Vulcan Materials CO
Form 10-Q
November 05, 2013
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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 001-33841

VULCAN MATERIALS COMPANY
(Exact name of registrant as specified in its charter)

New Jersey (State or other jurisdiction of incorporation)	20-8579133 (I.R.S. Employer Identification No.)
1200 Urban Center Drive, Birmingham, Alabama (Address of principal executive offices)	35242 (zip code)

(205) 298-3000   (Registrant's telephone number including area code)

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 x Noo

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether 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. (Check one):

Large accelerated filer x	Accelerated filer o
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 x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Shares outstanding at September 30, 2013
Common Stock, $1 Par Value	129,989,477

VULCAN MATERIALS COMPANY

FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2013

Contents

			Page
PART I	FINANCIAL INFORMATION		
	Item 1.	Financial Statements	
		Condensed Consolidated Balance Sheets	2
		Condensed Consolidated Statements of Comprehensive Income	3
		Condensed Consolidated Statements of Cash Flows	4
		Notes to Condensed Consolidated Financial Statements	5
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	40
	Item 4.	Controls and Procedures	40
PART II	OTHER INFORMATION		
	Item 1.	Legal Proceedings	41
	Item 1A.	Risk Factors	41
	Item 4.	Mine Safety Disclosures	41

Item 6.	Exhibits	42
	Signatures	43

part I financial information

ITEM 1

FINANCIAL STATEMENTS

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited, except for December 31 in thousands	September 30 2013	December 31 2012	September 30 2012
Assets			
Cash and cash equivalents	$ 245,813	$ 275,478	$ 243,126
Accounts and notes receivable			
Accounts and notes receivable, gross	450,642	303,178	403,520
Less: Allowance for doubtful accounts	(5,412)	(6,198)	(6,106)
Accounts and notes receivable, net	445,230	296,980	397,414
Inventories			
Finished products	255,047	262,886	263,893
Raw materials	29,480	27,758	28,221
Products in process	6,385	5,963	6,209
Operating supplies and other	37,267	38,415	38,655
Inventories	328,179	335,022	336,978
Current deferred income taxes	39,326	40,696	45,353
Prepaid expenses	31,854	21,713	26,384
Assets held for sale	10,559	15,083	0
Total current assets	1,100,961	984,972	1,049,255
Investments and long-term receivables	43,275	42,081	42,226
Property, plant & equipment			
Property, plant & equipment, cost	6,792,470	6,666,617	6,690,448
Reserve for depreciation, depletion & amortization	(3,578,010)	(3,507,432)	(3,477,496)
Property, plant & equipment, net	3,214,460	3,159,185	3,212,952
Goodwill	3,081,521	3,086,716	3,086,716
Other intangible assets, net	697,655	692,532	693,308
Other noncurrent assets	172,184	161,113	141,459
Total assets	$ 8,310,056	$ 8,126,599	$ 8,225,916
Liabilities			
Current maturities of long-term debt	$ 163	$ 150,602	$ 285,153
Trade payables and accruals	154,451	113,337	133,209
Other current liabilities	204,029	171,671	213,735

Liabilities of assets held for sale	0	801	0
Total current liabilities	358,643	436,411	632,097
Long-term debt	2,523,389	2,526,401	2,527,450
Noncurrent deferred income taxes	673,135	657,367	680,880
Deferred revenue	225,863	73,583	0
Other noncurrent liabilities	666,115	671,775	618,292
Total liabilities	4,447,145	4,365,537	4,458,719
Other commitments and contingencies (Note 8)			
Equity			
Common stock, $1 par value, Authorized 480,000 shares,			
Issued 129,989, 129,721 and 129,596 shares, respectively	129,989	129,721	129,596
Capital in excess of par value	2,598,744	2,580,209	2,567,859
Retained earnings	1,288,054	1,276,649	1,274,465
Accumulated other comprehensive loss	(153,876)	(225,517)	(204,723)
Total equity	3,862,911	3,761,062	3,767,197
Total liabilities and equity	$ 8,310,056	$ 8,126,599	$ 8,225,916

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited	Three Months Ended	September 30	Nine Months Ended	September 30
in thousands, except per share data	2013	2012	2013	2012
Net sales	$ 775,183	$ 687,616	$ 1,975,814	$ 1,836,357
Delivery revenues	38,385	41,245	114,649	122,522
Total revenues	813,568	728,861	2,090,463	1,958,879
Cost of goods sold	616,200	560,693	1,666,281	1,581,537
Delivery costs	38,385	41,245	114,649	122,522
Cost of revenues	654,585	601,938	1,780,930	1,704,059
Gross profit	158,983	126,923	309,533	254,820
Selling, administrative and general expenses	65,854	65,441	195,411	192,267
Gain on sale of property, plant & equipment and businesses, net	9,350	2,009	36,869	21,687
Restructuring charges	0	(3,056)	(1,509)	(9,018)
Exchange offer costs	0	(1,206)	0	(43,331)
Other operating expense, net	(2,712)	(3,363)	(12,907)	(2,642)
Operating earnings	99,767	55,866	136,575	29,249
Other nonoperating income, net	2,310	1,806	4,968	4,196
Interest expense, net	49,134	53,043	152,757	158,997
Earnings (loss) from continuing operations before income taxes	52,943	4,629	(11,214)	(125,552)
Provision for (benefit from) income taxes	10,793	(10,992)	(21,874)	(67,138)
Earnings (loss) from continuing operations	42,150	15,621	10,660	(58,414)
Earnings (loss) on discontinued operations, net of tax	(787)	(1,361)	4,640	2,338
Net earnings (loss)	$ 41,363	$ 14,260	$ 15,300	$ (56,076)
Other comprehensive income, net of tax				
Reclassification adjustment for cash flow hedges	679	975	2,368	2,868
Adjustment for funded status of pension plans	0	0	60,299	0
Amortization of pension and postretirement benefit plans actuarial loss and prior service cost	2,111	3,084	8,974	9,252
Other comprehensive income	2,790	4,059	71,641	12,120
Comprehensive income (loss)	$ 44,153	$ 18,319	$ 86,941	$ (43,956)
Basic earnings (loss) per share				
Continuing operations	$ 0.32	$ 0.12	$ 0.08	$ (0.45)
Discontinued operations	0.00	(0.01)	0.04	0.02
Net earnings (loss)	$ 0.32	$ 0.11	$ 0.12	$ (0.43)
Diluted earnings (loss) per share				
Continuing operations	$ 0.32	$ 0.12	$ 0.08	$ (0.45)

Discontinued operations	(0.01)	(0.01)	0.04	0.02
Net earnings (loss)	$ 0.31	$ 0.11	$ 0.12	$ (0.43)
Weighted-average common shares outstanding				
Basic	130,266	129,753	130,234	129,674
Assuming dilution	131,320	130,215	131,368	129,674
Cash dividends per share of common stock	$ 0.01	$ 0.01	$ 0.03	$ 0.03
Depreciation, depletion, accretion and amortization	$ 78,320	$ 84,108	$ 230,877	$ 253,391
Effective tax rate from continuing operations	20.4%	NMF	195.1%	53.5%

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

3

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited in thousands	Nine Months Ended 2013	September 30 2012
Operating Activities		
Net earnings (loss)	$ 15,300	$ (56,076)
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation, depletion, accretion and amortization	230,877	253,391
Net gain on sale of property, plant & equipment and businesses	(48,597)	(31,886)
Proceeds from sale of future production, net of transactions costs (Note 16)	153,095	0
Contributions to pension plans	(3,535)	(3,379)
Share-based compensation	16,789	9,362
Deferred tax provision	(25,862)	(66,194)
Changes in assets and liabilities before initial effects of business acquisitions and dispositions	(78,947)	(9,886)
Other, net	892	(1,573)
Net cash provided by operating activities	260,012	93,759
Investing Activities		
Purchases of property, plant & equipment	(117,310)	(49,418)
Proceeds from sale of property, plant & equipment	14,974	28,930
Proceeds from sale of businesses, net of transaction costs	51,604	10,690
Payment for businesses acquired, net of acquired cash	(89,951)	0
Other, net	2	963
Net cash used for investing activities	(140,681)	(8,835)
Financing Activities		
Proceeds from line of credit	156,000	0
Payment of current maturities of long-term debt & line of credit	(306,493)	(120)
Dividends paid	(3,890)	(3,885)
Proceeds from exercise of stock options	4,491	6,167
Other, net	896	201
Net cash provided by (used for) financing activities	(148,996)	2,363
Net increase (decrease) in cash and cash equivalents	(29,665)	87,287
Cash and cash equivalents at beginning of year	275,478	155,839
Cash and cash equivalents at end of period	$ 245,813	$ 243,126

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the statements.

notes to condensed consolidated financial statements

Note 1: summary of significant accounting policies

NATURE OF OPERATIONS

Vulcan Materials Company (the “Company,” “Vulcan,” “we,” “our”), a New Jersey corporation, is the nation's largest producer of construction aggregates, primarily crushed stone, sand and gravel; a major producer of asphalt mix and ready-mixed concrete, and a leading producer of cement in Florida.

BASIS OF PRESENTATION

Our accompanying unaudited condensed consolidated financial statements were prepared in compliance with the instructions to Form 10-Q and Article 10 of Regulation S-X and thus do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Our condensed consolidated balance sheet as of December 31, 2012 was derived from the audited financial statement at that date. In the opinion of our management, the statements reflect all adjustments, including those of a normal recurring nature, necessary to present fairly the results of the reported interim periods. Operating results for the three and nine month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013. For further information, refer to the consolidated financial statements and footnotes included in our most recent Annual Report on Form 10-K.

Due to the 2005 sale of our Chemicals business as presented in Note 2, the operating results of the Chemicals business are presented as discontinued operations in the accompanying Condensed Consolidated Statements of Comprehensive Income.

RECLASSIFICATIONS

Certain items previously reported in specific financial statement captions have been reclassified to conform with the 2013 presentation.

RESTRUCTURING CHARGES

In 2012, our Board approved a Profit Enhancement Plan that further leveraged our streamlined management structure and substantially completed ERP and Shared Services platforms to achieve cost reductions and other earnings enhancements. During the first nine months of 2013 and 2012, we incurred $1,509,000 and $9,018,000, respectively, of costs (primarily project design, outside advisory and severance) related to the implementation of this plan. We do not anticipate any future material charges related to this Profit Enhancement Plan.

EXCHANGE OFFER COSTS

In December 2011, Martin Marietta Materials, Inc. (Martin Marietta) commenced an unsolicited exchange offer for all outstanding shares of our common stock and indicated its intention to nominate a slate of directors to our Board. After careful consideration, including a thorough review of the offer with its financial and legal advisors, our Board unanimously determined that Martin Marietta’s offer was inadequate, substantially undervalued Vulcan, was not in the best interests of Vulcan and its shareholders and had substantial risk.

In May 2012, the Delaware Chancery Court ruled and the Delaware Supreme Court affirmed that Martin Marietta had breached two confidentiality agreements between the companies, and enjoined Martin Marietta through September 15, 2012 from pursuing its exchange offer for our shares, prosecuting its proxy contest, or otherwise taking steps to acquire control of our shares or assets and from any further violations of the two confidentiality agreements between the parties. As a result of the court ruling, Martin Marietta withdrew its exchange offer and its board nominees.

In response to Martin Marietta’s actions, we have incurred legal, professional and other costs of $45,607,000 to date, of which $43,331,000 was incurred during the first nine months of 2012. As of September 30, 2013, $43,107,000 of the incurred costs was paid. We do not anticipate any future material charges related to this exchange offer.

EARNINGS PER SHARE (EPS)

We report two earnings per share numbers: basic and diluted. These are computed by dividing net earnings by the weighted-average common shares outstanding (basic EPS) or weighted-average common shares outstanding assuming dilution (diluted EPS), as set forth below:

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2013	2012	2013	2012
Weighted-average common shares outstanding	130,266	129,753	130,234	129,674
Dilutive effect of				
Stock options/SOSARs	405	120	449	0
Other stock compensation plans	649	342	685	0
Weighted-average common shares outstanding, assuming dilution	131,320	130,215	131,368	129,674

All dilutive common stock equivalents are reflected in our earnings per share calculations. Antidilutive common stock equivalents are not included in our earnings per share calculations. In periods of loss, shares that otherwise would have been included in our diluted weighted-average common shares outstanding computation are excluded. These excluded shares are as follows: nine months ended September 30, 2012 — 471,000.

The number of antidilutive common stock equivalents for which the exercise price exceeds the weighted-average market price is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2013	2012	2013	2012
Antidilutive common stock equivalents	2,899	5,046	2,899	5,046

Note 2: Discontinued Operations

In 2005, we sold substantially all the assets of our Chemicals business to Basic Chemicals, a subsidiary of Occidental Chemical Corporation. In addition to the initial cash proceeds, Basic Chemicals was required to make payments under two earn-out agreements subject to certain conditions. During 2007, we received the final payment under the ECU (electrochemical unit) earn-out, bringing cumulative cash receipts to its $150,000,000 cap.

Proceeds under the second earn-out agreement were based on the performance of the hydrochlorocarbon product HCC-240fa (commonly referred to as 5CP) from the closing of the transaction through December 31, 2012 (5CP earn-out). The primary determinant of the value for this earn-out is the level of growth in 5CP sales volume.

In March 2013, we received a payment of $13,031,000 under the 5CP earn-out related to performance during 2012, the final year of the earn-out agreement. During 2012, we received $11,336,000 in the first quarter and $33,000 in the third quarter under the 5CP earn-out related to the year ended December 31, 2011. Through September 30, 2013, we have received a total of $79,391,000 under the 5CP earn-out, a total of $46,290,000 in excess of the receivable recorded on the date of disposition.

We were liable for a cash transaction bonus payable annually (2009 - 2013) to certain former key Chemicals employees based on the prior year’s 5CP earn-out results. Payments for the transaction bonus were $1,303,000 during the first nine months of 2013 and $1,137,000 during the first nine months of 2012.

The financial results of the Chemicals business are classified as discontinued operations in the accompanying Condensed Consolidated Statements of Comprehensive Income for all periods presented. There were no net sales or revenues from discontinued operations for the periods presented. Results from discontinued operations are as follows:

	Three Months Ended	September 30	Nine Months Ended	September 30
in thousands	2013	2012	2013	2012
Discontinued Operations				
Pretax loss	$ (1,302)	$ (2,283)	$ (4,063)	$ (6,360)
Gain on disposal, net of transaction bonus	0	30	11,728	10,232
Income tax (provision) benefit	515	892	(3,025)	(1,534)
Earnings (loss) on discontinued operations, net of income taxes	$ (787)	$ (1,361)	$ 4,640	$ 2,338

The pretax losses from discontinued operations noted above were due primarily to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business.

Note 3: Income Taxes

Our estimated annual effective tax rate (EAETR) is based on full year expectations of pretax book earnings, statutory tax rates, permanent differences such as percentage depletion and tax planning alternatives available in the various jurisdictions in which we operate. For interim financial reporting, except in circumstances as described in the following paragraph, we calculate our quarterly income tax provision in accordance with the EAETR. Each quarter, we update our EAETR based on our revised full year expectation of pretax book earnings and calculate the income tax provision or benefit so that the year-to-date income tax provision reflects the EAETR. Significant judgment is required in determining our EAETR.

When expected pretax book earnings or loss for the full year is at or near breakeven, the EAETR can distort the income tax provision for an interim period due to the size and nature of our permanent differences. In these circumstances, we calculate the interim income tax provision or benefit using the year-to-date effective tax rate. This method results in an income tax provision or benefit based solely on the year-to-date pretax book earnings or loss as adjusted for permanent differences on a pro rata basis. In the third quarter of 2013, income taxes were calculated based on the year-to-date effective tax rate. In the third quarter of 2012, income taxes were calculated based on the EAETR.

We recorded an income tax provision from continuing operations of $10,793,000 in the third quarter of 2013 compared to an income tax benefit from continuing operations of $10,992,000 in the third quarter of 2012. After applying the statutory rate to the pretax earnings, the decrease in the income tax benefit (to a provision) mainly relates to the different methodologies used to calculate income taxes in the two periods.

We recorded income tax benefits from continuing operations of $21,874,000 for the nine months ended September 30, 2013, compared to income tax benefits of $67,138,000 for the nine months ended September 30, 2012. After applying the statutory rate to the pretax losses, the decrease in our income tax benefit mainly relates to the different methodologies used to calculate income taxes in the two periods.

We recognize an income tax benefit associated with an uncertain tax position when, in our judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, we initially and subsequently measure the income tax benefit as the largest amount that we judge to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. Our liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. Our income tax provision includes the net impact of changes in the liability for unrecognized benefits and subsequent adjustments as we consider appropriate.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets represent items to be used as a tax deduction or credit in future tax returns. Realization of the deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character in either the carryback or carryforward period.

Each quarter we analyze the likelihood that our deferred tax assets will be realized. A valuation allowance is recorded if, based on the weight of all available positive and negative evidence, it is more likely than not (a likelihood of more than 50%) that some portion, or all, of a deferred tax asset will not be realized. A summary of our deferred tax assets is included in Note 9 “Income Taxes” in our Annual Report on Form 10-K for the year ended December 31, 2012.

On an annual basis, we perform a complete analysis of all forms of positive and negative evidence based on year end results. During each interim period, we update our annual analysis for significant changes to the positive and negative evidence.

Based on our third quarter 2013 analysis, we believe it is more likely than not that we will realize the benefit of all our deferred tax assets with the exception of the state net operating loss carryforwards for which a valuation allowance was previously recorded. For 2013, we project these state net operating loss carryforwards (and the associated valuation allowance) to increase by $7,567,000. This change in the valuation allowance is reflected as a component of our income tax provision.

In the future, if we determine that realization is more likely than not for deferred tax assets with a valuation allowance, the related valuation allowance will be reduced and we will record a benefit to earnings. Conversely, if we determine that it is more likely than not that we will not be able to realize a portion of our deferred tax assets, we will increase the valuation allowance and record a charge to earnings.

Note 4: deferred revenue

In two separate transactions during the third quarter of 2013 and the fourth quarter of 2012, we sold a percentage of the future production from aggregates reserves at certain owned and leased quarries. These sales were structured as volumetric production payments (VPP) for which we received net cash proceeds of $153,095,000 and $73,644,000 for the 2013 and 2012 transactions, respectively. These proceeds were recorded as deferred revenue and are amortized on a unit-of-sales basis to revenue over the terms of the VPPs.

The impact to our net sales and gross margin related to the 2012 VPP (the 2013 VPP closed on September 30, 2013) is outlined as follows:

in thousands	Three Months Ended 2013	September 30 2012	Nine Months Ended 2013	September 30 2012
Revenue amortized from deferred revenue	$ 300	$ 0	$ 876	$ 0
Purchaser's proceeds from sale of production	(1,014)	0	(2,911)	0
Decrease to net sales and gross margin	$ (714)	$ 0	$ (2,035)	$ 0

Based on projected aggregates sales from the specified quarries, we anticipate recognizing a range of $4,000,000 to $5,000,000 of deferred revenue during the 12-month period ending September 30, 2014.

The common key terms of both VPP transactions are:

§ the purchaser has a nonoperating interest in reserves entitling them to a percentage of future production
§ there is no minimum annual or cumulative production or sales volume, nor any minimum sales price required
§ the purchaser has the right to take its percentage of future production in physical product, or receive the cash proceeds from the sale of its percentage of future production under the terms of a separate marketing agreement
§ the purchaser's percentage of future production is conveyed free and clear of future costs of production and sales
§ we retain full operational and marketing control of the specified quarries
§ we retain fee simple interest in the land as well as any residual values that may be realized upon the conclusion of mining

The key terms specific to the 2013 VPP transaction are:

§ terminates at the earlier to occur of September 30, 2051 or the sale of 250.8 million tons of aggregates from the specified quarries subject to the VPP; based on historical and projected volumes from the specified quarries, it is expected that 250.8 million tons will be sold prior to September 30, 2051
§ the purchaser's percentage of the maximum 250.8 million tons of future production is estimated, based on current sales volume projection, to be 11.5% (approximately 29 million tons); the actual percentage may vary

The key terms specific to the 2012 VPP transaction are:

§ terminates at the earlier to occur of December 31, 2052 or the sale of 143.2 million tons of aggregates from the specified quarries subject to the VPP; based on historical and projected volumes from the specified quarries, it is expected that 143.2 million tons will be sold prior to December 31, 2052
§ the purchaser's percentage of the maximum 143.2 million tons of future production is estimated, based on current sales volume projection, to be 10.5% (approximately 15 million tons); the actual percentage may vary

Note 5: Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as described below:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Inputs that are derived principally from or corroborated by observable market data

Level 3: Inputs that are unobservable and significant to the overall fair value measurement

Our assets subject to fair value measurement on a recurring basis are summarized below:

	Level 1		
in thousands	September 30 2013	December 31 2012	September 30 2012
Fair Value Recurring			
Rabbi Trust			
Mutual funds	$ 14,371	$ 13,349	$ 13,144
Equities	11,688	9,843	8,427
Total	$ 26,059	$ 23,192	$ 21,571

in thousands	Level 2 September 30 2013	December 31 2012	September 30 2012
Fair Value Recurring			
Rabbi Trust			
Common/collective trust funds	$ 1,365	$ 2,265	$ 2,229
Total	$ 1,365	$ 2,265	$ 2,229

We have established two Rabbi Trusts for the purpose of providing a level of security for the employee nonqualified retirement and deferred compensation plans and for the directors' nonqualified deferred compensation plans. The fair values of these investments are estimated using a market approach. The Level 1 investments include mutual funds and equity securities for which quoted prices in active markets are available. Level 2 investments are stated at estimated fair value based on the underlying investments in those funds (short-term, highly liquid assets in commercial paper, short-term bonds and certificates of deposit).

The carrying values of our cash equivalents, accounts and notes receivable, current maturities of long-term debt, short-term borrowings, trade payables and accruals, and other current liabilities approximate their fair values because of the short-term nature of these instruments. Additional disclosures for derivative instruments and interest-bearing debt are presented in Notes 6 and 7, respectively.

Assets that were subject to fair value measurement on a nonrecurring basis are summarized below:

in thousands	As of December 31, 2012 Level 3	Impairment Charges
Fair Value Nonrecurring		
Assets held for sale (Note 16)	$ 10,559	$ 1,738
Totals	$ 10,559	$ 1,738

The fair values of the assets classified as held for sale were estimated based on the negotiated transaction values. The impairment charges represent the difference between the carrying value and the fair value, less costs to sell, of the assets.

Note 6: Derivative Instruments

During the normal course of operations, we are exposed to market risks including fluctuations in interest rates, foreign currency exchange rates and commodity pricing. From time to time, and consistent with our risk management policies, we use derivative instruments to hedge against these market risks. We do not utilize derivative instruments for trading or other speculative purposes.

The accounting for gains and losses that result from changes in the fair value of derivative instruments depends on whether the derivatives have been designated and qualify as hedging instruments and the type of hedging relationship. The interest rate swap agreements described below were designated as either cash flow hedges or fair value hedges. The changes in fair value of our interest rate swap cash flow hedges are recorded in accumulated other comprehensive income (AOCI) and are reclassified into interest expense in the same period the hedged items affect earnings. The changes in fair value of our interest rate swap fair value hedges are recorded as interest expense consistent with the change in the fair value of the hedged items attributable to the risk being hedged.

CASH FLOW HEDGES

We have used interest rate swap agreements designated as cash flow hedges to minimize the variability in cash flows of liabilities or forecasted transactions caused by fluctuations in interest rates. During 2007, we entered into fifteen forward starting interest rate swap agreements for a total stated amount of $1,500,000,000. Upon the 2007 and 2008 issuances of the related fixed-rate debt, we terminated and settled these forward starting swaps for cash payments of $89,777,000. Amounts in AOCI are being amortized to interest expense over the term of the related debt. This amortization was reflected in the accompanying Condensed Consolidated Statements of Comprehensive Income as follows:

		Three Months Ended		Nine Months Ended	
	Location on	September 30		September 30	
in thousands	Statement	2013	2012	2013	2012
Cash Flow Hedges					

Loss reclassified from AOCI (effective portion)	Interest expense	$ (1,127)	$ (1,615)	$ (3,928)	$ (4,755)

For the 12-month period ending September 30, 2014, we estimate that $4,734,000 of the pretax loss in AOCI will be reclassified to earnings.

FAIR VALUE HEDGES

We have used interest rate swap agreements designated as fair value hedges to minimize exposure to changes in the fair value of fixed-rate debt that results from fluctuations in the benchmark interest rates for such debt. In June 2011, we issued $500,000,000 of 6.50% fixed-rate notes due in 2016. Concurrently, we entered into interest rate swap agreements in the stated amount of $500,000,000. Under these agreements, we paid 6-month LIBOR plus a spread of 4.05% and received a fixed interest rate of 6.50%. Additionally, in June 2011, we entered into interest rate swap agreements on our $150,000,000 of 10.125% fixed-rate notes due in 2015. Under these agreements, we paid 6-month LIBOR plus a spread of 8.03% and received a fixed interest rate of 10.125%. In August 2011, we terminated and settled these interest rate swap agreements for $25,382,000 of cash proceeds. The $23,387,000 forward component of the settlement (cash proceeds less $1,995,000 of accrued interest) was added to the carrying value of the related debt and is being amortized as a reduction to interest expense over the remaining lives of the related debt using the effective interest method. This amortization was reflected in the accompanying Condensed Consolidated Statements of Comprehensive Income as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2013	2012	2013	2012
Deferred Gain on Settlement				
Amortized to earnings as a reduction to interest expense	$ 1,093	$ 1,021	$ 3,223	$ 3,014

Note 7: Debt

Debt is summarized as follows:

in thousands	September 30 2013	December 31 2012	September 30 2012
Long-term Debt			
5.60% notes due 2012 [1]	$ 0	$ 0	$ 134,548
6.30% notes due 2013 [2]	0	140,413	140,398
10.125% notes due 2015 [3]	152,110	152,718	152,911
6.50% notes due 2016 [4]	512,505	515,060	515,887
6.40% notes due 2017 [5]	349,902	349,888	349,883
7.00% notes due 2018 [6]	399,761	399,731	399,721
10.375% notes due 2018 [7]	248,799	248,676	248,637
7.50% notes due 2021 [8]	600,000	600,000	600,000
7.15% notes due 2037 [9]	239,559	239,553	239,551
Medium-term notes	6,000	16,000	16,000
Industrial revenue bonds	14,000	14,000	14,000
Other notes	916	964	1,067
Total long-term debt including current maturities	$ 2,523,552	$ 2,677,003	$ 2,812,603
	163	150,602	285,153

Less current maturities			
Total long-term debt	$ 2,523,389	$ 2,526,401	$ 2,527,450
Estimated fair value of long-term debt	$ 2,795,661	$ 2,766,835	$ 2,796,358

1 Includes decreases for unamortized discounts, as follows: September 30, 2012 — $9 thousand.
2 Includes decreases for unamortized discounts, as follows: December 31, 2012 — $30 thousand and September 30, 2012 — $46 thousand.
3 Includes an increase for the unamortized portion of the deferred gain realized upon the August 2011 settlement of interest rate swaps, as follows: September 30, 2013 — $2,315 thousand, December 31, 2012 — $2,983 thousand and September 30, 2012 — $3,195 thousand. Additionally, includes decreases for unamortized discounts, as follows: September 30, 2013 — $206 thousand, December 31, 2012 — $265 thousand and September 30, 2012 — $284 thousand. The effective interest rate for these notes is 9.59%.
4 Includes an increase for the unamortized portion of the deferred gain realized upon the August 2011 settlement of interest rate swaps, as follows: September 30, 2013 — $12,505 thousand, December 31, 2012 — $15,060 thousand and September 30, 2012 — $15,887 thousand. The effective interest rate for these notes is 6.02%.
5 Includes decreases for unamortized discounts, as follows: September 30, 2013 — $98 thousand, December 31, 2012 — $112 thousand and September 30, 2012 — $117 thousand. The effective interest rate for these notes is 7.41%.
6 Includes decreases for unamortized discounts, as follows: September 30, 2013 — $239 thousand, December 31, 2012 — $269 thousand and September 30, 2012 — $279 thousand. The effective interest rate for these notes is 7.87%.
7 Includes decreases for unamortized discounts, as follows: September 30, 2013 — $1,201 thousand, December 31, 2012 — $1,324 thousand and September 30, 2012 — $1,363 thousand. The effective interest rate for these notes is 10.62%.
8 The effective interest rate for these notes is 7.75%.
9 Includes decreases for unamortized discounts, as follows: September 30, 2013 — $629 thousand, December 31, 2012 — $635 thousand and September 30, 2012 — $637 thousand. The effective interest rate for these notes is 8.05%.

Our long-term debt is presented in the table above net of unamortized discounts from par and unamortized deferred gains realized upon settlement of interest rate swaps. Discounts and deferred gains are being amortized using the effective interest method over the respective terms of the notes.

The estimated fair value of long-term debt presented in the table above was determined by averaging the asking price quotes for the notes. The fair value estimates were based on Level 2 information (as defined in Note 5) available to us as of the respective balance sheet dates. Although we are not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been revalued since those dates.

Scheduled debt payments during the first nine months of 2013 included $10,000,000 in January to retire the 8.70% medium-term note and $140,444,000 in June to retire the 6.30% notes. Scheduled debt payments during 2012

included $134,557,000 in November to retire the 5.60% notes.

In December 2011, we entered into a $600,000,000 bank line of credit expiring on December 15, 2016. In March 2013, we proactively amended this line of credit to reduce its capacity to $500,000,000 and extend its term to March 12, 2018. The line of credit is secured by certain domestic accounts receivable and inventory. Borrowing capacity fluctuates with the level of eligible accounts receivable and inventory and may be less than $500,000,000 at any point in time. As of September 30, 2013, our available borrowing capacity was $380,289,000 (net of the $55,032,000 backing for standby letters of credit).

Borrowings under the line of credit bear interest at a rate determined at the time of borrowing equal to the lower of LIBOR plus a margin ranging from 1.50% to 2.00% based on the level of utilization, or an alternative rate derived from the lender's prime rate. Borrowings on our line of credit are classified as short-term due to our intent to repay within twelve months. As of September 30, 2013, the applicable margin for LIBOR based borrowing was 1.75%.

Note 8: Commitments and Contingencies

LETTERS OF CREDIT

We provide, in the normal course of business, certain third party beneficiaries standby letters of credit to support our obligations to pay or perform according to the requirements of an underlying agreement. Such letters of credit typically have an initial term of one year, typically renew automatically, and can only be modified or cancelled with the approval of the beneficiary. All of our letters of credit are issued by banks that participate in our $500,000,000 line of credit, and reduce the borrowing capacity thereunder. We pay a fee for all letters of credit equal to the LIBOR margin (ranges from 1.50% to 2.00%) applicable to borrowings under the line of credit, plus 0.125%. Our standby letters of credit as of September 30, 2013 are summarized by purpose in the table below:

in thousands	
Standby Letters of Credit	
Risk management insurance	$ 34,478
Industrial revenue bond	14,230
Reclamation/restoration requirements	6,324
Total	$ 55,032

LITIGATION AND ENVIRONMENTAL MATTERS

We are a defendant in various lawsuits in the ordinary course of business. It is not possible to determine with precision the outcome, or the amount of liability, if any, under these lawsuits, especially where the cases involve possible jury trials with as yet undetermined jury panels.

In addition to these lawsuits in which we are involved in the ordinary course of business, certain other material legal proceedings are more specifically described below. At this time, we cannot determine the likelihood or reasonably estimate a range of loss pertaining to these matters.

Perchloroethylene cases

We are a defendant in cases involving perchloroethylene (perc), which was a product manufactured by our former Chemicals business. Perc is a cleaning solvent used in dry cleaning and other industrial applications. Vulcan is vigorously defending these cases:

§ Suffolk County Water Authority — On July 29, 2010, we were served in an action styled Suffolk County Water Authority v. The Dow Chemical Company, et al., in the Supreme Court for Suffolk County, State of New York. The complaint alleges that the plaintiff "owns and/or operates drinking water systems and supplies drinking water to thousands of residents and businesses, in Suffolk County, New York." The complaint alleges that perc and its breakdown products "have been and are contaminating and damaging Plaintiff's drinking water supply wells." The plaintiff is seeking compensatory and punitive damages. The trial court ruled that any detectable amount of perc in a well constitutes a legal injury. We are appealing this and other rulings of the trial court. Discovery is ongoing. At this time, plaintiffs have not established that our perc was used at any specific dry cleaner or that we are liable for any alleged contamination.

§ R.R. Street Indemnity — Street, a former distributor of perc manufactured by us, alleges that we owe Street, and its insurer (National Union), a defense and indemnity in several litigation matters in which Street was named as a defendant. National Union alleges that we are obligated to contribute to National Union's share of defense fees, costs and any indemnity payments made on Street's behalf. We have had discussions with Street about the nature and extent of indemnity obligations, if any, and to date there has been no resolution of these issues.

lower passaic river matter

§ NJDEP LITIGATION — In 2009, Vulcan and over 300 other parties were named as third-party defendants in New Jersey Department of Environmental Protection, et al. v. Occidental Chemical Corporation, et al., a case originally brought by the New Jersey Department of Environmental Protection (NJDEP) in the New Jersey Superior Court. Vulcan was brought into the suit due to alleged discharges to the lower Passaic River (River) from the former Chemicals Division - Newark Plant. Vulcan owned and operated this site as a chloralkali plant from 1961-1974. In 1974, we sold the plant, although we continued to operate the plant for one additional year. This suit by the NJDEP seeks recovery of past and future clean-up costs, as well as unspecified economic damages, punitive damages, penalties and a variety of other forms of relief. All defendants, with the exception of Occidental Chemical Corporation, have reached a tentative settlement agreement with the plaintiffs. Vulcan's settlement amount is immaterial and has been fully accrued. Final approval of the settlement is pending.

§ Lower Passaic River Study Area (Superfund Site) — Vulcan and approximately 70 other companies are parties to a May 2007 Administrative Order on Consent (AOC) with the U.S. Environmental Protection Agency (EPA) to perform a Remedial Investigation/Feasibility Study (RI/FS) of the lower 17 miles of the River. Separately, the EPA issued a draft Focused Feasibility Study (FFS) that evaluated early action remedial alternatives for a portion of the River. The EPA has given a range of estimated costs for these alternatives between $0.9 billion and $3.5 billion, although estimates of the cost and timing of future environmental remediation requirements are inherently imprecise and subject to revision. The EPA has not released the final FFS. As an interim step related to the 2007 AOC, Vulcan and 69 other companies voluntarily entered into an Administrative Settlement Agreement and Order on Consent on June 18, 2012 with the EPA for remediation actions focused at River Mile 10.9 of the River. Our estimated costs related to this focused remediation action, based on an interim allocation, are immaterial and have been accrued. On June 25, 2012, the EPA issued a Unilateral Administrative Order for Removal Response Activities to Occidental Chemical Corporation ordering Occidental to participate and cooperate in this remediation action at River Mile 10.9.

At this time, we cannot reasonably estimate our liability related to this matter because the RI/FS is ongoing; the ultimate remedial approach and associated cost has not been determined; and the parties that will participate in funding the remediation and their respective allocations are not yet known.

It is not possible to predict with certainty the ultimate outcome of these and other legal proceedings in which we are involved, and a number of factors, including developments in ongoing discovery or adverse rulings, or the verdict of a particular jury, could cause actual losses to differ materially from accrued costs. No liability was recorded for claims and litigation for which a loss was determined to be only reasonably possible or for which a loss could not be reasonably estimated. Legal costs incurred in defense of lawsuits are expensed as incurred. In addition, losses on certain claims and litigation described above may be subject to limitations on a per occurrence basis by excess insurance, as described in our most recent Annual Report on Form 10-K.

Note 9: Asset Retirement Obligations

Asset retirement obligations (AROs) are legal obligations associated with the retirement of long-lived assets resulting from the acquisition, construction, development and/or normal use of the underlying assets.

Recognition of a liability for an ARO is required in the period in which it is incurred at its estimated fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the estimated useful life of the asset. The liability is accreted through charges to operating expenses. If the ARO is settled for other than the carrying amount of the liability, we recognize a gain or loss on settlement.

We record all AROs for which we have legal obligations for land reclamation at estimated fair value. Essentially all these AROs relate to our underlying land parcels, including both owned properties and mineral leases. For the three and nine month periods ended September 30, we recognized ARO operating costs related to accretion of the liabilities and depreciation of the assets as follows:

	Three Months Ended		Nine Months Ended	
		September 30		September 30
in thousands	2013	2012	2013	2012
ARO Operating Costs				
Accretion	$ 2,908	$ 1,973	$ 7,731	$ 5,990
Depreciation	886	1,110	2,495	4,837
Total	$ 3,794	$ 3,083	$ 10,226	$ 10,827

ARO operating costs are reported in cost of goods sold. AROs are reported within other noncurrent liabilities in our accompanying Condensed Consolidated Balance Sheets.

Reconciliations of the carrying amounts of our AROs are as follows:

Three Months Ended		Nine Months Ended	
	September 30		September 30

in thousands	2013	2012	2013	2012
Asset Retirement Obligations				
Balance at beginning of period	$ 222,851	$ 150,413	$ 150,072	$ 153,979
Liabilities incurred	3,524	82	69,111	127
Liabilities settled	(2,328)	(822)	(8,839)	(2,241)
Accretion expense	2,908	1,973	7,731	5,990
Revisions up (down), net	6,606	(2,923)	15,486	(9,132)
Balance at end of period	$ 233,561	$ 148,723	$ 233,561	$ 148,723

The ARO liabilities incurred during 2013 relate primarily to reclamation activities required under a new development agreement and a new conditional use permit at an aggregates facility on owned property in Southern California. Upward revisions to our ARO liability during 2013 are largely attributable to an adjacent aggregates facility on owned property. The reclamation requirements at this property will result in the restoration and development of mined property into a 90 acre tract suitable for commercial and retail development. The estimated cost to fill and compact the property increased and the estimated settlement date decreased resulting in an upward revision to the ARO.

Downward revisions to our ARO liability during 2012 relate primarily to extensions in the estimated settlement dates at numerous sites.

Note 10: Benefit Plans

We sponsor three funded, noncontributory defined benefit pension plans. These plans cover substantially all employees hired prior to July 15, 2007, other than those covered by union-administered plans. Benefits for the Salaried Plan are generally based on salaries or wages and years of service; the Construction Materials Hourly Plan and the Chemicals Hourly Plan provide benefits equal to a flat dollar amount for each year of service. In addition to these qualified plans, we sponsor three unfunded, nonqualified pension plans. Effective July 15, 2007, we amended our defined benefit pension plans to no longer accept new participants. In May 2013, we announced that future accruals for salaried pension participants will cease effective December 31, 2013. This change included a special transition provision which will allow salaries or wages through December 31, 2015 to be considered in the participants' benefit calculations. The announcement resulted in a curtailment and remeasurement of the salaried and nonqualified pension plans as of May 31, 2013 that will reduce our 2013 pension expense by approximately $7,600,000 (net of the one-time curtailment loss noted below) of which $800,000 relates to discontinued operations. See Note 11 for the impact of this remeasurement to our pension plan funded status.

The following table sets forth the components of net periodic pension benefit cost:

PENSION BENEFITS	Three Months Ended	September 30	Nine Months Ended	September 30
in thousands	2013	2012	2013	2012
Components of Net Periodic Benefit Cost				
Service cost	$ 4,958	$ 5,587	$ 16,852	$ 16,762
Interest cost	10,179	10,798	30,816	32,395
Expected return on plan assets	(11,926)	(12,195)	(35,500)	(36,585)
Curtailment loss	0	0	855	0
Amortization of prior service cost	79	69	259	206
Amortization of actuarial loss	4,264	4,882	16,259	14,645
Net periodic pension benefit cost	$ 7,554	$ 9,141	$ 29,541	$ 27,423
Pretax reclassification from AOCI included in net periodic pension benefit cost	$ 4,343	$ 4,951	$ 17,373	$ 14,851

In addition to pension benefits, we provide certain healthcare and life insurance benefits for some retired employees. In the fourth quarter of 2012, we amended our postretirement healthcare plan to cap our portion of the medical coverage cost at the 2015 level. Effective July 15, 2007, we amended our salaried postretirement healthcare coverage to increase the eligibility age for early retirement coverage to age 62, unless certain grandfathering provisions were met. Substantially all our salaried employees and where applicable, hourly employees may become eligible for these benefits if they reach a qualifying age and meet certain service requirements. Generally, Company-provided healthcare benefits terminate when covered individuals become eligible for Medicare benefits, become eligible for other group insurance coverage or reach age 65, whichever occurs first.

The following table sets forth the components of net periodic postretirement benefit cost:

OTHER POSTRETIREMENT BENEFITS	Three Months Ended	September 30	Nine Months Ended	September 30
in thousands	2013	2012	2013	2012
Components of Net Periodic Benefit Cost				
Service cost	$ 708	$ 1,166	$ 2,123	$ 3,499
Interest cost	815	1,563	2,445	4,687
Amortization of prior service credit	(1,215)	(169)	(3,647)	(506)
Amortization of actuarial loss	343	287	1,029	862
Net periodic postretirement benefit cost	$ 651	$ 2,847	$ 1,950	$ 8,542
Pretax reclassification from AOCI included in net periodic postretirement benefit cost	$ (872)	$ 118	$ (2,618)	$ 356

The reclassifications from AOCI noted in the tables above are related to curtailment losses, amortization of prior service costs or credits and actuarial losses as shown in Note 11.

Prior contributions, along with the existing funding credits, are sufficient to cover required contributions to the qualified plans through 2013.

Note 11: other Comprehensive Income

Comprehensive income comprises two subsets: net earnings and other comprehensive income (OCI). The components of other comprehensive income are presented in the accompanying Condensed Consolidated Statements of Comprehensive Income, net of applicable taxes.

Amounts in accumulated other comprehensive income (AOCI), net of tax, are as follows:

in thousands	September 30 2013	December 31 2012	September 30 2012
AOCI			
Cash flow hedges	$ (25,802)	$ (28,170)	$ (29,118)
Pension and postretirement benefit plans	(128,074)	(197,347)	(175,605)
Total	$ (153,876)	$ (225,517)	$ (204,723)

Changes in AOCI, net of tax, for the nine months ended September 30, 2013 are as follows:

in thousands	Cash Flow Hedges	Pension and Postretirement Benefit Plans	Total
AOCI			
Balance as of December 31, 2012	$ (28,170)	$ (197,347)	$ (225,517)
Other comprehensive income (loss) before reclassifications [1]	0	60,299	60,299
	2,368	8,974	11,342

Amounts reclassified from AOCI			
Net current period OCI changes	2,368	69,273	71,641
Balance as of September 30, 2013	$ (25,802)	$ (128,074)	$ (153,876)

1 Remeasurement of the pension plan funded status resulting from the plan change as described in Note 10.

Amounts reclassified from AOCI to earnings, are as follows:

	Three Months Ended	September 30	Nine Months Ended	September 30
in thousands	2013	2012	2013	2012
Reclassification Adjustment for Cash Flow Hedges Losses				
Interest expense	$ 1,127	$ 1,615	$ 3,928	$ 4,755
Benefit from income taxes	(448)	(640)	(1,560)	(1,887)
Total	$ 679	$ 975	$ 2,368	$ 2,868
Amortization of Pension and Postretirement Plan Actuarial Loss and Prior Service Cost [1]				
Cost of goods sold	$ 2,827	$ 4,092	$ 11,837	$ 12,066
Selling, administrative and general expenses	644	977	2,918	3,141
Benefit from income taxes	(1,360)	(1,985)	(5,781)	(5,955)
Total	$ 2,111	$ 3,084	$ 8,974	$ 9,252
Total reclassifications from AOCI to	$ 2,790	$ 4,059	$ 11,342	$ 12,120

earnings

1 See Note 10 for a breakdown of the reclassifications among the curtailment loss and amortization of actuarial loss and prior service cost.

16

Note 12: Equity

Changes in total equity for the nine months ended September 30, 2013 are summarized below:

in thousands	Total Equity
Balance at December 31, 2012	$ 3,761,062
Net earnings	15,300
Common stock issued	
Share-based compensation plans	1,115
Share-based compensation expense	16,789
Excess tax benefits from share-based compensation	896
Cash dividends on common stock ($0.03 per share)	(3,890)
Other comprehensive income	71,641
Other	(2)
Balance at September 30, 2013	$ 3,862,911

There were no shares held in treasury as of September 30, 2013, December 31, 2012 and September 30, 2012. As of September 30, 2013, 3,411,416 shares may be repurchased under the current purchase authorization of our Board of Directors.

17

Note 13: Segment Reporting

We have four operating (and reportable) segments organized around our principal product lines: aggregates, concrete, asphalt mix and cement. The vast majority of our activities are domestic. We sell a relatively small amount of construction aggregates outside the United States. Intersegment sales are made at local market prices for the particular grade and quality of product utilized in the production of ready-mixed concrete and asphalt mix. Management reviews earnings from the product line reporting segments principally at the gross profit level.

segment financial disclosure

	Three Months Ended	September 30	Nine Months Ended	September 30
in millions	2013	2012	2013	2012
Total Revenues				
Aggregates[1]				
Segment revenues	$ 561.2			