NACCO INDUSTRIES INC
Form 10-Q
July 30, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2014
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission file number 1-9172

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

DELAWARE (State or other jurisdiction of incorporation or organization)	34-1505819 (I.R.S. Employer Identification No.)
5875 LANDERBROOK DRIVE, SUITE 220, CLEVELAND, OHIO (Address of principal executive offices)	44124-4069 (Zip code)

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

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

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

YES þ NO o

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

YES þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 July 25, 2014: 6,046,238
Number of shares of Class B Common Stock outstanding at July 25, 2014: 1,580,590

NACCO INDUSTRIES, INC.
TABLE OF CONTENTS

			Page Number
Part I.	FINANCIAL INFORMATION		
	Item 1	Financial Statements	
		Unaudited Condensed Consolidated Balance Sheets at June 30, 2014, December 31, 2013 and June 30, 2013	2
		Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2014 and 2013	3
		Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2014 and 2013	4
		Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013	5
		Unaudited Condensed Consolidated Statements of Changes in Equity for the Six Months Ended June 30, 2014 and 2013	6
		Notes to Unaudited Condensed Consolidated Financial Statements	7
	Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
	Item 3	Quantitative and Qualitative Disclosures About Market Risk	39
	Item 4	Controls and Procedures	40
Part II.	OTHER INFORMATION		
	Item 1	Legal Proceedings	41
	Item 1A	Risk Factors	41
	Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	43
	Item 3	Defaults Upon Senior Securities	43
	Item 4	Mine Safety Disclosures	43
	Item 5	Other Information	43

Item 6	Exhibits	43
Signatures		44
Exhibit Index		45

Table of Contents

Part I
FINANCIAL INFORMATION
Item 1. Financial Statements

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

	JUNE 30 2014	DECEMBER 31 2013	JUNE 30 2013
	(In thousands, except share data)		
ASSETS			
Cash and cash equivalents	$60,907	$ 95,390	$85,058
Accounts receivable, net	85,001	120,789	81,271
Accounts receivable from affiliates	36,351	32,636	29,029
Inventories, net	188,148	184,445	167,470
Deferred income taxes	12,740	14,452	13,701
Prepaid expenses and other	23,195	13,578	16,111
Total current assets	406,342	461,290	392,640
Property, plant and equipment, net	254,362	219,256	185,626
Coal supply agreements and other intangibles, net	57,929	59,685	65,666
Other non-current assets	70,160	69,725	54,185
Total assets	$788,793	$ 809,956	$698,117
LIABILITIES AND EQUITY			
Accounts payable	$99,319	$ 133,016	$90,334
Revolving credit agreements of subsidiaries - not guaranteed by the parent company	74,524	23,460	27,264
Current maturities of long-term debt of subsidiaries - not guaranteed by the parent company	7,877	7,859	6,969
Accrued payroll	14,837	29,030	18,378
Other current liabilities	37,868	44,754	30,510
Total current liabilities	234,425	238,119	173,455
Long-term debt of subsidiaries - not guaranteed by the parent company	147,257	152,431	129,687
Mine closing reserves	35,930	29,764	28,928
Pension and other postretirement obligations	7,355	7,648	14,573
Long-term deferred income taxes	23,026	24,786	22,961
Other long-term liabilities	66,013	59,428	60,487
Total liabilities	514,006	512,176	430,091
Stockholders' equity			
Common stock:			
Class A, par value $1 per share, 6,046,238 shares outstanding (December 31, 2013 - 6,290,414 shares outstanding; June 30, 2013 - 6,454,764 shares outstanding)	6,046	6,290	6,455
Class B, par value $1 per share, convertible into Class A on a one-for-one basis, 1,580,590 shares outstanding (December 31, 2013 - 1,581,106 shares outstanding; June 30, 2013 - 1,581,835 shares outstanding)	1,581	1,581	1,582
Capital in excess of par value	—	941	4,185
Retained earnings	279,922	301,227	275,662
Accumulated other comprehensive loss	(12,762)	(12,259)	(19,858)

Total stockholders' equity	274,787	297,780	268,026
Total liabilities and equity	$788,793	$ 809,956	$698,117

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 JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Revenues	$200,370	$196,017	$377,783	$392,069
Cost of sales	163,847	148,387	305,089	298,178
Gross profit	36,523	47,630	72,694	93,891
Earnings of unconsolidated mines	11,567	10,281	24,005	22,379
Operating expenses				
Selling, general and administrative expenses	50,990	48,489	99,419	98,785
Amortization of intangible assets	991	619	1,756	1,660
	51,981	49,108	101,175	100,445
Operating profit (loss)	(3,891)	8,803	(4,476)	15,825
Other expense (income)				
Interest expense	1,950	1,148	3,404	2,452
(Income) loss from other unconsolidated affiliates	420	(336)	32	(727)
Closed mine obligations	308	272	624	677
Other, net, including interest income	(273)	476	(151)	343
	2,405	1,560	3,909	2,745
Income (loss) before income tax provision (benefit)	(6,296)	7,243	(8,385)	13,080
Income tax provision (benefit)	(2,672)	2,096	(3,237)	3,511
Net income (loss)	$(3,624)	$5,147	$(5,148)	$9,569
Basic earnings (loss) per share	$(0.47)	$0.63	$(0.66)	$1.16
Diluted earnings (loss) per share	$(0.47)	$0.63	$(0.66)	$1.16
Dividends per share	$0.2575	$0.2500	$0.5075	$0.5000
Basic weighted average shares outstanding	7,712	8,179	7,777	8,259
Diluted weighted average shares outstanding	7,718	8,184	7,787	8,284

See notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
	(In thousands)			
Net income (loss)	$(3,624)	$5,147	$(5,148)	$9,569
Foreign currency translation adjustment	258	(543)	84	(64)
Deferred gain on available for sale securities	174	48	237	292
Current period cash flow hedging activity, net of $583 and $808 tax benefit in the three and six months ended June 30, 2014, respectively, and $356 and $432 tax expense in the three and six months ended June 30, 2013, respectively.	(1,043)	577	(1,450)	697
Reclassification of hedging activities into earnings, net of $91 and $187 tax benefit in the three and six months ended June 30, 2014, respectively, and $77 and $170 tax benefit in the three and six months ended June 30, 2013, respectively.	173	124	353	273
Reclassification of pension and postretirement adjustments into earnings, net of $77 and $160 tax benefit in the three and six months ended June 30, 2014, respectively, and $264 and $408 tax benefit in the three and six months ended June 30, 2013, respectively.	115	363	273	805
Total other comprehensive income (loss)	$(323)	$569	$(503)	$2,003
Comprehensive income (loss)	$(3,947)	$5,716	$(5,651)	$11,572

See notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	SIX MONTHS ENDED JUNE 30	
	2014	2013
	(In thousands)	
Operating activities		
Net income (loss)	$(5,148)	$9,569
Adjustments to reconcile from net income (loss) to net cash used for operating activities:		
Depreciation, depletion and amortization	12,597	10,209
Amortization of deferred financing fees	270	295
Deferred income taxes	(248)	(3,333)
Other	7,569	(12,444)
Working capital changes:		
Accounts receivable	31,466	40,334
Inventories	(3,723)	2,070
Other current assets	(9,163)	(4,131)
Accounts payable	(33,695)	(37,738)
Other current liabilities	(21,337)	(7,389)
Net cash used for operating activities	(21,412)	(2,558)
Investing activities		
Expenditures for property, plant and equipment	(41,180)	(13,816)
Other	380	1,101
Net cash used for investing activities	(40,800)	(12,715)
Financing activities		
Additions to long-term debt	1,553	1,768
Reductions of long-term debt	(1,710)	(7,264)
Net additions (reductions) to revolving credit agreements	46,063	(8,280)
Cash dividends paid	(3,957)	(4,134)
Purchase of treasury shares	(14,247)	(21,608)
Other	2	(10)
Net cash provided by (used for) financing activities	27,704	(39,528)
Effect of exchange rate changes on cash	25	4
Cash and cash equivalents		
Decrease for the period	(34,483)	(54,797)
Balance at the beginning of the period	95,390	139,855
Balance at the end of the period	$60,907	$85,058

See notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

					Accumulated Other Comprehensive Income (Loss)				
	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Foreign Currency Translation Adjustment	Deferred Gain (Loss) on Available for Sale Securities	Deferred Gain (Loss) on Cash Flow Hedging	Pension and Postretirement Plan Adjustment	Total Stockholders' Equity
	(In thousands, except per share data)								
Balance, January 1, 2013	$6,771	$ 1,582	$24,612	$270,227	$ (574)	$292	$(286)	$ (21,293)	$ 281,331
Stock-based compensation	78	—	787	—	—	—	—	—	865
Purchase of treasury shares	(394)	—	(21,214)	—	—	—	—	—	(21,608)
Net income (loss)	—	—	—	9,569	—	—	—	—	9,569
Cash dividends on Class A and Class B common stock: $0.50 per share	—	—	—	(4,134)	—	—	—	—	(4,134)
Current period other comprehensive income (loss)	—	—	—	—	(64)	292	697	—	925
Reclassification adjustment to net income (loss)	—	—	—	—	—	—	273	805	1,078
Balance, June 30, 2013	$6,455	$ 1,582	$4,185	$275,662	$ (638)	$584	$684	$ (20,488)	$ 268,026
Balance, January 1, 2014	$6,290	$ 1,581	$941	$301,227	$ (803)	$1,021	$676	$ (13,153)	$ 297,780
Stock-based compensation	22	—	840	—	—	—	—	—	862
Purchase of treasury shares	(266)	—	(1,781)	(12,200)	—	—	—	—	(14,247)
Net income (loss)	—	—	—	(5,148)	—	—	—	—	(5,148)
Cash dividends on Class A and Class B common stock: $0.5075 per share	—	—	—	(3,957)	—	—	—	—	(3,957)
Current period other comprehensive income (loss)	—	—	—	—	84	237	(1,450)	—	(1,129)
Reclassification adjustment to net income (loss)	—	—	—	—	—	—	353	273	626
Balance, June 30, 2014	$6,046	$ 1,581	$—	$279,922	$ (719)	$1,258	$(421)	$ (12,880)	$ 274,787

See notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

NACCO INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014
(In thousands, except as noted and per share amounts)

NOTE 1—Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of NACCO Industries, Inc. (the "parent company" or "NACCO") and its wholly owned subsidiaries (collectively, "NACCO Industries, Inc. and Subsidiaries" or the "Company"). Intercompany accounts and transactions are eliminated in consolidation. The Company's subsidiaries operate in the following principal industries: mining, small appliances and specialty retail. The Company manages its subsidiaries primarily by industry.

The North American Coal Corporation and its affiliated companies (collectively, "NACoal") mine and market steam and metallurgical coal for use in power generation and steel production and provide selected value-added mining services for other natural resources companies. Hamilton Beach Brands, Inc. ("HBB") is a leading designer, marketer and distributor of small electric household appliances, as well as commercial products for restaurants, bars and hotels. The Kitchen Collection, LLC ("KC") is a national specialty retailer of kitchenware and gourmet foods operating under the Kitchen Collection® and Le Gourmet Chef® store names in outlet and traditional malls throughout the United States.

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of the Company at June 30, 2014 and the results of its operations, comprehensive income (loss), cash flows and changes in equity for the six months ended June 30, 2014 and 2013 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, 2013.

The balance sheet at December 31, 2013 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.

Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2014. The HBB and KC businesses are seasonal and a majority of revenues and operating profit typically occurs in the second half of the calendar year when sales of small electric household appliances to retailers and consumers increase significantly for the fall holiday-selling season. For further information regarding seasonality of these businesses, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Certain amounts in the prior periods' Unaudited Condensed Consolidated Financial Statements have been reclassified to conform to the current period's presentation.

NOTE 2—Recently Issued Accounting Standards

Accounting Standards Adopted in 2014: In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which includes amendments that change the requirements for reporting discontinued

operations and require additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations - that is, a major effect on the organization's operations and financial results should be presented as discontinued operations. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. Additionally, the ASU requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The Company adopted this guidance during the first quarter of 2014. The adoption did not have an effect on the Company’s financial position, results of operations or cash flows.

Accounting Standards Not Yet Adopted: In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which supersedes most current revenue recognition guidance, including industry-specific guidance, and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is

Table of Contents

effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. The Company is currently assessing the impact of implementing this guidance on the Company's financial position, results of operations, and cash flows.

NOTE 3—Inventories

Inventories are summarized as follows:

	JUNE 30 2014	DECEMBER 31 2013	JUNE 30 2013
Coal - NACoal	$24,377	$24,710	$22,154
Mining supplies - NACoal	19,659	17,406	15,994
Total inventories at weighted average cost	44,036	42,116	38,148
Sourced inventories - HBB	97,545	90,713	79,778
Retail inventories - KC	46,567	51,616	49,544
Total inventories at FIFO	144,112	142,329	129,322
	$188,148	$184,445	$167,470

NOTE 4—Stockholders' Equity

Stock Repurchase Program: On November 8, 2011, the Company announced that its Board of Directors approved the repurchase of up to $50 million of the Company's Class A Common Stock outstanding (the "2011 Stock Repurchase Program"). The original authorization for the 2011 Stock Repurchase Program was set to expire on December 31, 2012; however, in November 2012 the Company's Board of Directors approved an extension of the 2011 Stock Repurchase Program through December 31, 2013. In total, the Company repurchased $35.6 million of Class A Common Stock under the 2011 Stock Repurchase Program.

On November 12, 2013, the Company's Board of Directors terminated the 2011 Stock Repurchase Program and approved a new stock repurchase program (the "2013 Stock Repurchase Program") providing for the purchase of up to $60 million of the Company's Class A Common Stock outstanding through December 31, 2015. The timing and amount of any repurchases under the 2013 Stock Repurchase Program will be 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 2013 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 2013 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 months ended June 30, 2014, the Company repurchased a total of 175,359 shares of Class A Common Stock for an aggregate purchase price of $9.3 million under the 2013 Stock Repurchase Program at an average purchase price of $52.82 per share. During the six months ended June 30, 2014, the Company repurchased a total of 266,337 shares of Class A Common Stock for an aggregate purchase price of $14.2 million under the 2013 Stock Repurchase Program at an average purchase price of $53.49 per share.

Table of Contents

Amounts Reclassified out of Accumulated Other Comprehensive Income (Loss): The following table summarizes the amounts reclassified out of Accumulated other comprehensive income (loss) ("AOCI") and recognized in the Unaudited Condensed Consolidated Statements of Operations:

	Amount Reclassified from AOCI				
	THREE MONTHS ENDED June 30		SIX MONTHS ENDED June 30		
Details about AOCI Components	2014	2013	2014	2013	Location of (gain) loss reclassified from AOCI into income (loss)
(Gain) loss on cash flow hedging					
Foreign exchange contracts	$(114)	$(27)	$(202)	$(17)	Cost of sales
Interest rate contracts	378	228	742	460	Interest expense
	264	201	540	443	Total before income tax benefit
	(91)	(77)	(187)	(170)	Income tax benefit
	$173	$124	$353	$273	Net of tax
Pension and postretirement plan					
Actuarial loss	$209	$682	$469	$1,313	(a)
Prior-service credit	(17)	(55)	(36)	(100)	(a)
	192	627	433	1,213	Total before income tax benefit
	(77)	(264)	(160)	(408)	Income tax benefit
	$115	$363	$273	$805	Net of tax
Total reclassifications for the period	$288	$487	$626	$1,078	Net of tax

(a) These AOCI components are included in the computation of pension and postretirement health care (income) expense. See Note 10 for further discussion.

Table of Contents

NOTE 5—Fair Value Disclosure

Recurring Fair Value Measurements: The following table presents the Company's assets and liabilities accounted for at fair value on a recurring basis:

		Fair Value Measurements at Reporting Date Using		
Description	Date	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	June 30, 2014			
Assets:				
Available for sale securities	$6,906	$6,906	$—	$—
Interest rate swap agreements	278	—	278	—
	$7,184	$6,906	$278	$—
Liabilities:				
Interest rate swap agreements	$602	$—	$602	$—
Foreign currency exchange contracts	393	—	393	—
Contingent consideration	1,597	—	—	1,597
	$2,592	$—	$995	$1,597
	December 31, 2013			
Assets:				
Available for sale securities	$6,540	$6,540	$—	$—
Interest rate swap agreements	937	—	937	—
Foreign currency exchange contracts	83	—	83	—
	$7,560	$6,540	$1,020	$—
Liabilities:				
Foreign currency exchange contracts	$14	$—	$14	$—
Contingent consideration	1,581	—	—	1,581
	$1,595	$—	$14	$1,581
	June 30, 2013			
Assets:				
Available for sale securities	$5,869	$5,869	$—	$—
Interest rate swap agreements	764	—	764	—
Foreign currency exchange contracts	326	—	326	—
	$6,959	$5,869	$1,090	$—
Liabilities:				
Contingent consideration	$1,564	$—	$—	$1,564
	$1,564	$—	$—	$1,564

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 million mine water treatment trust (the "Mine Water Treatment Trust") to provide a financial assurance mechanism in order 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 and in the table above.

Table of Contents

Interest rate swap agreements and forward foreign currency exchange contracts held by the Company have been designated as hedges of forecasted cash flows. The Company does not currently hold any nonderivative instruments designated as hedges or any derivatives designated as fair value hedges. The Company uses significant other observable inputs to value derivative instruments used to hedge foreign currency and interest rate risk; therefore, they are classified within Level 2 of the valuation hierarchy. The fair value for these contracts is determined based on exchange rates and interest rates, respectively. The Company uses a present value technique that incorporates the LIBOR-swap curve, foreign currency spot rates and foreign currency forward rates to value its derivatives, including its interest rate swap agreements and foreign currency exchange contracts, and also incorporates the effect of its subsidiary and counterparty credit risk into the valuation.

The valuation techniques and Level 3 inputs used to estimate the fair value of contingent consideration payable in connection with the Company's 2012 acquisition of Reed Minerals are described below. The following table summarizes changes in Level 3 liabilities measured at fair value on a recurring basis:

	Contingent Consideration
Balance at January 1, 2014	$1,581
Accretion expense	16
Payments	—
Balance at June 30, 2014	$1,597

The contingent consideration is structured as an earn-out payment to the sellers of Reed Minerals. The earn-out is calculated as a percentage by which the monthly average coal selling price exceeds an established threshold multiplied by the number of tons sold during the month. The earn-out period covers the first 15.0 million tons of coal sold from certain Reed Minerals coal reserves. There is no monetary cap on the amount payable under this contingent payment arrangement. The liability for contingent consideration is included in Other long-term liabilities in the Unaudited Condensed Consolidated Balance Sheets. Earn-out payments, if payable, are paid quarterly. No earn-out payments were made during the three and six months ended June 30, 2014.

The estimated fair value of the contingent consideration was determined based on the income approach with key assumptions that include future projected metallurgical coal prices, forecasted coal deliveries and the estimated discount rate used to determine the present value of the projected contingent consideration payments. Future projected coal prices were estimated using a stochastic modeling methodology based on Geometric Brownian Motion with a risk neutral Monte Carlo simulation. Significant assumptions used in the model include coal price volatility and the risk-free interest rate based on U.S. Treasury yield curves with maturities consistent with the expected life of the contingent consideration. Volatility is considered a significant assumption and is based on historical coal prices. A significant increase or decrease in any of the aforementioned key assumptions related to the fair value measurement of the contingent consideration may result in a significantly higher or lower reported fair value for the contingent consideration liability.

The future anticipated cash flow for the contingent consideration was discounted using an interest rate that appropriately captures a market participant's view of the risk associated with the liability. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy.

There were no transfers into or out of Levels 1, 2 or 3 during the three and six months ended June 30, 2014 and 2013.

Other Fair Value Measurement Disclosures: The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments. Revolving credit agreements and long-term debt are recorded at carrying value in the Unaudited Condensed Consolidated Balance

Sheets. The fair value of revolving credit agreements approximates their carrying value as the stated rates of the debt reflect recent market conditions. The fair values of revolving credit agreements and long-term debt, excluding capital leases, were determined using current rates offered for similar obligations taking into account subsidiary credit risk, which is Level 2 as defined in the fair value hierarchy. At June 30, 2014, both the fair value and the book value of the revolving credit agreements and long-term debt, excluding capital leases, was $217.3 million. At December 31, 2013, both the fair value and the book value of the revolving credit agreements and long-term debt, excluding capital leases, was $170.7 million. At June 30, 2013, the fair value of the revolving credit agreements and long-term debt, excluding capital leases, was $152.9 million compared with the book value of $152.5 million.

Table of Contents

NOTE 6—Unconsolidated Subsidiaries

NACoal has two consolidated mining operations: Mississippi Lignite Mining Company (“MLMC”) and Reed Minerals. NACoal also provides dragline mining services for independently owned limerock quarries in Florida. NACoal has ten wholly owned unconsolidated subsidiaries that each meet the definition of a variable interest entity and are accounted for using the equity method:

The Coteau Properties Company ("Coteau")
The Falkirk Mining Company ("Falkirk")
The Sabine Mining Company ("Sabine")
Demery Resources Company, LLC (“Demery”)
Caddo Creek Resources Company, LLC (“Caddo Creek”)
Coyote Creek Mining Company, LLC (“Coyote Creek”)
Camino Real Fuels, LLC (“Camino Real”)
Liberty Fuels Company, LLC (“Liberty”)
NoDak Energy Services, LLC ("NoDak")
North American Coal Corporation India Private Limited ("NACC India")

Coteau, Falkirk and Sabine were developed between 1974 and 1981 and operate lignite coal mines under long-term contracts with various utility customers. Coteau, Falkirk and Sabine are capitalized primarily with debt financing, which the utility customers have arranged and guaranteed, and are without recourse to NACCO and NACoal. Demery, Caddo Creek, Coyote Creek, Camino Real and Liberty (collectively with Coteau, Falkirk and Sabine, the "Unconsolidated Mines") were formed to develop, construct and operate surface mines under long-term contracts. Demery commenced delivering coal to its customer in 2012 and is expected to reach full production levels in late 2015. Liberty commenced production in 2013 and is expected to increase production levels gradually from approximately 0.5 million tons in 2014 to full production of approximately 4.7 million tons of coal annually in 2019. Caddo Creek, Coyote Creek and Camino Real are still in development and are not expected to be at full production for several years. NoDak was formed to operate and maintain a coal processing facility. NACC India was formed to provide technical advisory services to the third-party owners of a coal mine in India. See Note 13 to the Unaudited Condensed Consolidated Financial Statements in this Form 10-Q for a discussion of a subsequent event related to NACC India's contract with its Indian customer.

The contracts with the customers of the Unconsolidated Mines provide for reimbursement at a price based on actual costs plus an agreed pre-tax profit per ton of coal sold or actual costs plus a management fee. Although NACoal owns 100% of the equity and manages the daily operations of these entities, the Company has determined that the equity capital provided by NACoal is not sufficient to adequately finance the ongoing activities or absorb any expected losses without additional support from the customers. The customers have a controlling financial interest and have the power to direct the activities that most significantly affect the economic performance of the entities. As a result, NACoal is not the primary beneficiary and therefore does not consolidate these entities' financial position or results of operations. The income taxes resulting from the 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 Unaudited Condensed Consolidated Statements of Operations, with related income taxes included in the provision for income taxes. The Company has included the pre-tax earnings of the Unconsolidated Mines above operating profit because they are an integral component of the Company's business and operating results. The pre-tax income from NoDak is reported on the line "(Income) loss from other unconsolidated affiliates" in the "Other expense (income)" section of the Unaudited Condensed Consolidated Statements of Operations, with the related income taxes included in the provision for income taxes. The net income or loss from NACC India is reported on the line "(Income) loss from other unconsolidated affiliates" in the "Other expense (income)" section of the Unaudited Condensed Consolidated Statements of Operations.

The investments in the Unconsolidated Mines, NoDak and NACC India and related tax positions totaled $30.3 million, $33.1 million, and $34.5 million at June 30, 2014, December 31, 2013, and June 30, 2013, respectively, and is included on the line “Other Non-current Assets” in the Unaudited Condensed Consolidated Balance Sheets. The Company's maximum risk of loss relating to these entities is limited to its invested capital, which was $4.5 million, $5.4 million, and $4.2 million at June 30, 2014, December 31, 2013, and June 30, 2013 respectively.

Included in "Accounts receivable from affiliates" is $32.5 million, $27.9 million and $25.9 million as of June 30, 2014, December 31, 2013 and June 30, 2013, respectively, due from Coyote Creek, primarily for the purchase of a dragline from NACoal.

Table of Contents

Summarized financial information for the Unconsolidated Mines, NoDak and NACC India is as follows:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
Revenues	$148,075	$141,302	$286,598	$280,938
Gross profit	$17,126	$17,515	$36,619	$37,012
Income before income taxes	$10,994	$10,695	$24,162	$23,478
Net income	$8,530	$8,191	$18,674	$17,992

NOTE 7—Contingencies

Various legal and regulatory proceedings and claims have been or may be asserted against NACCO and certain subsidiaries relating to the conduct of their businesses, including product liability, patent infringement, asbestos-related claims, environmental and other claims. These proceedings and claims are incidental to the ordinary course of business of the Company. Management believes that it has meritorious defenses and will vigorously defend the Company in these actions. Any costs that management estimates will be paid as a result of these claims are accrued when the liability is considered probable and the amount can be reasonably estimated. Although the ultimate disposition of these proceedings is not presently determinable, management believes, after consultation with its legal counsel, that the likelihood is remote that material costs will be incurred in excess of accruals already recognized.

HBB is investigating or remediating historical environmental contamination at some current and former sites operated by HBB or by businesses it acquired. Based on the current stage of the investigation or remediation at each known site, HBB estimates the total investigation and remediation costs and the period of assessment and remediation activity required for each site. The estimate of future investigation and remediation costs is primarily based on variables associated with site clean-up, including, but not limited to, physical characteristics of the site, the nature and extent of the contamination and applicable regulatory programs and remediation standards. No assessment can fully characterize all subsurface conditions at a site. There is no assurance that additional assessment and remediation efforts will not result in adjustments to estimated remediation costs or the time frame for remediation at these sites.

HBB's estimates of investigation and remediation costs may change if it discovers contamination at additional sites or additional contamination at known sites, if the effectiveness of its current remediation efforts change, if applicable federal or state regulations change or if HBB's estimate of the time required to remediate the sites changes. HBB's revised estimates may differ materially from original estimates.

At June 30, 2014, December 31, 2013, and June 30, 2013, HBB had accrued an undiscounted obligation of $10.3 million, $6.9 million and $7.1 million, respectively, for environmental investigation and remediation activities. In addition, HBB estimates that it is reasonably possible that it may incur up to $4.2 million of additional expenses related to the environmental investigation and remediation at these sites.

During the three and six months ended June 30, 2014, HBB recorded a $3.3 million charge to increase the liability for environmental investigation and remediation activities at the Picton, Ontario facility as a result of an environmental study performed in the second quarter of 2014. Partially offsetting the increase in the Picton, Ontario facility environmental reserve in the first six months of 2014 is a $0.8 million reduction in selling, general and administrative expenses in the second quarter and the first six months of 2014 as a result of a third-party's commitment to share in anticipated remediation costs at HBB's Southern Pines and Mt. Airy locations. During the three and six months ended June 30, 2013, HBB recorded a $2.3 million charge to establish a liability for environmental investigation and remediation activities at the Picton, Ontario facility.

NOTE 8—Product Warranties

HBB provides a standard warranty to consumers for all of its products. The specific terms and conditions of those warranties vary depending upon the product brand. In general, if a product is returned under warranty, a refund is provided to the consumer by HBB's customer, the retailer. Generally, the retailer returns those products to HBB for a credit. The Company estimates the costs which may be incurred under its standard warranty programs and records a liability for such costs at the time product revenue is recognized.

Table of Contents

The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims and the cost per claim.

Changes in the Company's current and long-term recorded warranty liability are as follows:

	2014
Balance at January 1	$5,343
Warranties issued	3,541
Settlements made	(4,567)
Balance at June 30	$4,317

NOTE 9—Income Taxes

The income tax provision includes U.S. federal, state and local, and foreign income taxes and is based on the application of a forecasted annual income tax rate applied to the current quarter's year-to-date pre-tax income or loss. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company's annual earnings, taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, the Company's ability to use tax credits and net operating loss carryforwards, and available tax planning alternatives. Discrete items, including the effect of changes in tax laws, tax rates and certain circumstances with respect to valuation allowances or other unusual or non-recurring tax adjustments are reflected in the period in which they occur as an addition to, or reduction from, the income tax provision, rather than included in the estimated effective annual income tax rate.

The effective income tax rates for the three and six months ended June 30, 2014 were 42.4% and 38.6%, respectively. These rates were impacted by favorable net discrete tax items totaling $1.4 million in the three and six months ended June 30, 2014 primarily resulting from the conclusion of the 2011 and 2012 U.S. federal tax return examinations. The effective income tax rates for the three and six months ended June 30, 2013 were 28.9% and 26.8%, respectively. Discrete tax items impacting the three and six months ended June 30, 2013 were not significant.

NOTE 10—Retirement Benefit Plans

The Company maintains various defined benefit pension plans that provide benefits based on years of service and average compensation during certain periods. The Company's policy is to make contributions to fund these plans within the range allowed by applicable regulations. Plan assets consist primarily of publicly traded stocks and government and corporate bonds. Pension benefits were frozen for all employees effective as of the close of business on December 31, 2013. All eligible employees of the Company, including employees whose pension benefits are frozen, receive retirement benefits under defined contribution retirement plans.

The Company also maintains postretirement 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.

Table of Contents

The components of pension and postretirement health care expense (income) are set forth below:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
U.S. Pension and Postretirement Health Care				
Service cost	$17	$18	$35	$38
Interest cost	695	686	1,489	1,466
Expected return on plan assets	(1,141)	(1,087)	(2,408)	(2,303)
Amortization of actuarial loss	190	651	434	1,252
Amortization of prior service credit	(17)	(55)	(36)	(100)
Total	$(256)	$213	$(486)	$353
Non-U.S. Pension				
Service cost	$—	$—	$—	$—
Interest cost	50	51	99	101
Expected return on plan assets	(75)	(71)	(149)	(143)
Amortization of actuarial loss	19	31	35	61
Total	$(6)	$11	$(15)	$19

NOTE 11—Business Segments

NACCO is a holding company with the following principal subsidiaries: NACoal, HBB and KC. See Note 1 for a discussion of the Company's industries and product lines. NACCO's non-operating segment, NACCO and Other, includes the accounts of the parent company and Bellaire Corporation ("Bellaire"), a non-operating subsidiary of the Company.

Financial information for each of NACCO's reportable segments is presented in the following table. The line “Eliminations” in the Revenues section eliminates revenues from HBB sales to KC. The amounts of these revenues are based on current market prices of similar third-party transactions. No other sales transactions occur among reportable segments.

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
Revenues				
NACoal	$49,780	$43,567	$89,652	$94,714
HBB	118,385	114,651	219,710	220,802
KC	32,804	38,380	69,680	78,091
Eliminations	(599)	(581)	(1,259)	(1,538)
Total	$200,370	$196,017	$377,783	$392,069
Operating profit (loss)				
NACoal	$183	$11,196	$6,836	$22,981
HBB	2,251	4,005	3,188	6,673
KC	(4,255)	(5,407)	(10,769)	(10,387)
NACCO and Other [(a)]	(2,004)	(1,099)	(3,356)	(3,535)
Eliminations	(66)	108	(375)	93
Total	$(3,891)	$8,803	$(4,476)	$15,825

15

Table of Contents

Net income (loss)				
NACoal	$(75)	$8,952	$5,630	$18,543
HBB	1,359	1,985	1,709	3,486
KC	(2,657)	(2,403)	(6,690)	(5,670)
NACCO and Other	(1,673)	(1,048)	(2,870)	(3,051)
Eliminations	(578)	(2,339)	(2,927)	(3,739)
Total	$(3,624)	$5,147	$(5,148)	$9,569

[a] During the second quarter of 2014, the Company recorded a $1.1 million charge included in selling, general and administrative expenses in NACCO and Other to correct a prior period accounting error related to an increase in the estimated liability for certain frozen deferred compensation plans. Management, quantitatively and qualitatively, assessed the materiality of the error and the correction thereof and concluded that the effect of the previous accounting treatment was not material to prior periods, expected 2014 full-year results, or trend of earnings and determined no material misstatements existed in those prior periods and no restatement of those prior period financial statements was necessary.

NOTE 12—Acquisition

During the fourth quarter of 2013, NACoal acquired the equipment of National Coal of Alabama, Inc. ("NCOA") in exchange for the assumption of outstanding debt of $9.7 million associated with the acquired equipment. The outstanding debt was repaid concurrently with the acquisition of the equipment utilizing borrowings under NACoal's existing unsecured revolving line of credit. In April 2014, NACoal acquired coal reserves and prepaid royalties and assumed certain reclamation obligations of NCOA. No cash payment was made to NCOA. This acquisition, which is being accounted for as a business combination, provides additional coal reserves in Alabama and equipment that can be used to mine these new coal reserves and at NACoal's Reed Minerals mines, also located in Alabama. During the six months ended June 30, 2014, the Company incurred $0.1 million in acquisition costs related to NCOA, which are included in Selling, general and administrative expenses in the Unaudited Condensed Consolidated Statements of Operations. The Company has incurred total acquisition costs of $0.4 million related to NCOA.

The determination of the fair value of assets acquired and liabilities assumed as of the April 2014 acquisition date is preliminary as the Company has not finalized its analysis of the fair value of the equipment, coal reserves, prepaid royalties and reclamation obligations. The final allocation is expected to be completed as soon as practicable but no later than 12 months after the acquisition date.

NOTE 13—Subsequent Events

During the three and six months ended June 30, 2014, NACoal recognized a $1.0 million after-tax charge to establish an allowance against the receivable from NACC India's customer as a result of its Indian customer disputing, and ultimately defaulting on, its contractual payment obligations. As a result of this default, NACC India has terminated its contract with the Indian customer, and intends to pursue its contractual remedies.

On July 29, 2014, HBB amended its $115.0 million secured, floating-rate revolving credit facility (the “Amended HBB Facility”), extending the term through July 2019. The terms of the Amended HBB Facility are substantially similar to the terms under the existing HBB Facility.

16

Table of Contents

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

NACCO Industries, Inc. (the “parent company” or “NACCO”) and its wholly owned subsidiaries (collectively, the “Company”) operate in the following principal industries: mining, small appliances and specialty retail. Results of operations and financial condition are discussed separately by subsidiary, which corresponds with the industry groupings.

The North American Coal Corporation and its affiliated coal companies (collectively, “NACoal”) mine and market steam and metallurgical coal for use in power generation and steel production and provide selected value-added mining services for other natural resources companies. Hamilton Beach Brands, Inc. (“HBB”) is a leading designer, marketer and distributor of small electric household appliances, as well as commercial products for restaurants, bars and hotels. The Kitchen Collection, LLC (“KC”) is a national specialty retailer of kitchenware and gourmet foods operating under the Kitchen Collection® and Le Gourmet Chef® store names in outlet and traditional malls throughout the United States.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES
Please refer to the discussion of the Company's Critical Accounting Policies and Estimates as disclosed on pages 34 through 37 in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The Company's Critical Accounting Policies and Estimates have not materially changed since December 31, 2013.

THE NORTH AMERICAN COAL CORPORATION

NACoal mines and markets steam and metallurgical coal for use in power generation and steel production and provides selected value-added mining services for other natural resources companies. Coal is surface mined from NACoal's developed mines in North Dakota, Texas, Mississippi, Louisiana and Alabama. Total coal reserves approximate 2.2 billion tons with approximately 1.1 billion tons committed to customers pursuant to long-term contracts.

NACoal has two consolidated mining operations: Mississippi Lignite Mining Company (“MLMC”) and Reed Minerals. NACoal also provides dragline mining services for independently owned limerock quarries in Florida. NACoal has ten wholly owned unconsolidated subsidiaries that each meet the definition of a variable interest entity and are accounted for using the equity method:

The Coteau Properties Company ("Coteau")
The Falkirk Mining Company ("Falkirk")
The Sabine Mining Company ("Sabine")
Demery Resources Company, LLC (“Demery”)
Caddo Creek Resources Company, LLC (“Caddo Creek”)
Coyote Creek Mining Company, LLC (“Coyote Creek”)
Camino Real Fuels, LLC (“Camino Real”)
Liberty Fuels Company, LLC (“Liberty”)
NoDak Energy Services, LLC ("NoDak")
North American Coal Corporation India Private Limited ("NACC India")

Coteau, Falkirk and Sabine were developed between 1974 and 1981 and operate lignite coal mines under long-term contracts with various utility customers. Coteau, Falkirk and Sabine are capitalized primarily with debt financing, which the utility customers have arranged and guaranteed, and are without recourse to NACCO and NACoal. Demery, Caddo Creek, Coyote Creek, Camino Real and Liberty (collectively with Coteau, Falkirk and Sabine, the

"Unconsolidated Mines") were formed to develop, construct and operate surface mines under long-term contracts. Demery commenced delivering coal to its customer in 2012 and is expected to reach full production levels in late 2015. Liberty commenced production in 2013 and is expected to increase production levels gradually from approximately 0.5 million tons in 2014 to full production of approximately 4.7 million tons of coal annually in 2019. Caddo Creek, Coyote Creek and Camino Real are still in development and are not expected to be at full production for several years. NoDak was formed to operate and maintain a coal processing facility. NACC India was formed to provide technical advisory services to the third-party owners of a coal mine in India.

The contracts with the customers of the Unconsolidated Mines provide for reimbursement at a price based on actual costs plus an agreed pre-tax profit per ton of coal sold or actual costs plus a management fee.

Coal-fired power plants produce carbon dioxide and other greenhouse gases ("GHGs") as a by-product of their operations. GHG emissions have received increasing scrutiny from local, state, federal and international government bodies. The

Table of Contents

Environmental Protection Agency (the “EPA”) and other regulators are using existing laws, including the Clean Air Act ("CAA"), to limit emissions of carbon dioxide and other GHGs from major sources, including coal-fired power plants. On June 2, 2014, the EPA proposed new regulations limiting carbon dioxide emissions from existing power plants. Under this proposal, nationwide carbon dioxide emissions would be reduced by 30% from 2005 levels by 2030, with a focus on emissions from coal-fired generation. The final rule is expected to be issued in June 2015 with state implementation plans ("SIPs") due by June 2016 and emissions reductions scheduled to be phased in between 2020 and 2030. The proposed rule would give states a variety of approaches, including “cap-and-trade” programs, to meet proposed carbon dioxide emission standards. On June 18, 2014, the EPA also issued a carbon dioxide emission regulation for reconstructed and modified power plants, which addresses carbon dioxide emissions limits for power plants subsequent to modification. Enactment of laws and passage of regulations regarding GHG emissions by the United States or some of its states, or other actions to limit carbon dioxide emissions, such as opposition by environmental groups to expansion or modification of coal-fired power plants, could result in electric generators switching from coal to other fuel sources and could have a materially adverse effect on NACoal’s business, financial condition and results of operations.

FINANCIAL REVIEW

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

	THREE MONTHS		SIX MONTHS	
	2014	2013	2014	2013
	(In millions)			
Coteau	3.4	2.9	7.4	6.7
Falkirk	1.6	1.6	3.6	3.6
Sabine	1.2	1.1	2.3	2.3
Unconsolidated mines	6.2	5.6	13.3	12.6
MLMC	0.9	0.4	1.5	1.3
Reed Minerals	0.2	0.3	0.4	0.5
Consolidated mines	1.1	0.7	1.9	1.8
Total tons sold	7.3	6.3	15.2	14.4

The limerock dragline mining operations sold 6.3 million and 11.3 million cubic yards of limerock in the three and six months ended June 30, 2014, respectively. This compares with 5.3 million and 11.6 million cubic yards of limerock in the three and six months ended June 30, 2013, respectively.

Table of Contents

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

	THREE MONTHS		SIX MONTHS	
	2014	2013	2014	2013
Revenue - consolidated mines	$45,809	$36,595	$83,304	$82,430
Royalty and other	3,971	6,972	6,348	12,284
Total revenues	49,780	43,567	89,652	94,714
Cost of sales - consolidated mines	50,958	35,412	87,539	77,570
Cost of sales - royalty and other	669	310	1,115	570
Total cost of sales	51,627	35,722	88,654	78,140
Gross profit (loss)	(1,847)	7,845	998	16,574
Earnings of unconsolidated mines (a)	11,567	10,281	24,005	22,379
Selling, general and administrative expenses	8,546	6,311	16,411	14,312
Amortization of intangible assets	991	619	1,756	1,660
Operating profit	183	11,196	6,836	22,981
Interest expense	1,506	628	2,577	1,412
Other (income) or loss [including (income) loss from other unconsolidated affiliates]	290	(297)	(183)	(657)
Income (loss) before income tax provision	(1,613)	10,865	4,442	22,226
Income tax provision (benefit)	(1,538)	1,913	(1,188)	3,683
Net income (loss)	$(75)	$8,952	$5,630	$18,543
Effective income tax rate (b)	n/m	17.6%	n/m	16.6%

(a) See Note 6 to Unaudited Condensed Consolidated Financial Statements for a discussion of the Company's unconsolidated subsidiaries, including summarized financial information.
(b) Effective income tax rate is not meaningful. The NACoal effective tax rate is affected by the benefit of percentage depletion.

See further information regarding the consolidated effective income tax rate in Note 9 to Unaudited Condensed Consolidated Financial Statements.

Second Quarter of 2014 Compared with Second Quarter of 2013

The following table identifies the components of change in revenues for the second quarter of 2014 compared with the second quarter of 2013:

	Revenues
2013	$43,567
Increase (decrease) from:	
Consolidated mining operations	9,213
Royalty and other income	(3,000)
2014	$49,780

Revenues increased in the second quarter of 2014 compared with the second quarter of 2013 primarily due to the increase at the consolidated mining operations, partially offset by a decrease in royalty and other income. The increase at the consolidated mining operations was primarily due to fewer outage days at MLMC's customer's power plant in the second quarter of 2014 compared with the second quarter of 2013, which resulted in increased tons sold, and increased customer requirements at the limerock dragline mining operations, which resulted in increased yards sold. These increases were partially offset by a reduction in revenue at Reed Minerals due to lower selling prices resulting from unfavorable market conditions and a decrease in tons sold.

19

Table of Contents

The following table identifies the components of change in operating profit for the second quarter of 2014 compared with the second quarter of 2013:

	Operating Profit
2013	$11,196
Increase (decrease) from:	
Consolidated mining operations	(5,995)
Royalty and other income	(4,124)
Other selling, general and administrative expenses	(1,137)
Reimbursement of damage to customer-owned equipment	(1,043)
Earnings of unconsolidated mines	1,286
2014	$183

Operating profit decreased substantially in the second quarter of 2014 from the second quarter of 2013 primarily due to a significant decline in operating results at the consolidated mining operations, reduced royalty and other income, increased selling, general and administrative expenses primarily from higher employee-related expenses and higher professional service fees, and a $1.0 million charge to reimburse a customer for damage to certain customer-owned equipment at the limerock dragline mining operations. These decreases were partially offset by an increase in earnings of unconsolidated mines mainly due to an increase in tons sold in the the second quarter of 2014 compared with the second quarter of 2013.

The substantial decline in operating profit at the consolidated mining operations was largely due to a significantly larger loss at Reed Minerals than in the second quarter of 2013. Operating and productivity improvements at Reed Minerals were implemented later than anticipated in the second quarter of 2014, primarily related to a delay in the startup of a new dragline. As a result of the delay, Reed Minerals experienced production shortfalls, which caused a decrease in inventory levels and reduced tons sold. In addition, Reed Minerals results were unfavorably affected by an increase in depreciation expense on equipment acquired during 2013 and 2014 to improve efficiencies and productivity, and higher repairs and maintenance expense. The lower operating results at the consolidated mining operations were slightly offset by marginally improved results at MLMC as higher revenues were almost fully offset by higher operating expenses and fewer costs were capitalized into inventory in the second quarter of 2014 compared with second quarter of 2013.

NACoal recognized a net loss of $0.1 million in the second quarter of 2014 compared with net income of $9.0 million in the second quarter of 2013 primarily due to the factors affecting operating profit and a $1.0 million after-tax charge to establish an allowance against the receivable from NACC India's customer. The net loss was partially offset by a $1.4 million discrete tax benefit resulting from the conclusion of the 2011 and 2012 U.S. federal tax return examinations in the second quarter of 2014 and a higher tax benefit from percentage depletion.

First Six Months of 2014 Compared with First Six Months of 2013

The following table identifies the components of change in revenues for the first six months of 2014 compared with the first six months of 2013:

	Revenues
2013	$94,714
Increase (decrease) from:	
Royalty and other income	(5,936)
Consolidated mining operations	874
2014	$89,652

Revenues decreased in the first six months of 2014 compared with the first six months of 2013 as a result of the decrease in royalty and other income partially offset by higher revenues at the consolidated mining operations. The increase at the consolidated mining operations was primarily the result of an increase in tons sold at MLMC in the

first six months of 2014 compared with the comparable 2013 period partially offset by a decrease in revenue at Reed Minerals mainly resulting from lower selling prices.

Table of Contents

The following table identifies the components of change in operating profit for the first six months of 2014 compared with the first six months of 2013:

	Operating Profit
2013	$22,981
Increase (decrease) from:	
Consolidated mining operations	(8,155)
Royalty and other income	(7,238)
Other selling, general and administrative expenses	(1,334)
Reimbursement of damage to customer-owned equipment	(1,043)
Earnings of unconsolidated mines	1,625
2014	$6,836

Operating profit decreased substantially in the first six months of 2014 from the first six months of 2013 primarily due to a significant decline in operating results at the consolidated mining operations, reduced royalty and other income, an increase in other selling, general and administrative expenses primarily from higher employee-related expenses, higher professional fees, higher management fees and a $1.0 million charge to reimburse a customer for damage to certain customer-owned equipment at the limerock dragline mining operations. The decrease at the consolidated mining operations was largely attributable to a significantly larger loss at Reed Minerals than in the first six months of 2013 due to the items discussed above in the changes in operating profit for the second quarter of 2014 compared with the second quarter of 2013. These decreases were partially offset by an increase in earnings of unconsolidated mines mainly due to an increase in tons sold in the first six months of 2014 compared with the first six months of 2013.

Net income decreased to $5.6 million in the first six months of 2014 from $18.5 million in the first six months of 2013 primarily due to the factors affecting operating profit and a $1.0 million after-tax charge to establish an allowance against the receivable from NACC India's customer. The decrease in net income was partially offset by lower income tax expense due to a $1.4 million discrete tax benefit resulting from the conclusion of the 2011 and 2012 U.S. federal tax return examinations in the first six months of 2014 and a higher tax benefit from percentage depletion.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

	2014	2013	Change
Operating activities:			
Net income	$5,630	$18,543	$(12,913)
Depreciation, depletion and amortization	10,363	7,475	2,888
Other	3,148	(15,584)	18,732
Working capital changes	(10,786)	2,329	(13,115)
Net cash provided by operating activities	8,355	12,763	(4,408)
Investing activities:			
Expenditures for property, plant and equipment	(37,955)	(11,522)	(26,433)
Other	(5)	1,022	(1,027)
Net cash used for investing activities	(37,960)	(10,500)	(27,460)
Cash flow before financing activities	$(29,605)	$2,263	$(31,868)

The decrease in net cash provided by operating activities was primarily the result of working capital changes and the decrease in net income, partially offset by the change in other operating activities during the first six months of 2014 compared with the first six months of 2013. The change in working capital and other operating activities was primarily the result of changes in intercompany taxes and accounts receivable from unconsolidated mines, a slight increase in accounts receivable in the first six months of 2014 compared with a decrease in the comparable 2013 period resulting from decreased deliveries at MLMC due to

Table of Contents

an extended shutdown at the customer's power plant and a smaller increase in inventory at Reed Minerals in the first six months of 2014 compared with the first six months of 2013.

The increase in net cash used for investing activities was primarily attributable to expenditures for property, plant and equipment, mainly for the refurbishment of a dragline and purchase of equipment at Reed Minerals in the first six months of 2014.

	2014	2013	Change
Financing activities:			
Net additions (reductions) to long-term debt and revolving credit agreements	$21,290	$(6,496)	$27,786
Capital contribution from NACCO	8,300	—	8,300
Net cash provided by (used for) financing activities	$29,590	$(6,496)	$36,086

The change in net cash provided by (used for) financing activities was primarily due to an increase in borrowings and a capital contribution from NACCO during the first six months of 2014 to fund operations and expenditures for property, plant and equipment compared with a reduction in borrowings in the first six months of 2013.

Financing Activities

NACoal has an unsecured revolving line of credit of up to $225.0 million (the “NACoal Facility”) that expires in November 2018. Borrowings outstanding under the NACoal Facility were $163.0 million at June 30, 2014. At June 30, 2014, the excess availability under the NACoal Facility was $61.0 million, which reflects a reduction for outstanding letters of credit of $1.0 million.

The NACoal Facility has performance-based pricing, which sets interest rates based upon achieving various levels of debt to EBITDA ratios, as defined in the NACoal Facility. Borrowings bear interest at a floating rate plus a margin based on the level of debt to EBITDA ratio achieved. The applicable margins, effective June 30, 2014, for base rate and LIBOR loans were 1.00% and 2.00%, respectively. The NACoal Facility has a commitment fee which is based upon achieving various levels of debt to EBITDA ratios. The commitment fee was 0.35% on the unused commitment at June 30, 2014. The weighted average interest rate applicable to the NACoal Facility at June 30, 2014 was 2.93% including the floating rate margin and the effect of the interest rate swap agreement.

To reduce the exposure to changes in the market rate of interest, NACoal has entered into an interest rate swap agreement for a portion of the NACoal Facility. Terms of the interest rate swap agreement require NACoal to receive a variable interest rate and pay a fixed interest rate. NACoal has interest rate swaps with notional values totaling $100.0 million at June 30, 2014 at an average fixed rate of 1.4%.

The NACoal Facility contains restrictive covenants, which require, among other things, NACoal to maintain a maximum debt to EBITDA ratio of 3.50 to 1.00 and an interest coverage ratio of not less than 4.00 to 1.00. The NACoal Facility provides the ability to make loans, dividends and advances to NACCO, with some restrictions based on maintaining a maximum debt to EBITDA ratio of 3.00 to 1.00 in conjunction with maintaining unused availability thresholds of borrowing capacity, as defined in the NACoal Facility, of $15.0 million. At June 30, 2014, NACoal was in compliance with all covenants in the NACoal Facility.

NACoal has a demand note payable to Coteau which bears interest based on the applicable quarterly federal short-term interest rate as announced from time to time by the Internal Revenue Service. At June 30, 2014, the balance of the note was $3.3 million and the interest rate was 0.28%.

NACoal believes funds available from cash on hand at the Company, the NACoal Facility and operating cash flows will provide sufficient liquidity to meet its operating needs and commitments arising during the next twelve months and until the expiration of the NACoal Facility in November 2018.

Contractual Obligations, Contingent Liabilities and Commitments

Since December 31, 2013, there have been no significant changes in the total amount of NACoal's contractual obligations, contingent liabilities or commercial commitments, or the timing of cash flows in accordance with those obligations as reported on page 46 in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Table of Contents

Capital Expenditures

Expenditures for property, plant and equipment were $38.0 million during the first six months of 2014. NACoal estimates that its capital expenditures for the remainder of 2014 will be an additional $21.8 million, primarily for dragline refurbishment, mine equipment and development at its mines. These expenditures are expected to be funded from internally generated funds and bank borrowings.

Capital Structure

NACoal's capital structure is presented below:

	JUNE 30 2014	DECEMBER 31 2013	Change
Cash and cash equivalents	$12	$ 27	$(15)
Other net tangible assets	279,090	242,486	36,604
Coal supply agreements and other intangibles, net	57,929	59,685	(1,756)
Net assets	337,031	302,198	34,833
Total debt	(185,134)	(163,843)	(21,291)
Total equity	$151,897	$ 138,355	$13,542
Debt to total capitalization	55%	54%	1%

The increase in other net tangible assets during the first six months of 2014 was primarily due to an increase in property, plant and equipment. The increase in property, plant and equipment was mainly attributable to the refurbishment of a dragline and purchase of equipment at Reed Minerals and the National Coal of Alabama, Inc. ("NCOA") acquisition. Total debt increased mainly to fund operations and the increase in property, plant and equipment. Total equity increased mainly due to $8.3 million of capital contributions from NACCO during the first six months of 2014.

OUTLOOK

NACoal expects improved operating performance overall at its coal mining operations in the second half of 2014 compared with the second half of 2013. Performance at the consolidated coal mining operations is expected to improve, specifically at Reed Minerals. NACoal installed key management from legacy operations in the Reed Minerals operations during the second quarter. These personnel changes are expected to help Reed Minerals achieve its planned operating and productivity improvements during the second half of 2014. As part of its overall Reed Minerals improvement program, a higher-cost Reed Minerals mining area was temporarily idled at the beginning of the second quarter and will be idled at least through the end of 2014 while it files for a revised mining permit and assesses the selling prices for the coal produced from this mine area against anticipated production costs. The improved performance at Reed Minerals is expected to be somewhat offset by reduced results at MLMC due to fewer deliveries in the second half of 2014 compared with the same period in 2013 because of a significant planned outage at the customer's power plant in the fourth quarter of 2014. Deliveries at MLMC are expected to increase over the longer term as a result of continued operational improvements at the customer's power plant. NACoal also has project opportunities for which it expects to continue to incur additional expenses in the second half of 2014. In particular, the company continues to move forward to obtain a permit for its Otter Creek reserve in North Dakota in preparation for construction of a new mine.

At the unconsolidated mining operations, steam coal tons delivered in the last half of 2014 are expected to decline slightly from the same period in 2013 based on the customers' currently planned power plant operating levels for the remainder of 2014. Demery commenced delivering coal to its customer in 2012 and full production levels are expected to be reached in late 2015. Liberty commenced production in 2013 for Mississippi Power Company's new

Kemper County Energy Facility. Production levels at Liberty are expected to increase gradually to approximately 0.5 million tons in 2014 up to full production of approximately 4.7 million tons of coal annually in 2019.

Unconsolidated mines currently in development are expected to continue to generate modest income during the second half of 2014. The three mines in development are not expected to be at full production for several years. Mining permits needed to commence mining operations were issued in 2013 for the Caddo Creek and the Camino Real projects in Texas. Caddo Creek expects to begin making initial coal deliveries in late 2014. Camino Real expects initial deliveries in the second half of 2015, and expects to mine approximately 3.6 million tons of coal annually when at full production. Coyote Creek is developing a mine in Mercer County, North Dakota, from which it expects to deliver approximately 2.5 million tons of coal annually beginning in May 2016.

Table of Contents

Limerock deliveries in the second half of 2014 are expected to be lower than the second half of 2013 as a result of reduced customer requirements. Declines in royalty and other income are also expected in the second half of 2014 from the high levels realized in the second half of 2013.

Overall, NACoal expects net income in the second half of 2014 to increase compared with the second half of 2013. Productivity improvements and increased mining efficiencies are expected to result in breakeven results at Reed Minerals in the second half of 2014 compared with a significant loss in the second half of 2013 but are not expected to offset the substantial operating losses that Reed Minerals incurred in the first half of the year. Improvements at Reed Minerals in the second half of 2014 are expected to be partially offset by significantly reduced deliveries at MLMC due to a planned outage at the customer's power plant and lower royalty and other income than in the second half of 2013. Cash flow before financing activities in 2014 is expected to be positive as compared with negative cash flow before financing activities in 2013.

Over the longer term, NACoal's goal is to increase earnings of its unconsolidated mines by approximately 50% by 2017 from 2012 levels through the development and maturation of its new mines and normal escalation of contractual compensation at its existing mines. Also, NACoal has a goal of at least doubling the earnings contribution from its consolidated mining operations by 2017 from 2012 levels due to benefits from anticipated continued operational improvements at MLMC's customer's power plant and from the company's execution of its long-term plan at the Reed Minerals operations. The company views its acquisition of Reed Minerals as a metallurgical coal strategic initiative which includes significantly increased volume and profitability for the company over the long term.

NACoal also expects to continue its efforts to develop new mining projects. The company is actively pursuing domestic opportunities for new or expanded coal mining projects, which include various clean coal technologies. NACoal also continues to pursue additional non-coal mining opportunities, principally in aggregates, and international value-added mining services projects.

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. HBB’s products are marketed primarily to retail merchants and wholesale distributors. HBB's business is seasonal, and a majority of its revenues and operating profit typically occurs in the second half of the year when sales of small electric appliances to retailers and consumers increase significantly for the fall holiday-selling season.

FINANCIAL REVIEW

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

	THREE MONTHS		SIX MONTHS	
	2014	2013	2014	2013
Revenues	$118,385	$114,651	$219,710	$220,802
Operating profit	$2,251	$4,005	$3,188	$6,673
Interest expense	$324	$440	$619	$909
Other expense (income)	$(87)	$425	$133	$242
Net income	$1,359	$1,985	$1,709	$3,486
Effective income tax rate	32.5%	36.8%	29.8%	36.9%

Table of Contents

Second Quarter of 2014 Compared with Second Quarter of 2013

The following table identifies the components of change in revenues for the second quarter of 2014 compared with the second quarter of 2013:

	Revenues
2013	$114,651
Increase (decrease) from:	
Unit volume and product mix	5,509
Foreign currency	(1,027)
Other	(748)
2014	$118,385

Revenues for the second quarter of 2014 increased compared with the second quarter of 2013 primarily as a result of an increase in sales of products with higher price points, mainly in the commercial market and U.S. and Canadian consumer markets. The increase was partially offset by lower unit sales volumes primarily in the U.S. consumer market, and unfavorable foreign currency movements as both the Canadian dollar and Mexican peso weakened against the U.S. dollar in the second quarter of 2014 compared with the comparable 2013 period.

The following table identifies the components of change in operating profit for the second quarter of 2014 compared with the second quarter of 2013:

	Operating Profit
2013	$4,005
Increase (decrease) from:	
Selling, general and administrative expenses	(2,316)
Foreign currency	(883)
Gross profit	1,445
2014	$2,251

HBB's operating profit decreased in the second quarter of 2014 from the second quarter of 2013 primarily due to increased selling, general and administrative expenses and unfavorable foreign currency movements partially offset by higher gross profit. Selling, general and administrative expenses increased mainly due to increased outside service fees, advertising expenses, additional costs incurred to execute HBB's five strategic initiatives and environmental expenses. During the second quarter of 2014, HBB recorded a $3.3 million charge to increase the liability for environmental investigation and remediation activities at its Picton, Ontario facility, which was partially offset by a $0.8 million receivable recorded in "Other non-current assets" on the unaudited condensed consolidated balance sheet, related to a third party's commitment to share in environmental liabilities at HBB's Southern Pines and Mt. Airy locations. The recognition of the receivable reduced selling, general and administrative expenses. The second quarter of 2013 included a $2.3 million charge to establish a liability for the Picton, Ontario facility. The increase in gross profit primarily resulted from an increase in sales of products with higher price points and higher margins partially offset by decreased sales volumes. In addition, gross profit in the second quarter of 2014 was unfavorably affected by the absence of a $0.9 million favorable product liability adjustment recognized during the second quarter of 2013 as a result of a change in estimate.

HBB recognized net income of $1.4 million in the second quarter of 2014 compared with $2.0 million in the second quarter of 2013 primarily due to the factors affecting operating profit.

Table of Contents

First Six Months of 2014 Compared with First Six Months of 2013

The following table identifies the components of change in revenues for the first six months of 2014 compared with the first six months of 2013:

	Revenues
2013	$220,802
Increase (decrease) from:	
Foreign currency	(2,016)
Other	(1,299)
Unit volume and product mix	2,223
2014	$219,710

Revenues decreased in the first six months of 2014 compared with the first six months of 2013 primarily due to unfavorable foreign currency movements as both the Canadian dollar and the Mexican peso weakened against the U.S. dollar. Lower unit sales volumes, primarily in the U.S. consumer market, also contributed to the decrease in revenues in the first six months of 2014 compared with the comparable 2013 period. These decreases were partially offset by increased sales of products with higher price points, mainly in the commercial market and U.S. and Canadian consumer markets.

The following table identifies the components of change in operating profit for the first six months of 2014 compared with the first six months of 2013:

	Operating Profit
2013	$6,673
Increase (decrease) from:	
Selling, general and administrative expenses	(2,940)
Foreign currency	(1,556)
Gross profit	1,011
2014	$3,188

HBB's operating profit decreased in the first six months of 2014 from the first six months of 2013 primarily as a result of an increase in selling, general and administrative expenses and unfavorable foreign currency movements partially offset by an increase in gross profit. Selling, general and administrative expenses increased mainly due to higher professional and outside service fees, advertising expenses, additional costs incurred to execute HBB's five strategic initiatives and higher employee-related expenses in the first six months of 2014 compared with the first six months of 2013. The increase in gross profit primarily resulted from an increase in sales of products with higher price points and higher margins, partially offset by the absence of a $0.9 million favorable product liability adjustment recognized during the first six months of 2013 as a result of a change in estimate.

HBB recognized net income of $1.7 million in the first six months of 2014 compared with $3.5 million in the first six months of 2013 primarily due to the factors affecting operating profit.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

	2014	2013	Change
Operating activities:			
Net income	$1,709	$3,486	$(1,777)
Depreciation and amortization	1,006	1,107	(101)
Other	2,573	271	2,302
Working capital changes	(10,201)	16,743	(26,944)
Net cash (used for) provided by operating activities	(4,913)	21,607	(26,520)
Investing activities:			
Expenditures for property, plant and equipment	(2,006)	(735)	(1,271)
Other	—	8	(8)
Net cash used for investing activities	(2,006)	(727)	(1,279)
Cash flow before financing activities	$(6,919)	$20,880	$(27,799)

Net cash provided by (used for) operating activities changed by $26.5 million in the first six months of 2014 compared with the first six months of 2013 primarily as a result of the change in working capital. The change in working capital was mainly due to an increase in inventory in the first six months of 2014 compared with a decrease in the 2013 comparable period, a larger decrease in accounts payable and a decrease in accrued payroll from increased payments in the 2014 period. The increase in inventory purchases was primarily the result of higher sales forecasts in the second quarter of 2014. The decrease in accounts payable was mainly due to the timing of inventory purchases.

	2014	2013	Change
Financing activities:			
Net additions (reductions) to revolving credit agreement	$10,658	$(19,452)	$30,110
Net cash provided by (used for) financing activities	$10,658	$(19,452)	$30,110

The change in net cash provided by (used for) financing activities was the result of an increase in borrowings during the first six months of 2014 compared with a decrease in borrowings in the first six months of 2013.

Financing Activities

As of June 30, 2014, HBB had a $115.0 million senior secured floating-rate revolving credit facility (the “HBB Facility”) that expires in July 2017. See Note 13 to the Unaudited Condensed Consolidated Financial Statements in this Form 10-Q for a discussion of a subsequent amendment to the HBB Facility that extends the term through July 2019.

The obligations under the HBB Facility are secured by substantially all of HBB's assets. The approximate book value of HBB's assets held as collateral under the HBB Facility was $202.0 million as of June 30, 2014. At June 30, 2014, the borrowing base under the HBB Facility was $94.3 million and borrowings outstanding under the HBB Facility were $29.1 million. At June 30, 2014, the excess availability under the HBB Facility was $65.2 million.

The maximum availability under the HBB Facility is governed by a borrowing base derived from advance rates against eligible accounts receivable, inventory and trademarks of the borrowers, as defined in the HBB Facility. Adjustments to reserves booked against these assets, including inventory reserves, will change the eligible borrowing base and thereby impact the liquidity provided by the HBB Facility. A portion of the availability is denominated in

Canadian dollars to provide funding to HBB's Canadian subsidiary. Borrowings bear interest at a floating rate, which can be a base rate or LIBOR, as defined in the HBB Facility, plus an applicable margin. The applicable margins, effective June 30, 2014, for base rate loans and LIBOR loans denominated in U.S. dollars were 0.00% and 1.50%, respectively. The applicable margins, effective June 30, 2014, for base rate loans and bankers' acceptance loans denominated in Canadian dollars were 0.00% and 1.50%, respectively. The HBB Facility also required a fee of 0.375% per annum on the unused commitment. The margins and unused commitment fee under the HBB

27

Table of Contents

Facility are subject to quarterly adjustment based on average excess availability and average usage, respectively. The weighted average interest rate applicable to the HBB Facility at June 30, 2014 was 2.67% including the floating rate margin and the effect of interest rate swap agreements.

To reduce the exposure to changes in the market rate of interest, HBB has entered into interest rate swap agreements for a portion of the HBB Facility. Terms of the interest rate swap agreements require HBB to receive a variable interest rate and pay a fixed interest rate. HBB has interest rate swaps with notional values totaling $20.0 million at June 30, 2014 at an average fixed rate of 1.4%.

The HBB Facility included restrictive covenants, which, among other things, limited the payment of dividends to NACCO, subject to achieving availability thresholds. Dividends are discretionary to the extent that for the thirty days prior to the dividend payment date, and after giving effect to the dividend payment, HBB maintains Excess Availability of not less than $25.0 million. The HBB Facility also requires HBB to achieve a minimum fixed charge coverage ratio in certain circumstances, as defined in the HBB Facility. At June 30, 2014, HBB was in compliance with the financial covenants in the HBB Facility.

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

Contractual Obligations, Contingent Liabilities and Commitments

In the six months ended June 30, 2014, there were no significant changes in the total amount of HBB's contractual obligations, contingent liabilities or commercial commitments, or the timing of cash flows in accordance with those obligations as reported on page 52 in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. On July 29, 2014, HBB amended its $115.0 million secured, floating-rate revolving credit facility, extending the term through July 2019. The terms of the Amended HBB Facility are similar to the terms under the existing HBB Facility that extends the term through July 2019. See Note 13 to the Unaudited Condensed Consolidated Financial Statements in this Form 10-Q for a discussion of the Company's subsequent events.

Capital Expenditures

Expenditures for property, plant and equipment were $2.0 million for the first six months of 2014 and are estimated to be an additional $3.3 million for the remainder of 2014. These planned capital expenditures are primarily for tooling for new products and improvements to HBB's information technology infrastructure. These expenditures are expected to be funded from internally generated funds and bank borrowings.

Capital Structure

Working capital is significantly affected by the seasonality of HBB's business. The following is a discussion of the changes in HBB's capital structure at June 30, 2014 compared with both June 30, 2013 and December 31, 2013.

June 30, 2014 Compared with June 30, 2013

	JUNE 30 2014	JUNE 30 2013	Change
Cash and cash equivalents	$3,775	$4,216	$(441)
Other net tangible assets	78,950	63,749	15,201
Net assets	82,725	67,965	14,760
Total debt	(29,105)	(20,223)	(8,882)

Total equity	$53,620	$47,742	$5,878
Debt to total capitalization	35 %	30 %	5 %

Other net tangible assets increased $15.2 million from June 30, 2013 primarily due to an increase in inventory and a change in HBB's pension liability partially offset by an increase in accounts payable and a change in deferred income taxes. The increase in inventory was driven by higher sales forecasts in the second quarter of 2014. The increase in accounts payable was due to the timing of inventory purchases.

Total debt increased $8.9 million as a result of the required funding of operations and the increase in inventory.

Table of Contents

June 30, 2014 Compared with December 31, 2013

	JUNE 30 2014	DECEMBER 31 2013	Change
Cash and cash equivalents	$3,775	$11	$3,764
Other net tangible assets	78,950	70,700	8,250
Net assets	82,725	70,711	12,014
Total debt	(29,105)	(18,447)	(10,658)
Total equity	$53,620	$52,264	$1,356
Debt to total capitalization	35%	26%	9%

Other net tangible assets increased $8.3 million from December 31, 2013 primarily due to lower levels of accounts payable, a decrease in other current liabilities from decreased payroll-related accruals as payments were made during the first six months of 2014, increased inventory and a decrease in intercompany taxes payable. The increase in other net tangible assets was partially offset by a decrease in accounts receivable. The changes in accounts payable and accounts receivable were primarily attributable to the seasonality of the business. The increase in inventory was driven by higher sales forecasts in the second quarter of 2014.

Total debt increased $10.7 million as a result of the seasonality of the business and the required funding of operations during the first six months of 2014.

OUTLOOK

Following a difficult start to the year, the overall consumer retail market continued to struggle with consumer traffic at both the high-end and middle markets not returning to expected levels in the second quarter of 2014. These market conditions are creating continued uncertainty about the strength of the retail market and expectations regarding consumer activity in the second half of 2014, particularly with HBB's target consumer, the middle-market mass consumer, who continues to struggle with financial and economic concerns. As a result, sales volumes in the middle-market portion of the U.S. small kitchen appliance market in which HBB participates are projected to grow only moderately in the second half of 2014, provided consumer traffic improves. The Canadian retail market is expected to follow U.S. trends, while other International and commercial product markets in which HBB participates are anticipated to grow moderately in the second half of 2014 compared with the same period in 2013.

HBB expects sales volumes to grow more favorably than the market due to improved placements of products with higher price points over the remainder of 2014 compared with the second half of 2013. HBB continues to focus on strengthening its North American consumer market position through product innovation, promotions, increased placements and branding programs, together with appropriate levels of advertising for the company's highly successful and innovative product lines. HBB expects the FlexBrew™ coffee maker, launched in late 2012, and the Hamilton Beach® Breakfast Sandwich Maker, launched in early 2013, to continue to gain market position. The company is continuing to introduce innovative products and upgrades to certain products in several small appliance categories. These products, as well as other new product introductions in the pipeline for 2014, are expected to affect both revenues and operating profit positively. As a result of these new products and execution of the company's strategic initiatives, both domestically and internationally, HBB expects an increase in revenues in the second half of 2014 compared with the second half of 2013 and expects to outperform the overall market's 2014 forecasted rate of increase.

Overall, HBB expects net income in the second half of 2014 to be comparable to or moderately lower than the second half of 2013. The anticipated increase in sales volumes attributable to the continued implementation and execution of

HBB's strategic initiatives is expected to be substantially offset by the costs of implementing those initiatives and by increased advertising and promotional costs and outside services fees. Product and transportation costs are expected to increase modestly in the second half of 2014 compared with the second half of 2013, and the negative effects of foreign currency fluctuations are expected to continue throughout the remainder of 2014. HBB continues to monitor both currency effects and commodity costs closely and intends to adjust product prices and product placements appropriately in response to such cost increases. HBB expects cash flow before financing activities in 2014 to be substantial but down significantly from 2013.

Longer term, HBB will work to take advantage of the potential to improve return on sales through economies of scale derived from market growth and a focus on its five strategic volume growth initiatives: (1) enhancing its placements in the North

Table of Contents

America consumer business through consumer-driven innovative products and strong sales and marketing support, (2) enhancing internet sales by providing best-in-class retailer support and increased consumer content and engagement, (3) participating in the "only-the-best" market with a strong brand and broad product line, including investing in new products to be sold under the Jamba and Wolf Gourmet brand names, (4) expanding internationally in the emerging Asian and Latin American markets by increasing product offerings and expanding its distribution channels and sales and marketing capabilities and (5) achieving global Commercial market leadership through a commitment to an enhanced global product line for chains and distributors serving the global food service and hospitality markets. During 2013 and the first half of 2014, HBB continued to make strides in the execution of its strategic initiatives and expects to continue to do so over the remainder of 2014.

THE KITCHEN COLLECTION, LLC

KC is a national specialty retailer of kitchenware and gourmet foods operating under the Kitchen Collection® and Le Gourmet Chef® ("LGC") store names in outlet and traditional malls throughout the United States. KC's business is seasonal, and a majority of its revenues and operating profit typically occurs in the second half of the year when sales of kitchenware to consumers increase significantly for the fall holiday-selling season.

FINANCIAL REVIEW

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

	THREE MONTHS		SIX MONTHS	
	2014	2013	2014	2013
Revenues	$32,804	$38,380	$69,680	$78,091
Operating loss	$(4,255)	$(5,407)	$(10,769)	$(10,387)
Interest expense	$92	$79	$180	$130
Other expense (income)	$16	$19	$34	$42
Net loss	$(2,657)	$(2,403)	$(6,690)	$(5,670)
Effective income tax rate	39.1 %	56.3 %	39.1 %	46.3 %

Second Quarter of 2014 Compared with Second Quarter of 2013

The following table identifies the components of change in revenues for the second quarter of 2014 compared with the second quarter of 2013:

	Revenues
2013	$38,380
Increase (decrease) from:	
Closed stores	(6,340)
KC comparable store sales	(1,304)
LGC comparable store sales	(377)
New store sales	2,350
Other	95
2014	$32,804

Revenues for the second quarter of 2014 decreased compared with the second quarter of 2013. The decrease was primarily the result of the loss of sales from closing unprofitable KC and LGC stores since June 30, 2013 and a decline in both KC and LGC comparable store sales. The decrease in comparable store sales was mainly due to fewer customer visits and a reduction in store transactions at both store formats, as well as a decrease in the average sales transaction value at both store formats from shifts to lower priced but higher-margin products in the second quarter of 2014 compared with the second quarter of 2013. These decreases were partially offset by sales at newly opened KC

stores.

Table of Contents

At June 30, 2014, KC operated 240 stores compared with 254 stores at June 30, 2013 and 272 stores at December 31, 2013. At June 30, 2014, LGC operated 14 stores compared with 41 stores at June 30, 2013 and 32 stores at December 31, 2013.

The following table identifies the components of change in operating loss for the second quarter of 2014 compared with the second quarter of 2013:

	Operating Loss
2013	$(5,407)
(Increase) decrease from:	
Closed stores	779
Comparable stores	411
Selling, general and administrative expenses	289
New stores	(238)
Other	(89)
2014	$(4,255)

KC recognized a decreased operating loss in the second quarter of 2014 compared with the second quarter of 2013 primarily as a result of closing unprofitable KC and LGC stores since June 30, 2013, improved operating margins at both KC and LGC stores from a shift in mix to higher-margin products and a reduction in store expenses at comparable stores, and reduced selling, general and administrative expenses, primarily due to lower employee-related costs. Seasonal losses at newly opened stores partially offset these improvements.

KC reported a net loss of $2.7 million in the second quarter of 2014 compared with a net loss of $2.4 million in the second quarter of 2013 primarily due to the factors affecting operating loss partially offset by a lower estimated effective income tax rate in the second quarter of 2014 compared with the second quarter of 2013 resulting in less of a tax benefit on the 2014 operating loss.

First Six Months of 2014 Compared with First Six Months of 2013

The following table identifies the components of change in revenues for the first six months of 2014 compared with the first six months of 2013:

	Revenues
2013	$78,091
Increase (decrease) from:	
Closed stores	(9,351)
KC comparable store sales	(3,017)
LGC comparable store sales	(648)
New store sales	4,357
Other	248
2014	$69,680

Revenues decreased for the first six months of 2014 compared with the first six months of 2013. The decrease was primarily due to closing unprofitable KC and LGC stores since June 30, 2013 and a decline in comparable store sales at KC and LGC. The decrease in comparable store sales resulted from fewer customer visits, a reduction in store transactions and a decrease in the average sales transaction value at both store formats for the first six months of 2014 compared with the first six months of 2013. These decreases were partially offset by sales at newly opened KC stores.

31

Table of Contents

The following table identifies the components of change in operating loss for the first six months of 2014 compared with the first six months of 2013:

	Operating Loss
2013	$(10,387)
(Increase) decrease from:	
Comparable stores	(1,339)
New stores	(514)
Other	(129)
Selling, general and administrative expenses	896
Closed stores	704
2014	$(10,769)

4,000

*

Roger L. Howe
72

Director

1,037,934

(5)

*

David C. Phillips
69

Director

5,350

(6)

*

William C. Gale
55

Senior Vice President and
Chief Financial Officer

42,318

(7)

*

Thomas E. Frooman
40

Vice President and Secretary
General Counsel

44,725

(8)

*

Michael L. Thompson
41

Vice President and Treasurer

19,582

(9)

*

All Directors and Executive
Officers as a Group
(12 persons)

22,856,645

(10)

14.4

%

---

* Less than 1%

(1) Included in the amount of Common Stock beneficially owned are the following shares of Common Stock for options exercisable within 60 days: Mr. Kohlhepp 15,000 shares; Mr. S. Farmer 40,000 shares; Mr. Adolph 500 shares; Mr. Carter 4,500 shares; Mr. Dirvin 11,500 shares; Ms. Hergenhan 2,250 shares; Mr. Howe 8,500 shares; Mr. Phillips 3,500 shares; Mr. Gale 17,501 shares; Mr. Frooman 40,000 shares and Mr. Thompson 9,750 shares.

(2) See Principal Shareholders on page 23.

24

---

(3) Includes 753,622 shares held in trust for members of Mr. Kohlhepp s family, 26,016 shares held by a corporation that is controlled by Mr. Kohlhepp and 1,249,725 shares held by a family partnership.

(4) Includes 604,550 shares held in trust for the benefit of Mr. Farmer s children, 4,038 shares owned by Mr. Farmer s wife and 83,880 shares held by a limited partnership. Includes 12,309 restricted shares subject to a three year vesting period.

(5) Includes 161,472 shares owned by a limited partnership, 45,500 shares held by a family foundation and 84,000 shares owned by Mr. Howe s wife as trustee.

(6) Includes 500 shares held by a family trust.

(7) Includes 6,891 restricted shares subject to a three year vesting period.

(8) Includes 4,700 restricted shares subject to a three year vesting period.

(9) Includes 2,300 restricted shares subject to a three year vesting period.

(10) Includes options for 153,001 shares, which are exercisable within 60 days.

The following is a description of our non-director named executive officers:

William C. Gale joined Cintas in April 1995 as Vice President-Finance and Chief Financial Officer. He was appointed Senior Vice President in July 2003. He is responsible for finance, accounting and administration.

Thomas E. Frooman joined Cintas in December 2001 as Vice President and Secretary General Counsel. From July 1997 through December 2001, he was a member of the law firm of Keating Muething & Klekamp PLL.

Michael L. Thompson joined Cintas in 1994. He has held various positions within Cintas, including Director of Corporate Development and Corporate Controller. He was elected Vice President and Treasurer in January 2006.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires Cintas executive officers, directors and persons who own more than ten percent of Cintas Common Stock to file reports of ownership with the Commission and to furnish Cintas with copies of these reports. Based solely upon its review of reports received by it, or upon written representation from certain reporting persons that no reports were required, Cintas believes that during fiscal 2007 all filing requirements were met.

RELATED PERSON TRANSACTIONS

Cintas Corporation has a 25% interest in a corporate airplane with its Chairman, Richard T. Farmer and his wholly owned company. This arrangement began on February 23, 2006. Cintas manages the airplane under an operating agreement whereby each party pays their own operating expenses for use of the plane, and common costs are shared based on ownership percentages. For fiscal 2007, Cintas was reimbursed $1,391,069 under this arrangement.

Cintas engages Keating Muething & Klekamp PLL for a variety of legal services. Robert E. Coletti, a partner of the firm, is an in-law of Richard T. and Scott D. Farmer. Cintas paid the firm fees of $7,133,783 for legal services during the fiscal year ending May 31, 2007. Mr. Coletti does not receive any direct compensation from fees paid by Cintas to the firm.

Certain stock exchange rules require Cintas to conduct an appropriate review of all related party transactions (those required to be disclosed by Cintas pursuant to SEC Regulation S-K Item 404) for potential conflict of interest situations on an ongoing basis and that all such transactions must be approved by the Audit Committee or another committee comprised of independent directors. As a result, the Audit Committee annually reviews all such related party transactions and approves such related party transactions only if it determines that it is in the best interests of Cintas. In considering the transaction, the Audit Committee may consider all relevant factors, including as applicable (i) Cintas business rationale for entering into the transaction; (ii) the alternatives to entering into a related person transaction; (iii) whether the transaction is on terms comparable to those available to third parties, or in the case of employment relationships, to employees generally; (iv) the potential for the transaction to lead to an actual or apparent conflict of interest and any safeguards imposed to prevent such actual or apparent conflicts; and (vi) the overall fairness of the transaction to Cintas.

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

(Item 2 on the Proxy Card)

Although not required, the Board is seeking shareholder ratification of the selection by the Audit Committee of Ernst & Young LLP as Cintas independent registered public accounting firm for fiscal 2008. If shareholders do not ratify this selection, the Audit Committee intends to continue the employment of Ernst & Young LLP at least through fiscal 2008, as the new fiscal year has already commenced. However, the Audit Committee will take the vote into account in selecting the independent registered public accounting firm for fiscal 2009. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting and will have an opportunity to make a statement, if they desire to do so, and to respond to appropriate questions that may be asked by shareholders.

OTHER ITEMS TO BE VOTED ON BY SHAREHOLDERS

First Shareholder Proposal

(Item 3 on the Proxy Card)

The Massachusetts Laborers Pension Fund has advised Cintas that it intends to present the following proposal:

RESOLVED, that pursuant to Section 23B.10.200 of the Revised Code of Washington, Article TEN of the Restated Articles of Incorporation of Cintas Corporation (Cintas) and Article X of the By-Laws, the shareholders of Cintas hereby adopt the following new section 10 of Article III of the By-Laws:

Section 10. Qualifications of Chairman.

(a) The Chairman of the Board of Directors shall be a Director who is independent from the Corporation. For purposes of this By-Law, independent has the meaning set forth in the NASDAQ listing standards. If the Corporation s common stock is listed on the New York Stock Exchange (NYSE), the definition of independence set forth in the NYSE s listing standards shall apply. If the Corporation s common stock is not traded on a national exchange, NASDAQ s standard shall apply.

(b) If the Directors determine that a Chairman who was independent at the time he or she was selected is no longer independent, the Directors shall select a new Chairman who satisfies the requirements of this By-Law within [60] days of such determination.

(c) This By-Law shall be implemented in a way that does not violate any contractual obligation of the Corporation.

(d) Compliance with this By-Law shall be excused if no Director who qualifies as independent is elected by the Shareholders or if no Director who is independent is willing to serve as Chairman.

(e) This By-Law may be amended or repealed only by the Shareholders, Article X of these By-Laws regarding Board amendment of these By-Laws notwithstanding.

Supporting Statement

The Board of Directors is elected by shareholders to oversee management and its Chair provides leadership for the Board. We believe that to be effective, a Board must be led by a Chair who is independent of management.

The National Association of Corporate Directors recommends that Boards designate an independent director as Chair or lead director to evaluate CEO and Board Chair functions. Strengthening Boards through independent Chairs has been central to corporate reform at Disney, AIG and Fannie Mae all moved to appoint independent Chairs in 2005.

In 2003, the Conference Board issued a report on corporate governance in the wake of recent corporate scandals. The Commission s members included John Snow, U.S. Treasury Secretary and Former Chairman of CSX corporation; John Bogle, the Founder and former Chairman of Vanguard Group; Arthur Levitt Jr., former SEC Chairman; and former Federal Reserve System Chairman Paul Volcker.

27

The Report discussed three principal approaches to provide the appropriate balance between board and CEO functions, including:

The roles of Chairman and CEO would be performed by two separate individuals, and the Chairman would be one of the independent directors.

- The Conference Board Commission on Public Trust and Private Enterprise, Findings and Recommendations, January 9, 2003.

We urge your support FOR this proposal to require that the Chairman of the Board of Directors be an independent director.

The Board of Directors recommends voting AGAINST this proposal for the following reasons:

At both the 2005 and 2006 Annual Meetings of Shareholders, Cintas shareholders rejected substantially identical proposals and should continue to do so.

The composition of Cintas Board of Directors is governed by NASDAQ rules requiring that a majority of directors meets independence standards established by NASDAQ. Cintas Board meets those standards as six of our nine directors are independent. Also pursuant to NASDAQ rules, all of the members of each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are independent. Additionally, our independent directors hold regular executive sessions. NASDAQ standards are not concerned with the identity of the Chairman of the Board.

Traditionally, corporations have utilized the experience gained in their operations by current and former executive officers when filling the Chairman s position. If the proponent s proposal were adopted, Cintas Board would not have the option to turn to persons experienced at the executive level in Cintas operations when choosing a Chairman.

The Board believes that it is extremely important for the Chairman of the Board to have a deep knowledge of the company and the industry in which it operates and that having an outsider serve in this position would not be in the best interests of the shareholders. Therefore, it sees no benefit to the proposal, but rather believes that it could work to Cintas detriment in depriving it of the ability to choose experienced leadership to head the Board of Directors.

The Board needs to be able to use its business judgment to determine which individual has the knowledge, skill, commitment and necessary understanding of Cintas and applicable industries to best perform the Chairman s role.

Accordingly, the Board requests a vote AGAINST this proposal.

Second Shareholder Proposal

(Item 4 on the Proxy Card)

The United Brotherhood of Carpenters Pension Fund has advised Cintas that it intends to present the following proposal:

RESOLVED, that the shareholders of Cintas Corporation (Company) hereby request that the Board of Directors initiate the appropriate process to amend the Company s articles of incorporation to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders, with a plurality vote standard retained for contested director elections, that is, when the number of director nominees exceeds the number of Board seats.

Supporting Statement

Our Company is incorporated in Washington. Among other issues, Washington corporate law addresses the issue of the level of voting support necessary for a specific action, such as the election of corporate directors. Washington law provides that unless otherwise provided in the articles of incorporation, in any election of directors the candidates elected are those receiving the largest numbers of votes cast by the shares entitled to vote in the election. (Washington Business Corporations Act, Title 23B RCW, Chapter 23B.07RCW, Shareholders, Section 23B.070.280 Voting for Directors Cumulative Voting).

Our Company s articles presently do not provide for a majority vote standard in director elections. This proposal requests that the Board initiate a change in the Company s articles of incorporation to provide that nominees for the board of directors must receive a majority of the vote cast in order to be elected or re-elected to the Board.

We believe that a majority vote standard in director elections would give shareholders a meaningful role in the director election process. Under the Company s current standard, a nominee in a director election can be elected with as little as a single affirmative vote, even if a substantial majority of the votes cast are withheld from that nominee. The majority vote standard would require that a director receive a majority of the vote cast in order to be elected to the Board.

Our proposal is not intended to limit the judgment of the Board in crafting the requested governance change. For instance, the Board should address the status of incumbent director nominees who fail to receive a majority vote under a majority vote standard. A combination of a majority vote standard and a post-election director resignation policy would establish a meaningful right for shareholders to elect directors, while reserving for the Board an important post-election role in determining the continued status of an unelected director.

We urge your support for this important director election reform.

The Board of Directors recommends voting AGAINST this proposal for the following reasons:

Your Board of Directors has recognized national trends toward majority voting and, accordingly, amended the Bylaws in August 2006 in a manner which we believe substantially provides the voting patterns the proponents are seeking, but in a manner more attuned to Cintas corporate circumstances.

Under the revised Bylaws, any nominee who does not receive a majority of the shares cast in an election shall offer his or her resignation to the Board. The Nominating and Corporate Governance Committee is then to consider the resignation offer and make a recommendation to the Board. The Board must act on the recommendation within 90 days following certification of the shareholder vote and then promptly disclose its decision. These provisions would not apply in the event of a contested election in which there are more nominees than directors to be elected. In that case, a straight plurality voting system would apply.

The Board recognizes that a Bylaw amendment, unlike a change to the Articles of Incorporation, may be further amended by the Board to meet changing circumstances without a shareholder vote. However, any change to the Bylaws is a serious matter and must be reported to shareholders through a Form 8-K filing within four business days after any change. The Board believes that the procedures it has adopted, while retaining the flexibility to make needed changes, is preferable to placing such materials in the Articles of Incorporation. The process of amending the Articles of Incorporation

requires the time and expense of calling a shareholders meeting and thus does not have the flexibility that is afforded to the Corporation by allowing the directors the ability to change such items.

The Board of Directors believes it is vital that Cintas always have a full Board of Directors composed of the required number of individuals qualified to meet the various independence requirements of NASDAQ and federal securities laws and also to provide overall guidance for Cintas business operations. Cintas directors are nominated by the Nominating and Corporate Governance Committee of the Board of Directors. This Committee is composed exclusively of directors who meet the independent director tests established by NASDAQ. In choosing nominees for election, the Committee can take into account, among other things, votes cast for and votes withheld from incumbent directors at prior elections. We believe our new Bylaw provisions provide an orderly process for dealing with any situation in which a nominee does not receive a majority of votes cast and will operate to provide meaningful and effective corporate governance by your Board of Directors.

Accordingly, the Board requests a vote AGAINST this proposal.

Upon oral or written request to Thomas E. Frooman, Secretary, 6800 Cintas Boulevard, Cincinnati, OH 45262, Cintas will provide the name, address and number of voting securities held by the proponents of Items 3 and 4.

PROPOSALS FOR NEXT YEAR

Shareholders who desire to have proposals included in the Notice for the 2008 Shareholders Meeting must submit their proposals in writing to Cintas at its offices on or before May 5, 2008.

The form of Proxy for Cintas Annual Meeting of Shareholders grants authority to the designated proxies to vote in their discretion on any matters that come before the meeting except those set forth in Cintas proxy statement and except for matters as to which adequate notice is received. In order for a notice to be deemed adequate for the 2008 Shareholders Meeting, it must be received prior to July 17, 2008.

Cintas Bylaws require that items of new business and nominees for director be presented at least 15 days prior to the date of the meeting.

OTHER MATTERS

Cintas knows of no other matters to be presented at the meeting other than those specified in the Notice.

QUESTIONS?

If you have questions or need more information about the annual meeting, write to:

Thomas E. Frooman
Vice President and Secretary General Counsel
6800 Cintas Boulevard
P. O. Box 625737
Cincinnati, Ohio 45262-5737

or call (513) 459-1200.

For information about your record holding, call Wells Fargo at 1-800-468-9716. We also invite you to visit Cintas Internet site at www.cintas.com. Internet site materials are for your general information and are not part of this proxy solicitation.

30

FRONT OF CARD

CINTAS CORPORATION **PROXY FOR ANNUAL MEETING**
6800 Cintas Blvd., P.O. Box 625737, Cincinnati, Ohio 45262-5737

The undersigned hereby appoints RICHARD T. FARMER, ROBERT J. KOHLHEPP, and WILLIAM C. GALE, and each or any of them, proxies of the undersigned, each with the power of substitution, to vote all shares of Common Stock which the undersigned would be entitled to vote as specified below and, in their discretion, upon such other business or matters as may properly come before the Annual Meeting of Shareholders of Cintas Corporation and at any postponement or adjournment of such Meeting. The Meeting will be held October 23, 2007, at 10:00 a.m. (Eastern Time) at the Company s Headquarters, 6800 Cintas Boulevard, Cincinnati, Ohio.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ITEMS 1 AND 2.

1. Authority to elect nine nominees listed below.

FOR all nominees listed below (except as marked to the contrary)	**WITHHOLD AUTHORITY** to vote for all nominees listed below

Gerald S. Adolph; Paul R. Carter; Gerald V. Dirvin; Richard T. Farmer; Scott D. Farmer; Joyce Hergenhan; Roger L. Howe; Robert J. Kohlhepp; David C. Phillips

WRITE THE NAME OF ANY NOMINEE(S) FOR

WHOM AUTHORITY TO VOTE IS WITHHELD

2. Ratification of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2008.

FOR **AGAINST** **ABSTAIN**

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST ITEMS 3 AND 4.

3. Shareholder proposal to adopt a policy that the Chairman of the Board of Directors be an independent director who has not previously served as an executive officer of Cintas.

FOR **AGAINST** **ABSTAIN**

4. Shareholder proposal to amend Cintas Articles of Incorporation to provide that the director nominees be elected by the affirmative vote of the majority of votes cast at the Annual Meeting of Shareholders.

FOR **AGAINST** **ABSTAIN**

(Continued on other side)

BACK OF CARD

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ITEMS 1 AND 2 AND AGAINST ITEMS 3 and 4.

, 2007

Important: Please sign exactly as name appears hereon indicating, where proper, official position or representative capacity. In the case of joint holders, all should sign.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS