NACCO INDUSTRIES INC
Form 10-Q
May 05, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

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

(440) 449-9600

(Registrant s telephone number, including area code)

N/A

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

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

YES þ NO o

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

YES o NO o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o **NO** þ
Number of shares of Class A Common Stock outstanding at April 30, 2010: 6,732,139
Number of shares of Class B Common Stock outstanding at April 30, 2010: 1,598,546

NACCO INDUSTRIES, INC.
TABLE OF CONTENTS

1

Table of Contents

Part I
FINANCIAL INFORMATION
Item 1. Financial Statements
NACCO INDUSTRIES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31 2010	DECEMBER 31 2009
	(In millions, except share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 233.3	$ 256.2
Accounts receivable, net	317.3	315.0
Inventories, net	330.1	336.7
Deferred income taxes	21.3	23.4
Prepaid expenses and other	66.3	35.0
Current assets of discontinued operations		1.3
Total Current Assets	968.3	967.6
Property, Plant and Equipment, Net	288.3	323.9
Coal Supply Agreement and Other Intangibles, Net	62.8	63.5
Long-term Deferred Income Taxes	13.3	11.8
Other Non-current Assets	117.4	121.9
Total Assets	$ 1,450.1	$ 1,488.7
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$ 268.7	$ 271.7
Revolving credit agreements not guaranteed by the parent company	19.4	9.5
Current maturities of long-term debt not guaranteed by the parent company	24.5	22.4
Accrued payroll	35.7	44.3
Accrued warranty	25.4	27.9
Deferred revenue	11.9	12.5
Other current liabilities	87.4	89.1
Current liabilities of discontinued operations		1.9
Total Current Liabilities	473.0	479.3
Long-term Debt not guaranteed by the parent company	372.4	377.6
Pension and other Postretirement Obligations	88.7	98.5
Other Long-term Liabilities	127.5	136.2
Total Liabilities	1,061.6	1,091.6
Stockholders Equity		

Common stock:		
Class A, par value $1 per share, 6,732,082 shares outstanding (2009 - 6,694,380 shares outstanding)	**6.7**	6.7
Class B, par value $1 per share, convertible into Class A on a one-for-one basis, 1,598,603 shares outstanding (2009 - 1,599,356 shares outstanding)	**1.6**	1.6
Capital in excess of par value	**16.7**	16.1
Retained earnings	**420.7**	413.3
Accumulated other comprehensive income (loss):		
Foreign currency translation adjustment	**21.6**	34.8
Deferred gain (loss) on cash flow hedging	**(1.2)**	3.5
Pension and postretirement plan adjustment	**(78.0)**	(79.4)
Total Stockholders Equity	**388.1**	396.6
Noncontrolling Interest	**0.4**	0.5
Total Equity	**388.5**	397.1
Total Liabilities and Equity	**$ 1,450.1**	$ 1,488.7

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	THREE MONTHS ENDED MARCH 31	
	2010	2009
	(In millions, except per share data)	
Revenues	**$ 557.6**	$ 554.7
Cost of sales	**451.9**	468.8
Gross Profit	**105.7**	85.9
Earnings of unconsolidated mines	**10.5**	10.5
Operating Expenses		
Selling, general and administrative expenses	**94.0**	98.0
Restructuring charges (reversals)	**(1.9)**	0.7
Gain on sale of assets	**(0.1)**	(1.7)
	92.0	97.0
Operating Profit (Loss)	**24.2**	(0.6)
Other income (expense)		
Interest expense	**(6.8)**	(8.2)
Unsuccessful merger costs	**(2.4)**	(0.6)
Other		0.9
	(9.2)	(7.9)
Income (Loss) Before Income Taxes	**15.0**	(8.5)
Income tax provision	**3.4**	0.6
Net Income (Loss)	**11.6**	(9.1)
Net loss attributable to noncontrolling interest	**0.1**	
Net Income (Loss) Attributable to Stockholders	**$ 11.7**	$ (9.1)
Comprehensive Loss	**$ (4.8)**	$ (11.9)
Basic Earnings (Loss) per Share	**$ 1.41**	$ (1.10)
Diluted Earnings (Loss) per Share	**$ 1.40**	$ (1.10)
Dividends per Share	**$ 0.5175**	$ 0.5150
Basic Weighted Average Shares Outstanding	**8.321**	8.287

Diluted Weighted Average Shares Outstanding	**8.331**	8.287

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	THREE MONTHS ENDED MARCH 31	
	2010	2009
	(In millions)	
Operating Activities		
Net income (loss)	**$ 11.6**	$ (9.1)
Adjustments to reconcile net income (loss) to net cash used for operating activities:		
Depreciation, depletion and amortization	**12.9**	13.1
Amortization of deferred financing fees	**0.5**	0.5
Deferred income taxes	**2.8**	4.0
Restructuring charges (reversals)	**(1.9)**	0.7
Gain on sale of assets	**(0.1)**	(1.7)
Other non-current liabilities	**(16.5)**	(5.0)
Other	**(1.9)**	(3.8)
Working capital changes, excluding the effect of business dispositions:		
Accounts receivable	**(6.4)**	121.4
Inventories	**1.6**	21.7
Other current assets	**(7.5)**	(15.9)
Accounts payable	**3.7**	(107.3)
Other liabilities	**(14.4)**	(39.9)
Net cash used for operating activities continuing operations	**(15.6)**	(21.3)
Net cash provided by operating activities discontinued operations	**0.1**	0.3
Net cash used for operating activities	**(15.5)**	(21.0)
Investing Activities		
Expenditures for property, plant and equipment	**(4.7)**	(9.0)
Proceeds from the sale of assets	**0.5**	4.9
Other	**(0.9)**	(0.8)
Net cash used for investing activities	**(5.1)**	(4.9)
Financing Activities		
Additions to long-term debt	**2.7**	5.6
Reductions of long-term debt	**(6.2)**	(18.2)
Net additions to revolving credit agreements	**10.0**	60.3
Cash dividends paid	**(4.3)**	(4.3)
Other		(0.2)
Net cash provided by financing activities continuing operations	**2.2**	43.2
Net cash used for financing activities discontinued operations		(0.1)

Net cash provided by financing activities	**2.2**	43.1
Effect of exchange rate changes on cash	**(4.5)**	0.2
Cash and Cash Equivalents		
Increase (decrease) for the period	**(22.9)**	17.4
Balance at the beginning of the period	**256.2**	138.3
Balance at the end of the period	**$ 233.3**	$ 155.7

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	THREE MONTHS ENDED MARCH 31	
	2010	2009
	(In millions, except per share data)	
Stockholders Equity:		
Class A Common Stock	**$ 6.7**	$ 6.7
Class B Common Stock	**1.6**	1.6
Capital in Excess of Par Value		
Beginning balance	**16.1**	14.4
Stock-based compensation	**0.4**	0.1
Shares issued under stock compensation plans	**0.2**	0.1
	16.7	14.6
Retained Earnings		
Beginning balance	**413.3**	399.3
Net income (loss) attributable to stockholders	**11.7**	(9.1)
Cash dividends on Class A and Class B common stock:		
2010 $0.5175 per share	**(4.3)**	
2009 $0.5150 per share		(4.3)
	420.7	385.9
Accumulated Other Comprehensive Income (Loss)		
Beginning balance	**(41.1)**	(65.3)
Foreign currency translation adjustment	**(13.2)**	(10.3)
Reclassification of hedging activity into earnings	**(2.4)**	1.1
Current period cash flow hedging activity	**(2.3)**	5.3
Reclassification of pension and postretirement activities into earnings	**1.4**	1.1
	(57.6)	(68.1)
Total Stockholders Equity	**388.1**	340.7
Noncontrolling Interest		
Beginning balance	**0.5**	0.2
Net loss	**(0.1)**	

Total Noncontrolling Interest	**0.4**	0.2
Total Equity	**$ 388.5**	$ 340.9

See notes to unaudited condensed consolidated financial statements.

NACCO INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(Tabular Amounts in Millions, Except Per Share and Percentage Data)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of NACCO Industries, Inc. (the parent company or NACCO) and its wholly owned subsidiaries (collectively, NACCO Industries, Inc. and Subsidiaries or the Company). Intercompany accounts and transactions are eliminated in consolidation. Also included is Shanghai Hyster Forklift Ltd., a 73% owned joint venture of NMHG Holding Co. (NMHG) in China. The Company s subsidiaries operate in the following principal industries: lift trucks, small appliances, specialty retail and mining. The Company manages its subsidiaries primarily by industry.

NMHG designs, engineers, manufactures, sells, services and leases a comprehensive line of lift trucks and aftermarket parts marketed globally under the Hyster® and Yale® brand names, primarily to independent and wholly owned Hyster® and Yale® retail dealerships. Lift trucks and component parts are manufactured in the United States, Northern Ireland, The Netherlands, China, Italy, Japan, Mexico, the Philippines, Vietnam and Brazil. Hamilton Beach Brands, Inc. (HBB) is a leading designer, marketer and distributor of small electric household appliances, as well as commercial products for restaurants, bars and hotels. The Kitchen Collection, Inc. (KC) is a national specialty retailer of kitchenware and gourmet foods operating under the Kitchen Collection® and Le Gourmet Chef® store names in outlet and traditional malls throughout the United States. The North American Coal Corporation and its affiliated coal companies (collectively, NACoal) mine and market coal primarily as fuel for power generation and provide selected value-added mining services for other natural resources companies.

During 2009, NACoal completed the sale of certain assets of the Red River Mining Company (Red River). The financial position, results of operations and cash flows of Red River are reflected as discontinued operations in the accompanying unaudited condensed consolidated financial statements.

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of the Company as of March 31, 2010 and the results of its operations, cash flows and changes in equity for the three months ended March 31, 2010 and 2009 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, 2009.

The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information or notes required by U.S. generally accepted accounting principles for complete financial statements.

Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2010. Because the HBB and KC businesses are seasonal, a majority of revenues and operating profit typically occurs in the second half of the calendar year when sales of small electric household appliances to retailers and consumers increase significantly for the fall holiday-selling season. For further information, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Note 2 Recently Issued Accounting Standards

Accounting Standards Adopted in 2010:

On January 1, 2010, the Company adopted authoritative guidance issued by the Financial Accounting Standards Board (FASB) for accounting for transfers of financial assets. The guidance requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. The guidance eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The guidance also requires enhanced disclosures to provide financial statement users with greater transparency about transfers of financial assets and a transferor s continuing involvement with transferred financial assets. The adoption of the guidance did not have a material effect on the Company s financial position, results of operations, cash flows or related disclosures.

On January 1, 2010, the Company adopted authoritative guidance issued by the FASB on the consolidation of variable interest entities. The guidance changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The guidance requires an ongoing assessment of whether an entity is the primary beneficiary of a variable interest entity and eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity. The guidance also requires additional disclosures regarding a company s involvement with variable interest entities, any significant changes in risk exposure due to that involvement and how the company s involvement with a variable interest entity affects the company s financial statements. The adoption of the guidance did not have a material effect on the Company s financial position, results of operations, cash flows or related disclosures.

Table of Contents

Accounting Standards Not Yet Adopted:

In October 2009, the FASB issued authoritative guidance on multiple-deliverable revenue arrangements, which is effective for the Company on January 1, 2011 for new revenue arrangements or material modifications to existing agreements. The guidance amends the criteria for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands required disclosures related to a vendor s multiple-deliverable revenue arrangements. The Company is currently evaluating the effect the adoption of the guidance will have on its financial position, results of operations, cash flows and related disclosures.

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

Note 3 Restructuring and Related Programs

During 2009, NMHG s management approved a plan to close its facility in Modena, Italy and consolidate its activities into NMHG s facility in Masate, Italy. These actions were taken to further reduce NMHG s manufacturing capacity to more appropriate levels. As a result, NMHG recognized a charge of approximately $5.6 million during 2009. Of this amount, $5.3 million related to severance and $0.3 million related to lease impairment. During the first three months of 2010, $1.9 million of the accrual was reversed as a result of a reduction in the expected amount to be paid to former employees due to the finalization of an agreement with the Italian government. Severance payments of $0.4 million were made during the first three months of 2010. Payments related to this restructuring program are expected to continue through 2012. No further charges related to this plan are expected.

During 2008 and 2009, based on the decline in economic conditions, NMHG s management reduced its number of employees worldwide. As a result, NMHG recognized a charge of approximately $6.3 million in 2008 and $3.4 million in 2009 related to severance. In addition, $1.1 million of the accrual was reversed during 2009 as a result of a reduction in the expected amount paid to employees. Severance payments of $0.6 million were made during the first three months of 2010. Payments are expected to continue through the remainder of 2010. NMHG continues to evaluate the appropriate size of its workforce worldwide to align with current market demand for lift trucks in response to the decline in economic conditions.

During 2009, NMHG s management approved a plan for a reduction in the number of employees in Asia-Pacific due to the sale of certain assets of NMHG s fleet services business and wholly owned Hyster® retail dealerships in Australia. As a result, NMHG recognized a charge of approximately $2.7 million during 2009. Of this amount, $2.1 million related to severance, $0.5 million related to lease termination costs and $0.1 million related to other costs of the restructuring. In addition, $0.8 million of the severance accrual was reversed during 2009 as a result of a reduction in the expected number of employees receiving severance payments. Payments of $0.2 million were made for lease termination costs during the first three months of 2010. Payments related to this restructuring are expected to continue through the remainder of 2010. No further charges related to this plan are expected.

Table of Contents

Following is the detail of the cash charges related to the NMHG programs:

	Total charges expected to be incurred		Total charges incurred through December 31, 2009		**Reversals in the three months ended March 31, 2010**	
NMHG Americas						
Severance	$	3.3	$	3.3	**$**	
	$	3.3	$	3.3	**$**	
NMHG Europe						
Severance	$	7.6	$	9.5	**$**	**(1.9)**
Lease impairment		0.3		0.3		
Other						
	$	7.9	$	9.8	**$**	**(1.9)**
NMHG Other						
Severance	$	2.4	$	2.4	**$**	
Lease impairment		0.5		0.5		
Other		0.1		0.1		
	$	3.0	$	3.0	**$**	
Total charges	$	14.2	$	16.1	**$**	**(1.9)**

Following is the activity related to the liability for the NMHG programs. Amounts for severance expected to be paid within one year are included on the line Accrued Payroll and amounts for severance expected to be paid after one year are included on the line Other Long-term Liabilities in the Unaudited Condensed Consolidated Balance Sheets. Amounts for lease impairment and other are included in Other current liabilities in the Unaudited Condensed Consolidated Balance Sheets.

	Severance	**Lease Impairment**	**Other**	**Total**
Balance at January 1, 2010	$ 7.9	$ 0.8	$ 0.1	$ 8.8
Reversal	(1.9)			(1.9)
Payments	(1.0)			