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Vulcan Materials CO
Form 10-Q
November 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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 20-8579133
(State or other jurisdiction of (I.R.S. Employer Identification
incorporation) No.)

1200 Urban Center Drive, 35242
Birmingham, Alabama (zip code)
(Address of principal executive
offices)

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether 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	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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 October 30, 2015
Common Stock, \$1 Par Value	133,318,991

VULCAN MATERIALS COMPANY

FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2015

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Unless otherwise stated or the context otherwise requires, references in this report to “Vulcan,” the “Company,” “we,” “our,” or “us” refer to Vulcan Materials Company and its consolidated subsidiaries.

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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, except per share data	September 30 2015	December 31 2014	September 30 2014
Assets			
Cash and cash equivalents	\$ 168,681	\$ 141,273	\$ 91,868
Accounts and notes receivable			
Accounts and notes receivable, gross	558,755	378,947	485,176
Less: Allowance for doubtful accounts	(5,770)	(5,105)	(5,428)
Accounts and notes receivable, net	552,985	373,842	479,748
Inventories			
Finished products	275,717	275,172	254,931
Raw materials	21,680	19,741	22,987
Products in process	1,161	1,250	1,331
Operating supplies and other Inventories	28,148	25,641	27,335
	326,706	321,804	306,584
Current deferred income taxes	39,301	39,726	41,745
Prepaid expenses	56,017	28,640	34,673
Assets held for sale	0	15,184	0
Total current assets	1,143,690	920,469	954,618
Investments and long-term receivables	40,516	41,650	42,117
Property, plant & equipment			
Property, plant & equipment, cost	6,803,588	6,608,842	6,608,342
Reserve for depreciation, depletion & amortization	(3,683,961)	(3,537,212)	(3,539,772)
Property, plant & equipment, net	3,119,627	3,071,630	3,068,570
Goodwill	3,094,824	3,094,824	3,095,317
Other intangible assets, net	766,695	758,243	758,863
Other noncurrent assets	151,514	154,281	150,160
Total assets	\$ 8,316,866	\$ 8,041,097	\$ 8,069,645
Liabilities			
Current maturities of long-term debt	130	150,137	145

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Trade payables and accruals	195,536	145,148	167,837
Other current liabilities	216,411	156,073	196,830
Liabilities of assets held for sale	0	520	0
Total current liabilities	412,077	451,878	364,812
Long-term debt	1,979,493	1,834,642	1,984,075
Noncurrent deferred income taxes	692,643	691,137	733,613
Deferred revenue	209,651	213,968	216,205
Other noncurrent liabilities	659,725	672,773	569,841
Total liabilities	\$ 3,953,589	\$ 3,864,398	\$ 3,868,546
Other commitments and contingencies (Note 8)			
Equity			
Common stock, \$1 par value, Authorized 480,000 shares, Outstanding 133,315, 131,907 and 131,703 shares, respectively	133,315	131,907	131,703
Capital in excess of par value	2,812,593	2,734,661	2,719,169
Retained earnings	1,564,215	1,471,845	1,441,742
Accumulated other comprehensive loss	(146,846)	(161,714)	(91,515)
Total equity	\$ 4,363,277	\$ 4,176,699	\$ 4,201,099
Total liabilities and equity	\$ 8,316,866	\$ 8,041,097	\$ 8,069,645

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 in thousands, except per share data	Three Months Ended		Nine Months Ended	
	2015	September 30 2014	2015	September 30 2014
Total revenues	\$ 1,038,460	\$ 873,579	\$ 2,564,896	\$ 2,239,142
Cost of revenues	747,170	664,537	1,961,292	1,821,220
Gross profit	291,290	209,042	603,604	417,922
Selling, administrative and general expenses	71,390	66,074	207,350	199,808
Gain on sale of property, plant & equipment and businesses	799	1,002	7,423	238,527
Restructuring charges	(448)	(750)	(4,546)	(750)
Other operating expense, net	(8,045)	(2,889)	(22,391)	(17,645)
Operating earnings	212,206	140,331	376,740	438,246
Other nonoperating income (expense), net	(2,818)	(593)	(2,277)	4,030
Interest expense, net	37,800	40,891	183,931	201,531
Earnings from continuing operations before income taxes	171,588	98,847	190,532	240,745
Provision for income taxes	45,386	31,066	51,177	71,947
Earnings from continuing operations	126,202	67,781	139,355	168,798
Loss on discontinued operations, net of tax	(2,397)	(842)	(7,066)	(1,896)
Net earnings	\$ 123,805	\$ 66,939	\$ 132,289	\$ 166,902
Other comprehensive income, net of tax				
Reclassification adjustment for cash flow hedges	282	598	5,607	4,167
Adjustment for funded status of benefit plans	0	0	0	2,943
Amortization of actuarial loss and prior service cost for benefit plans	3,883	1,114	9,261	1,006
Other comprehensive income	4,165	1,712	14,868	8,116
Comprehensive income	\$ 127,970	\$ 68,651	\$ 147,157	\$ 175,018
Basic earnings (loss) per share				
Continuing operations	\$ 0.95	\$ 0.51	\$ 1.05	\$ 1.29
Discontinued operations	(0.02)	0.00	(0.06)	(0.02)
Net earnings	\$ 0.93	\$ 0.51	\$ 0.99	\$ 1.27
Diluted earnings (loss) per share				
Continuing operations	\$ 0.93	\$ 0.51	\$ 1.03	\$ 1.27
Discontinued operations	(0.02)	(0.01)	(0.05)	(0.01)
Net earnings	\$ 0.91	\$ 0.50	\$ 0.98	\$ 1.26
Weighted-average common shares outstanding				
Basic	133,474	131,797	133,082	131,256

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Assuming dilution	135,558	133,369	134,942	132,759
Cash dividends per share of common stock	\$ 0.10	\$ 0.06	\$ 0.30	\$ 0.16
Depreciation, depletion, accretion and amortization	\$ 69,662	\$ 71,157	\$ 204,770	\$ 208,858
Effective tax rate from continuing operations	26.5%	31.4%	26.9%	29.9%

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

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VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited in thousands	Nine Months Ended	
	2015	September 30 2014
Operating Activities		
Net earnings	\$ 132,289	\$ 166,902
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation, depletion, accretion and amortization	204,770	208,858
Net gain on sale of property, plant & equipment and businesses	(7,423)	(238,527)
Contributions to pension plans	(11,337)	(4,115)
Share-based compensation	14,020	18,425
Excess tax benefits from share-based compensation	(16,950)	(3,375)
Deferred tax provision (benefit)	(7,640)	13,158
Cost of debt purchase	67,075	72,949
Changes in assets and liabilities before initial effects of business acquisitions and dispositions	(79,000)	(89,888)
Other, net	(14,467)	5,339
Net cash provided by operating activities	\$ 281,337	\$ 149,726
Investing Activities		
Purchases of property, plant & equipment	(214,815)	(169,220)
Proceeds from sale of property, plant & equipment	4,464	21,320
Proceeds from sale of businesses, net of transaction costs	0	719,089
Payment for businesses acquired, net of acquired cash	(20,801)	(268,604)
Other, net	(301)	0
Net cash provided by (used for) investing activities	\$ (231,453)	\$ 302,585
Financing Activities		
Proceeds from line of credit	291,000	70,000
Payment of current maturities, long-term debt and line of credit	(751,056)	(649,711)
Proceeds from issuance of long-term debt	400,000	0
Debt and line of credit issuance costs	(7,382)	0
Proceeds from issuance of common stock	0	30,620
Dividends paid	(39,878)	(20,973)
Proceeds from exercise of stock options	67,888	12,513
Excess tax benefits from share-based compensation	16,950	3,375
Other, net	2	(5)
Net cash used for financing activities	\$ (22,476)	\$ (554,181)
Net increase (decrease) in cash and cash equivalents	27,408	(101,870)
Cash and cash equivalents at beginning of year	141,273	193,738
Cash and cash equivalents at end of period	\$ 168,681	\$ 91,868

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

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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) and a major producer of asphalt mix and ready-mixed concrete.

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, 2014 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, 2015 are not necessarily indicative of the results that may be expected for the year ended December 31, 2015. 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 2015 presentation. We early adopted Accounting Standards Update (ASU) No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” resulting in adjustments to our prior financial statements. See Note 17 for additional information.

RESTRUCTURING CHARGES

In 2014, we announced changes to our executive management team, and a new divisional organization structure that was effective January 1, 2015. During the three and nine months ended September 30, 2015, we incurred \$448,000 and \$4,546,000, respectively, of costs related to these initiatives. During the three and nine months ended September 30, 2014, we incurred \$750,000 of costs related to these initiatives. Future related charges for these initiatives are estimated to be immaterial.

EARNINGS PER SHARE (EPS)

Earnings per share 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:

in thousands	Three Months Ended		Nine Months Ended	
	September 30	September 30	September 30	September 30
	2015	2014	2015	2014
Weighted-average common shares outstanding	133,474	131,797	133,082	131,256
Dilutive effect of				
Stock options/SOSARs 1	919	661	1,024	671
Other stock compensation plans	1,165	911	836	832
Weighted-average common shares outstanding, assuming dilution	135,558	133,369	134,942	132,759

1 Stock-Only Stock Appreciation Rights (SOSARs)

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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. There were no excluded shares for the periods presented.

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
in thousands	2015	2014	2015	2014
Antidilutive common stock equivalents	545	2,355	555	2,355

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. 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 revenues from discontinued operations for the periods presented. Results from discontinued operations are as follows:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
in thousands	2015	2014	2015	2014
Discontinued Operations				
Pretax loss	\$ (3,974)	\$ (1,393)	\$ (11,627)	\$ (3,132)
Income tax benefit	1,577	551	4,561	1,236
Loss on discontinued operations, net of income taxes	\$ (2,397)	\$ (842)	\$ (7,066)	\$ (1,896)

The losses from discontinued operations noted above include charges related to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business. The current year's increased losses resulted primarily from charges associated with the Lower Passaic and Texas Brine matters as further discussed in Note 8.

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 between book and tax accounting such as percentage depletion, and tax planning alternatives available in the various jurisdictions in which we operate. For interim financial reporting, 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 so that the year-to-date income tax provision reflects the EAETR. Significant judgment is required in determining our EAETR.

In the third quarter of 2015, we recorded an income tax expense from continuing operations of \$45,386,000 compared to \$31,066,000 in the third quarter of 2014. The change in our income tax expense for the quarter resulted largely from applying the statutory rate to the increase in our pretax book earnings.

For the nine months ended September 30, 2015, we recorded an income tax expense from continuing operations of \$51,177,000 compared to \$71,947,000 for the nine months ended September 30, 2014. The change in our income tax expense for the nine month period resulted largely from applying the statutory rate to the decrease in our pretax book earnings.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts of assets and liabilities and the amounts used for income tax purposes. 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.

Based on our third quarter 2015 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 certain state net operating loss carryforwards. For 2015, we project deferred tax assets related to state net operating loss carryforwards of \$62,170,000, of which \$59,354,000 relates to Alabama. Through the second quarter of 2015, we maintained a full valuation allowance against the Alabama net operating loss carryforward.

As disclosed in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, we restructured our legal entities during the second quarter of 2015. We communicated then that this restructuring might allow for utilization of some or all of our Alabama net operating loss carryforward prior to its expiration.

At the end of the third quarter, our cumulative three-year Alabama adjusted income turned positive. This development, in conjunction with all other available positive and negative evidence, has led us to conclude that it is more likely than not that \$4,655,000 of the Alabama net operating loss carryforward is realizable. As such, a deferred tax benefit of \$4,655,000 was recorded in the third quarter to reflect such reduction in the valuation allowance. Each quarter, we will reassess all positive and negative evidence to determine the appropriate amount of the valuation allowance.

We recognize a tax benefit associated with a tax position when, in our judgment, it is more likely than not that the position will be sustained based upon the technical merits of the position. For a tax position that meets the more likely than not recognition threshold, we measure the income tax benefit as the largest amount that we judge to have a greater than 50% likelihood of being realized. A liability is established for the unrecognized portion of any tax benefit. Our liability for 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.

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, 2014.

Note 4: deferred revenue

We entered into two transactions (September 2013 and December 2012) through which we sold a percentage of the future production from aggregates reserves at eight quarries (seven owned and one leased). These sales were structured as volumetric production payments (VPPs). We received net cash proceeds of \$153,282,000 and \$73,644,000 for the 2013 and 2012 transactions, respectively. These proceeds were recorded as deferred revenue on the balance sheet and are amortized on a unit-of-sales basis to revenue over the terms of the VPPs. Concurrently, we entered into marketing agreements with the purchaser through which we are designated the exclusive sales agent for the purchaser's percentage of future production. Acting as the purchaser's agent, our consolidated total revenues exclude these sales.

The common key terms of both VPP transactions are:

- § the purchaser has a nonoperating interest in future production entitling them to a percentage of future production
- § there is no minimum annual or cumulative production or sales volume, nor any minimum sales price guarantee
- § 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 the aforementioned marketing agreement
 - § the purchaser's percentage of future production is conveyed free and clear of all future costs
- § 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; 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 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; 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 to be 10.5% (approximately 15 million tons); the actual percentage may vary

Reconciliation of the deferred revenue balances (current and noncurrent) is as follows:

in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Deferred Revenue				
Balance at beginning of period	\$ 217,429	\$ 222,589	\$ 219,968	\$ 224,743
Cash received and revenue deferred	0	0	0	187
Amortization of deferred revenue	(1,778)	(1,384)	(4,317)	(3,725)
Balance at end of period	\$ 215,651	\$ 221,205	\$ 215,651	\$ 221,205

Based on expected aggregates sales from the specified quarries, we anticipate recognizing an estimated \$6,000,000 of deferred revenue (reflected in other current liabilities in our 2015 Condensed Consolidated Balance Sheet) during the 12-month period ending September 30, 2016.

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 2015	December 31 2014	September 30 2014
Fair Value Recurring Rabbi Trust			
Mutual funds	\$ 12,081	\$ 15,532	\$ 14,986
Equities	8,778	11,248	12,838
Total	\$ 20,859	\$ 26,780	\$ 27,824

	Level 2		
in thousands	September 30 2015	December 31 2014	September 30 2014
Fair Value Recurring Rabbi Trust			
Common/collective trust funds	\$ 1,464	\$ 1,415	\$ 1,367
Total	\$ 1,464	\$ 1,415	\$ 1,367

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).

Net gains (losses) of the Rabbi Trust investments were \$(1,964,000) and \$2,571,000 for the nine months ended September 30, 2015 and 2014, respectively. The portions of the net gains (losses) related to investments still held by the Rabbi Trusts at September 30, 2015 and 2014 were \$(2,068,000) and \$369,000, respectively.

The carrying values of our cash equivalents, restricted cash, accounts and notes receivable, short-term debt, 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	Period ending September 30, 2015		Period ending September 30, 2014	
	Level 2	Impairment Charges	Level 2	Impairment Charges
Fair Value Nonrecurring				
Property, plant & equipment, net	\$ 0	\$ 2,176	\$ 2,280	\$ 2,987
Other intangible assets, net	0	2,858	0	0
Other assets	0	156	0	0
Total	\$ 0	\$ 5,190	\$ 2,280	\$ 2,987

We recorded \$5,190,000 and \$2,987,000 of losses on impairment of long-lived assets (reported within other operating expense, net in our accompanying Condensed Consolidated Statements of Comprehensive Income) for the nine months ended September 30, 2015 and 2014, respectively, reducing the carrying value of these assets to their estimated fair values of \$0 and \$2,280,000. Fair value was estimated using a market approach (observed transactions involving comparable assets in similar locations).

Note 6: Derivative Instruments

During the normal course of operations, we are exposed to market risks including interest rates, foreign currency exchange rates and commodity prices. From time to time, and consistent with our risk management policies, we use derivative instruments to balance the cost and risk of such expenses. 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

During 2007, we entered into fifteen forward starting interest rate locks on \$1,500,000,000 of future debt issuances in order to hedge the risk of higher interest rates. Upon the 2007 and 2008 issuances of the related fixed-rate debt, underlying interest rates were lower than the rate locks and we terminated and settled these forward starting locks for cash payments of \$89,777,000. This amount was booked to AOCI and is 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:

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in thousands	Location on Statement	Three Months Ended		Nine Months Ended	
		September 30 2015	September 30 2014	September 30 2015	September 30 2014
Cash Flow Hedges					
Loss reclassified from AOCI (effective portion)	Interest expense	\$ (467)	\$ (989)	\$ (9,282)	\$ (6,892)

The loss reclassified from AOCI for the nine months ended September 30, 2015 and 2014 includes the acceleration of a proportional amount of the deferred loss in the amount of \$7,208,000 and \$3,762,000, respectively, referable to the debt purchases as described in Note 7.

For the 12-month period ending September 30, 2016, we estimate that \$1,967,000 of the pretax loss in AOCI will be reclassified to earnings.

FAIR VALUE HEDGES

In June 2011, we issued \$500,000,000 of 6.50% fixed-rate notes due in 2016 to refinance near term floating-rate debt. Concurrently, we entered into interest rate swap agreements in the stated amount of \$500,000,000 to reestablish the pre-refinancing mix of fixed- and floating-rate debt. Under these agreements, we paid 6-month London Interbank Offered Rate (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 gain 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 terms of the related debt using the effective interest method.

This deferred gain amortization was reflected in the accompanying Condensed Consolidated Statements of Comprehensive Income as follows:

in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Deferred Gain on Settlement Amortized to earnings as a reduction to interest expense	\$ 282	\$ 493	\$ 2,795	\$ 10,171

The amortized deferred gain for the nine months ended September 30, 2015 and 2014 includes the acceleration of a proportional amount of the deferred gain in the amount of \$1,642,000 and \$8,032,000, respectively, referable to the debt purchases as described in Note 7. The deferred gain will be fully amortized in December 2015, concurrent with the retirement of the 10.125% notes due 2015.

Note 7: Debt

Debt is detailed as follows:

in thousands	Effective Interest Rates	September 30 2015	December 31 2014	September 30 2014
Short-term Debt				
Bank line of credit expires 2020				
1, 2	n/a	\$ 0	\$ 0	\$ 0
Total short-term debt		\$ 0	\$ 0	\$ 0
Long-term Debt				
Bank line of credit expires 2020				
1, 2, 3	1.75%	\$ 85,000	\$ 0	\$ 0
10.125% notes due 2015 4	9.58%	150,000	150,000	150,000
6.50% notes due 2016	n/a	0	125,001	125,001
6.40% notes due 2017	n/a	0	218,633	218,633
7.00% notes due 2018	7.87%	272,512	400,000	400,000
10.375% notes due 2018	10.63%	250,000	250,000	250,000
7.50% notes due 2021	7.75%	600,000	600,000	600,000
8.85% notes due 2021	8.88%	6,000	6,000	6,000
Industrial revenue bond due 2022	n/a	0	14,000	14,000

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4.50% notes due 2025	4.65%	400,000	0	0
7.15% notes due 2037	8.05%	240,188	240,188	240,188
Other notes 2	6.25%	503	637	753
Unamortized discounts and debt issuance costs	n/a	(24,821)	(22,716)	(23,893)
Unamortized deferred interest rate swap gain 5	n/a	241	3,036	3,538
Total long-term debt including current maturities 6		\$ 1,979,623	\$ 1,984,779	\$ 1,984,220
Less current maturities		130	150,137	145
Total long-term debt		\$ 1,979,493	\$ 1,834,642	\$ 1,984,075
Total debt 7		\$ 1,979,623	\$ 1,984,779	\$ 1,984,220
Estimated fair value of long-term debt		\$ 2,191,361	\$ 2,092,673	\$ 2,237,325

1 Borrowings on the bank line of credit are classified as short-term debt if we intend to repay within twelve months and as long-term debt otherwise.

2 Non-publicly traded debt.

3 The effective interest rate is the current credit spread over LIBOR.

4 The 10.125% notes due 2015 are classified as long-term debt (not current maturities) as of September 30, 2015 due to our intent and ability to refinance these notes at maturity (December 15, 2015) using our line of credit.

5 The unamortized deferred gain was realized upon the August 2011 settlement of interest rate swaps as discussed in Note 6.

6 The debt balances as of December 31, 2014 and September 30, 2014 have been adjusted to reflect our early adoption of ASU 2015-03 and related election as discussed in Note 17.

7 Face value of our debt is equal to total debt less unamortized discounts and debt issuance costs, and unamortized deferred interest rate swap gain, as follows: September 30, 2015 — \$2,004,203 thousand, December 31, 2014 — \$2,004,459 thousand and September 30, 2014 — \$2,004,575 thousand.

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Our total debt is presented in the table above net of unamortized discounts from par, unamortized deferred debt issuance costs and unamortized deferred interest rate swap settlement gain. Discounts, deferred debt issuance costs and deferred swap settlement gains are amortized using the effective interest method over the terms of the respective notes.

The estimated fair value of our debt presented in the table above was determined by: (1) averaging several asking price quotes for the publicly traded notes and (2) assuming par value for the remainder of the debt. The fair value estimates for the publicly traded notes were based on Level 2 information (as defined in Note 5) as of their respective balance sheet dates.

LINE OF CREDIT

In June 2015, we cancelled our secured \$500,000,000 line of credit and entered into an unsecured \$750,000,000 line of credit (incurring \$2,589,000 of transaction fees) that expires in June 2020.

The line of credit contains affirmative, negative and financial covenants customary for an unsecured facility. The primary negative covenant limits our ability to incur secured debt. The financial covenants are: (1) a maximum ratio of debt to EBITDA of 3.5:1 through September 2016 and 3.25:1 thereafter, and (2) a minimum ratio of EBITDA to net cash interest expense of 3.0:1. As of September 30, 2015, we were in compliance with the line of credit covenants.

Borrowings on our line of credit are classified as short-term debt if we intend to repay within twelve months and as long-term debt if we have the intent and ability to extend payment beyond twelve months. Borrowings bear interest, at our option, at either LIBOR plus a credit margin ranging from 1.00% to 2.00%, or SunTrust Bank's base rate (generally, its prime rate) plus a credit margin ranging from 0.00% to 1.00%. The credit margin for both LIBOR and base rate borrowings is determined by either our ratio of debt to EBITDA or our credit ratings, based on the metric that produces the lower credit spread. Standby letters of credit, which are issued under the line of credit and reduce availability, are charged a fee equal to the credit margin for LIBOR borrowings plus 0.175%. We also pay a commitment fee on the daily average unused amount of the line of credit that ranges from 0.10% to 0.35% based on either our ratio of debt to EBITDA or our credit ratings, based on the metric that produces the lower fee. As of September 30, 2015, the credit margin for LIBOR borrowings was 1.75%, the credit margin for base rate borrowings was 0.75%, and the commitment fee for the unused amount was 0.25%.

As of September 30, 2015, our available borrowing capacity was \$626,136,000. Utilization of the borrowing capacity was as follows:

§ \$85,000,000 was borrowed

§ \$38,864,000 was used to provide support for outstanding standby letters of credit

TERM DEBT

All of our term debt is unsecured. All such debt, other than the \$503,000 of other notes, is governed by two essentially identical indentures that contain customary investment-grade type covenants. The primary covenant in both indentures limits the amount of secured debt we may incur without ratably securing such debt. As of September 30, 2015, we were in compliance with all of the term debt covenants.

In August 2015, we repaid our \$14,000,000 industrial revenue bond due 2022 (such repayment did not incur any prepayment penalties) via borrowing on our line of credit.

In March 2015, we issued \$400,000,000 of 4.50% senior notes due 2025. Proceeds (net of underwriter fees and other transaction costs) of \$395,207,000 were partially used to fund the March 30, 2015 purchase, via tender offer, of \$127,303,000 principal amount (32%) of the 7.00% notes due 2018. The March 2015 debt purchase cost \$145,899,000, including an \$18,140,000 premium above the principal amount of the notes and transaction costs of \$456,000. The premium primarily reflects the trading price of the notes relative to par prior to the tender offer commencement. Additionally, we recognized \$3,138,000 of net noncash expense associated with the acceleration of a proportional amount of unamortized discounts, deferred debt issuance costs, and deferred interest rate derivative settlement gains and losses. The combined first quarter charge of \$21,734,000 is presented in the accompanying Condensed Consolidated Statement of Comprehensive Income as a component of interest expense for the nine month period ended September 30, 2015.

The remaining net proceeds from the March 2015 debt issuance, together with cash on hand and borrowings under our line of credit, funded: (1) the April 2015 redemption of \$218,633,000 principal amount (100%) of the 6.40% notes due 2017, (2) the April 2015 redemption of \$125,001,000 principal amount (100%) of the 6.50% notes due 2016 and (3) the April 2015 purchase, via the tender offer commenced in March 2015 of \$185,000 principal amount (less than 1%) of the 7.00% notes due 2018. The April 2015 debt purchases cost \$385,024,000, including a \$41,153,000 premium above the principal amount of the notes and transaction costs of \$52,000. The premium primarily reflects the make-whole value of the 2016 notes and the 2017 notes. Additionally, we recognized \$4,136,000 of net noncash expense associated with the acceleration of unamortized discounts, deferred debt issuance costs, and deferred interest rate derivative settlement gains and losses. The combined second quarter charge of \$45,341,000 is presented in the accompanying Condensed Consolidated Statement of Comprehensive Income as a component of interest expense for the nine month period ended September 30, 2015.

Consistent with our intent and ability to refinance the 10.125% notes due 2015 via borrowing on our line of credit, such notes are classified as long-term debt in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2015.

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In March 2014, we purchased \$506,366,000 principal amount of debt through a tender offer as follows: \$374,999,000 of 6.50% notes due in 2016 and \$131,367,000 of 6.40% notes due in 2017. This debt purchase was funded by the sale of our cement and concrete businesses in the Florida area as described in Note 16. The March 2014 debt purchases cost \$579,659,000, including a \$71,829,000 premium above the principal amount of the notes and transaction costs of \$1,464,000. The premium primarily reflects the trading price of the notes relative to par prior to the tender offer commencement. Additionally, we recognized a net noncash benefit of \$344,000 associated with the acceleration of a proportional amount of unamortized discounts, deferred debt issuance costs, and deferred interest rate derivative settlement gains and losses. The combined charge of \$72,949,000 is presented in the accompanying Condensed Consolidated Statement of Comprehensive Income as a component of interest expense for the nine month period ended September 30, 2014.

STANDBY 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 standby letters of credit are issued by banks that participate in our \$750,000,000 line of credit, and reduce the borrowing capacity thereunder. Our standby letters of credit as of September 30, 2015 are summarized by purpose in the table below:

in thousands

Standby Letters of Credit	
Risk management insurance	\$ 33,111
Reclamation/restoration requirements	5,753
Total	\$ 38,864

Note 8: Commitments and Contingencies

As summarized by purpose in Note 7, our standby letters of credit totaled \$38,864,000 as of September 30, 2015.

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.

§ Lower Passaic River Study Area (Superfund Site) — The Lower Passaic River Study Area is part of the Diamond Shamrock Superfund Site in New Jersey. Vulcan and approximately 70 other companies are parties (collectively the “Cooperating Parties Group”) to a May 2007 Administrative Order on Consent (AOC) with the U.S. Environmental Protection Agency (EPA) to perform a Remedial Investigation/Feasibility Study (draft RI/FS) of the lower 17 miles of the Passaic River (River). On April 11, 2014, the EPA issued a proposed Focused Feasibility Study (FFS) that calls for a bank-to-bank dredging remedy for the lower 8 miles of the River. The EPA estimates that the cost of implementing this proposal is approximately \$950 million to \$1.73 billion. The period for public comment on the proposed FFS is closed and it is anticipated that the EPA will issue its final record of decision sometime in 2015. The Cooperating Parties Group draft RI/FS estimates the preferred remedial action presented therein to cost in the range of approximately \$475 million to \$725 million (including \$93 million in operations and maintenance costs for a 30-year period).

The AOC does not obligate us to fund or perform the remedial action contemplated by either the draft RI/FS or the FFS. Vulcan formerly owned a chemicals operation near River Mile 0.1, which was sold in 1974. The Company has found no evidence that its former chemicals operation contributed any of the primary contaminants of concern to the River.

Neither the ultimate remedial approach, nor the parties who will participate in funding the remediation and their respective allocations, have been determined. However, we recorded an immaterial loss for this matter in the first quarter of 2015 based on the cost estimate of the preferred remedial action supported by the Cooperating Parties Group’s draft RI/FS.

§ TEXAS BRINE MATTER — During the operation of its former Chemicals Division, Vulcan was the lessee to a salt lease from 1976 – 2005 in an underground salt dome formation in Assumption Parish, Louisiana. The Texas Brine Company (Texas Brine) operated this salt mine for the account of Vulcan. Vulcan sold its Chemicals Division in 2005 and assigned the lease to the purchaser, and Vulcan has had no association with the leased premises or Texas Brine since that time. In August 2012, a sinkhole developed near the salt dome and numerous lawsuits were filed in state court in Assumption Parish, Louisiana. Other lawsuits, including class action litigation, were also filed in August 2012 in federal court in the Eastern District of Louisiana in New Orleans.

There are numerous defendants to the litigation in state and federal court. Vulcan was first brought into the litigation as a third-party defendant in August 2013 by Texas Brine. Vulcan has since been added as a direct and third-party defendant by other parties, including a direct claim by the state of Louisiana. The damages alleged in the litigation range from individual plaintiffs' claims for property damage, to the state of Louisiana's claim for response costs, to claims for physical damages to oil pipelines, to business interruption claims. In addition to the plaintiffs' claims, Vulcan has also been sued for contractual indemnity and comparative fault by both Texas Brine and Occidental Chemical Co. (Occidental). The total amount of damages claimed is in excess of \$500 million. It is alleged that the sinkhole was caused, in whole or in part, by Vulcan's negligent actions or failure to act. It is also alleged that Vulcan breached the salt lease, as well as an operating agreement and a drilling agreement with Texas Brine; and that Vulcan is strictly liable for certain property damages in its capacity as a former assignee of the salt lease; and that Vulcan violated certain covenants and conditions in the agreement under which it sold its Chemicals Division in 2005. Vulcan has made claims for contractual indemnity, comparative fault, and breach of contract against Texas Brine, as well as claims for contractual indemnity and comparative fault against Occidental. Discovery is ongoing and the first trial date in any of these cases has been set for April 2016. At this time, we cannot reasonably estimate a range of liability pertaining to this matter.

§ HEWITT LANDFILL MATTER — On September 8, 2015, the Los Angeles Regional Water Quality Control Board (RWQCB) issued a Cleanup and Abatement Order (CAO) directing Vulcan to assess, monitor, cleanup and abate wastes that have been discharged to soil, soil vapor, and/or groundwater at Vulcan's former Hewitt Landfill in Los Angeles. The CAO follows a 2014 Investigative Order from RWQCB that sought data and a technical evaluation regarding the Hewitt Landfill, and a subsequent amendment to the Investigative Order requiring Vulcan to provide groundwater monitoring results to RWQCB and to create and implement a work plan for further investigation of the Hewitt Landfill. Vulcan is engaged in performing site investigation work required by the CAO.

Vulcan is also engaged in an ongoing dialogue with the U.S. Environmental Protection Agency, the Los Angeles Department of Water and Power, and other stakeholders regarding the potential contribution of the Hewitt Landfill to groundwater contamination in the San Fernando Valley. We are gathering and analyzing data and developing technical information to determine the extent of possible contribution by the Hewitt Landfill to the groundwater contamination in the area. This work is also intended to assist in identification of other sources of contamination. At this time, we cannot reasonably estimate a range of liability pertaining to this matter.

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.

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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:

in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
ARO Operating Costs				
Accretion	\$ 2,766	\$ 2,892	\$ 8,553	\$ 8,745
Depreciation	1,681	1,080	4,683	3,060
Total	\$ 4,447	\$ 3,972	\$ 13,236	\$ 11,805

ARO operating costs are reported in cost of revenues. 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 September 30	Nine Months Ended September 30
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in thousands	2015	2014	2015	2014
Asset Retirement Obligations				
Balance at beginning of period	\$ 234,919	\$ 225,117	\$ 226,565	\$ 228,234
Liabilities incurred	0	3,604	6,159	3,604
Liabilities settled	(5,318)	(7,684)	(13,318)	(20,527)
Accretion expense	2,766	2,892	8,553	8,745
Revisions up, net	2,313	4,539	6,721	8,412
Balance at end of period	\$ 234,680	\$ 228,468	\$ 234,680	\$ 228,468

The net revisions relate to revised cost estimates and spending patterns for several quarries located primarily in California.

Note 10: Benefit Plans

We sponsor three funded, noncontributory defined benefit pension plans. These plans cover substantially all employees hired prior to July 2007, other than those covered by union-administered plans. Normal retirement age is 65, but the plans contain provisions for earlier retirement. Benefits for the Salaried Plan and the Chemicals Hourly Plan are generally based on salaries or wages and years of service; the Construction Materials Hourly Plan provides 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 2007, we amended our defined benefit pension plans to no longer accept new participants. In December 2013, we amended our defined benefit pension plans so that future service accruals for salaried pension participants ceased effective December 31, 2013. This change included a special transition provision which will allow covered compensation through December 31, 2015 to be considered in the participants' benefit calculations.

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

PENSION BENEFITS	Three Months Ended		Nine Months Ended	
	September 30		September 30	
in thousands	2015	2014	2015	2014
Components of Net Periodic Benefit Cost				
Service cost	\$ 1,213	\$ 1,039	\$ 3,638	\$ 3,118
Interest cost	11,004			