine reclamation adjustment. 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.

Income before income tax in the fourth quarter of 2017 is also expected to benefit from an increase in earnings from the unconsolidated mining operations due to the start of production at Bisti on January 1, 2017. In addition, at NAM's

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unconsolidated operations, an increase in the number of draglines being operated for customers is expected to contribute to the increase in earnings from the unconsolidated mining operations.

Cash flow before financing activities at NACoal is expected to be positive but decrease substantially in the fourth quarter of 2017 compared with the prior year quarter. However, full-year cash flow before financing is expected to increase moderately compared with 2016. Capital expenditures are estimated to be \$8.5 million in the fourth quarter of 2017 and approximately \$18 million for the full year.

On June 28, 2017, Southern Company and its subsidiary, Mississippi Power, issued a press release announcing they were immediately suspending start-up and operations activities involving the coal gasifier portion of the Kemper County energy facility. Liberty is the sole supplier of coal to fuel the gasifier. At this time, the future of the Kemper County coal gasification facility remains uncertain, and therefore the future of the Liberty Mine is uncertain. The terms of the contract specify that Mississippi Power is responsible for all mine closure costs, should that be required, with the Liberty Mine specified as the contractor to complete final mine closure. Should the decision to suspend operations of the gasifier and mine become permanent, it will unfavorably affect NACoal's long-term earnings under its contract with Mississippi Power.

NACCO Industries, Inc. Outlook - 2018

In 2018, NACCO expects consolidated income before income taxes from continuing operations to decrease moderately compared with 2017 and expects an effective income tax rate of approximately 25%.

In 2018, NACoal expects income before income taxes to decrease compared with 2017, primarily because of a substantial anticipated decrease in royalty and other income. Royalties on oil, gas and coal extracted by others are subject to changes in market forces and the activities of others, making it difficult to forecast whether recent high levels of income will continue. The absence of \$3.5 million of gains on sales of assets, primarily realized at Centennial, during the first nine months of 2017 and higher NACoal operating expenses, which are expected to be partially offset by lower NACCO parent operating expenses, are also expected to contribute to the decrease in income before income taxes. These decreases are expected to be partially offset by improved results at MLMC due to an anticipated increase in customer demand. MLMC believes customer demand will be higher in the first half of 2018 compared with the second half of 2018 because MLMC's customer anticipates taking a planned outage at its power plant in the second half of the year. An increase in income from unconsolidated mines is also expected to partially offset the decline in income before income taxes.

Cash flow before financing activities is expected to decrease in 2018 compared with 2017, and capital expenditures are expected to be approximately \$21 million in 2018.

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 expects to continue efforts to develop opportunities for new or expanded 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 other value-added services.

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## SEGMENT RESULTS

## THE NORTH AMERICAN COAL CORPORATION

## FINANCIAL REVIEW

Tons of coal sold by NACoal's operating mines were as follows for the three and nine months ended September 30:

	THREE MONTHS		NINE MONTHS	
	2017	2016	2017	2016
	(In millions)			
Coteau	3.8	3.3	11.1	10.3
Falkirk	2.1	2.1	5.1	5.3
Sabine	1.1	1.1	2.6	3.3
Bisti	1.1	—	3.1	—
Camino Real	0.5	0.4	1.7	1.3
Coyote Creek	0.6	0.7	1.6	0.9
Other	0.2	0.2	0.9	0.4
Unconsolidated mines	9.4	7.8	26.1	21.5
MLMC	0.5	1.0	1.9	2.3
Total tons sold	9.9	8.8	28.0	23.8

NAM sold 6.4 million and 22.1 million cubic yards of limerock in the three and nine months ended September 30, 2017, respectively. This compares with 6.4 million and 20.3 million cubic yards of limerock in the three and nine months ended September 30, 2016, respectively.

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

	THREE MONTHS		NINE MONTHS	
	2017	2016	2017	2016
Revenue - consolidated mines	\$19,318	\$30,628	\$69,397	\$79,780
Revenue - royalty and other	2,623	1,774	8,944	5,998
Total revenues	21,941	32,402	78,341	85,778
Cost of sales - consolidated mines	18,798	29,873	64,877	73,845
Cost of sales - royalty and other	613	821	1,698	1,908
Total cost of sales	19,411	30,694	66,575	75,753
Gross profit	2,530	1,708		