

NACCO INDUSTRIES INC
Form 10-K
March 06, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K
(Mark
One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the fiscal year ended December 31, 2018

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

Commission File No. 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, Suite 220, Cleveland, Ohio 44124-4069
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (440) 229-5151

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, Par Value \$1.00 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Class B Common Stock, Par Value \$1.00 Per Share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

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 every Interactive Data File required to be submitted 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 such files).

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information

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statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
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 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 type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	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

Aggregate market value of Class A Common Stock and Class B Common Stock held by non-affiliates as of June 30, 2018 (the last business day of the registrant's most recently completed second fiscal quarter): \$145,248,626

Number of shares of Class A Common Stock outstanding at February 22, 2019: 5,428,269

Number of shares of Class B Common Stock outstanding at February 22, 2019: 1,568,810

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its 2019 annual meeting of stockholders are incorporated herein by reference in Part III of this Form 10-K.

NACCO INDUSTRIES, INC.
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PART I

Item 1. BUSINESS

General

NACCO Industries, Inc. (“NACCO” or the “Company”) 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.

Additional information relating to financial and operating data on a segment basis (including NACCO and Other) is set forth under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Part II of this Form 10-K and in Note 15 to the Consolidated Financial Statements contained in this Form 10-K.

NACCO was incorporated as a Delaware corporation in 1986 in connection with the formation of a holding company structure for a predecessor corporation organized in 1913. As of December 31, 2018, the Company and its subsidiaries had approximately 2,400 employees, including approximately 2,000 employees at the Company’s unconsolidated mining operations.

The Company makes its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports available, free of charge, through its website, www.nacco.com, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”).

Significant Events

During 2018, 2017 and 2016, NACoal expanded its NAM business by adding several new customers.

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.

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.

On June 28, 2017, Southern Company and its subsidiary, Mississippi Power, suspended operations involving the coal gasifier portion of the Kemper County energy facility. Liberty Fuels Company, LLC (“Liberty”), an unconsolidated mining operation, was the sole supplier of coal to fuel the gasifier under its contract with Mississippi Power. Liberty ceased all mining and delivery of lignite in 2017 and commenced mine reclamation in 2018.

On January 1, 2017, Bisti Fuels Company, LLC (“Bisti”), an unconsolidated mining operation, became the contract miner at Navajo Transitional Energy Company’s (“NTEC’s”) Navajo Mine.

Centennial Natural Resources, LLC (“Centennial”) ceased active mining operations at the end of 2015. During 2016 and 2017, the Company’s NACoal subsidiary recorded non-cash impairment charges of \$17.4 million and \$1.0 million, respectively. The carrying value of coal land and real estate and the assets held for sale were zero as of December 31, 2017.

North American Coal

General

NACoal operates surface mines that supply coal primarily to power generation companies under long-term contracts, and provides other value-added services to natural resource companies. In addition, its NAM business operates and maintains draglines and other equipment under contracts with sellers of aggregates.

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, Caddo Creek Resources Company, LLC ("Caddo Creek"), Camino Real Fuels, LLC ("Camino Real"), The Coteau Properties Company ("Coteau"), Coyote Creek

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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 ceased all mining and delivery of lignite in 2017 and commenced mine reclamation in 2018.

Coteau, Coyote, Falkirk, MLMC and Sabine supply lignite coal for power generation. Bisti and Camino Real supply sub-bituminous coal for power generation. Caddo Creek and Demery supply lignite coal for the production of activated carbon. Each of these mines deliver their coal production to adjacent or nearby power plants, synfuels plants or activated carbon processing facilities under long-term supply contracts. With the exception of Camino Real, each mine is the exclusive supplier to its customers' facilities.

All of the operating coal mining subsidiaries other than MLMC are unconsolidated. 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.

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. MLMC's customer, KMRC RH, LLC until April 30, 2016 and Choctaw Generation Limited Partnership, LLLP subsequent to April 30, 2016, accounted for approximately 60%, 60% and 69% of NACoal's revenues for the years ended December 31, 2018, 2017 and 2016, respectively. Centennial, which ceased coal production at the end of 2015, is also a consolidated entity.

NAM primarily provides value-added services for independently owned limestone quarries and is generally reimbursed by its customers based on production costs plus a management fee per unit of limestone delivered. NAM's largest customer, Cemex Construction Materials of Florida, LLC ("Cemex"), accounted for approximately 20%, 18% and 16% of NACoal's revenues for the year ended December 31, 2018, 2017 and 2016, respectively. The financial results for NAM are included in the consolidated mining operations or unconsolidated mining operations based on each entity's structure.

The contracts with the customers of the unconsolidated subsidiaries eliminate exposure to spot coal and aggregates 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.

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 ("NACRC") provides surface and mineral acquisition and lease maintenance services related to the Company's operations and owns the mineral rights of various properties throughout the U.S.

NACoal's total coal reserves approximate 1.9 billion tons (including the unconsolidated coal mining subsidiaries), with approximately 1.0 billion tons committed to customers pursuant to long-term contracts. At December 31, 2018, NACoal's operating mines consisted both of mines where the reserves were acquired (whether in fee or through leases) and developed by NACoal, as well as mines where reserves are owned or leased by the customers of the mines and developed by NACoal.

The contracts under which certain of the unconsolidated subsidiaries operate provide that, under certain conditions, including default, the customer(s) involved may elect or be obligated to acquire the assets (subject to the liabilities) or

the capital stock of the NACoal mining subsidiary for an amount effectively equal to book value. NACoal does not know of any conditions of default that currently exist.

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Sales, Marketing and Operations

The principal coal customers of NACoal are electric utilities, an independent power provider, producers of activated carbon and a synfuels plant. The total coal severed by mine (in millions of tons) for the two years ended December 31 are as follows:

	2018	2017
Unconsolidated Mines		
Coteau	14.2	14.7
Falkirk	8.2	7.2
Sabine	3.5	3.8
Bisti	3.4	3.7
Camino Real	2.2	2.4
Coyote Creek	2.5	2.1
Other	0.4	0.8
Consolidated Mines		
Mississippi Lignite Mining Company	2.9	2.4
Total tons severed	37.3	37.1

Seasonality

NACoal has experienced limited variability in its results due to the effect of seasonality; however, variations in coal demand can occur as a result of the timing of planned or unplanned outage days at NACoal's customers' facilities. Variations in coal demand can also occur as a result of changes in market prices of competing fuels such as natural gas, wind and solar power and demand for electricity, which can fluctuate based on changes in weather patterns.

Competition

The coal industry competes with other sources of energy, particularly oil, gas, hydro-electric power and nuclear power. In addition, it competes with subsidized sources of energy, primarily wind and solar. Among the factors that affect competition are the price and availability of oil and natural gas, environmental and related political considerations, the time and expenditures required to develop new energy sources, the cost of transportation, the cost of compliance with governmental regulations, the impact of federal and state energy policies and the impact of subsidies on renewable pricing. The ability of NACoal to maintain comparable levels of coal production at existing facilities and to market and develop its reserves will depend upon the interaction of these factors.

Based on industry information, NACoal believes it was one of the ten largest coal producers in the U.S. in 2018 based on total coal tons produced.

Employees

As of December 31, 2018, NACoal had approximately 2,400 employees, including approximately 2,000 employees at the unconsolidated mining operations of which approximately 255 are represented by a union at Bisti. NACoal believes its current labor relations with both union and non-union employees are satisfactory.

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The location, mine type, reserve data, coal quality characteristics, sales tonnage and contract expiration date for the mines operated by NACoal were as follows:

COAL MINING OPERATIONS ON AN “AS RECEIVED” BASIS

Mine/Reserve	Type of Mine	2018		2017			2017			
		Proven and Probable Reserves (a)(b) Committed	Under Uncommitted Contract	Total Tons Delivered (Millions)	Owned Reserves (%)	Leased Reserves (%)	Total Committed and Uncommitted (Millions of Tons)	Tons Delivered (Millions)	Contract Expires	
Unconsolidated Mines										
Freedom Mine (c)- The Coteau Properties Company	Surface Lignite	444.5	—	444.5	14.2	3 %	97 %	452.2	14.7	2022 (d)
Falkirk Mine (c)- The Falkirk Mining Company	Surface Lignite	373.6	—	373.6	8.4	1 %	99			