Vulcan Materials CO
Form 10-Q
August 04, 2017
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 June 30, 2017

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 (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 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 the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Smaller reporting company
Non-accelerated filer (Do not check if a smaller reporting company)		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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 July 31, 2017
Common Stock, $1 Par Value	132,274,995

VULCAN MATERIALS COMPANY

FORM 10-Q

QUARTER ENDED JUNE 30, 2017

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	25
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	45
	Item 4.	Controls and Procedures	45
PART II	OTHER INFORMATION		
	Item 1.	Legal Proceedings	46
	Item 1A.	Risk Factors	46
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	46
	Item 4.	Mine Safety Disclosures	46
	Item 6.	Exhibits	47

Signatures 48

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.

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	June 30 2017	December 31 2016	June 30 2016
Assets			
Cash and cash equivalents	$ 1,129,799	$ 258,986	$ 91,902
Restricted cash	0	9,033	0
Accounts and notes receivable			
Accounts and notes receivable, gross	573,029	494,634	537,127
Less: Allowance for doubtful accounts	(2,943)	(2,813)	(4,332)
Accounts and notes receivable, net	570,086	491,821	532,795
Inventories			
Finished products	318,465	293,619	295,405
Raw materials	27,106	22,648	25,366
Products in process	1,210	1,480	2,223
Operating supplies and other	28,148	27,869	24,872
Inventories	374,929	345,616	347,866
Prepaid expenses	109,998	31,726	50,844
Total current assets	2,184,812	1,137,182	1,023,407
Investments and long-term receivables	38,888	39,226	38,924
Property, plant & equipment			
Property, plant & equipment, cost	7,531,536	7,185,818	7,052,051
Allowances for depreciation, depletion & amortization	(3,992,728)	(3,924,380)	(3,834,680)
Property, plant & equipment, net	3,538,808	3,261,438	3,217,371
Goodwill	3,101,439	3,094,824	3,094,824
Other intangible assets, net	834,971	769,052	754,341
Other noncurrent assets	171,025	169,753	161,246
Total assets	$ 9,869,943	$ 8,471,475	$ 8,290,113
Liabilities			
Current maturities of long-term debt	525,776	138	131
Trade payables and accruals	202,753	145,042	176,476

Other current liabilities	197,264	227,064	156,071
Total current liabilities	925,793	372,244	332,678
Long-term debt	2,809,293	1,982,751	1,982,527
Deferred income taxes, net	706,726	702,854	683,999
Deferred revenue	195,020	198,388	203,800
Other noncurrent liabilities	631,007	642,762	607,778
Total liabilities	$ 5,267,839	$ 3,898,999	$ 3,810,782
Other commitments and contingencies (Note 8)			
Equity			
Common stock, $1 par value, Authorized 480,000 shares, Outstanding 132,181, 132,339 and 133,027 shares, respectively	132,181	132,339	133,027
Preferred stock, no par value, Authorized 5,000 shares, Outstanding none	0	0	0
Capital in excess of par value	2,797,269	2,807,995	2,804,279
Retained earnings	1,810,528	1,771,518	1,661,459
Accumulated other comprehensive loss	(137,874)	(139,376)	(119,434)
Total equity	$ 4,602,104	$ 4,572,476	$ 4,479,331
Total liabilities and equity	$ 9,869,943	$ 8,471,475	$ 8,290,113

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

	Three Months Ended		Six Months Ended	
Unaudited		June 30		June 30
in thousands, except per share data	2017	2016	2017	2016
Total revenues	$ 1,030,763	$ 956,825	$ 1,818,091	$ 1,711,552
Cost of revenues	738,988	664,641	1,366,337	1,254,649
Gross profit	291,775	292,184	451,754	456,903
Selling, administrative and general expenses	82,793	82,681	164,914	159,149
Gain on sale of property, plant & equipment and businesses	2,773	356	3,142	911
Business interruption claims recovery	0	10,962	0	10,962
Impairment of long-lived assets	0	(860)	0	(10,506)
Other operating expense, net	(17,768)	(6,175)	(23,595)	(20,414)
Operating earnings	193,987	213,786	266,387	278,707
Other nonoperating income (expense), net	1,869	29	3,893	(666)
Interest expense, net	38,455	33,333	72,531	67,065
Earnings from continuing operations before income taxes	157,401	180,482	197,749	210,976
Income tax expense	45,652	53,241	42,477	41,772
Earnings from continuing operations	111,749	127,241	155,272	169,204
Earnings (loss) on discontinued operations, net of tax	8,390	(2,532)	9,788	(4,338)
Net earnings	$ 120,139	$ 124,709	$ 165,060	$ 164,866
Other comprehensive income, net of tax				
Reclassification adjustment for cash flow hedges	328	301	647	595
Amortization of actuarial loss and prior service cost for benefit plans	427	20	855	40
Other comprehensive income	755	321	1,502	635
Comprehensive income	$ 120,894	$ 125,030	$ 166,562	$ 165,501
Basic earnings (loss) per share				
Continuing operations	$ 0.84	$ 0.95	$ 1.17	$ 1.27
Discontinued operations	0.07	(0.02)	0.08	(0.04)
Net earnings	$ 0.91	$ 0.93	$ 1.25	$ 1.23
Diluted earnings (loss) per share				
Continuing operations	$ 0.83	$ 0.93	$ 1.15	$ 1.24
Discontinued operations	0.06	(0.01)	0.07	(0.03)
Net earnings	$ 0.89	$ 0.92	$ 1.22	$ 1.21
Weighted-average common shares outstanding				

Basic	132,413	133,419	132,524	133,619
Assuming dilution	134,735	136,208	134,925	136,136
Cash dividends per share of common stock	$ 0.25	$ 0.20	$ 0.50	$ 0.40
Depreciation, depletion, accretion and amortization	$ 76,775	$ 71,908	$ 148,339	$ 141,314
Effective tax rate from continuing operations	29.0%	29.5%	21.5%	19.8%

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

	Six Months Ended	
Unaudited		June 30
in thousands	2017	2016
Operating Activities		
Net earnings	$ 165,060	$ 164,866
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation, depletion, accretion and amortization	148,339	141,314
Net gain on sale of property, plant & equipment and businesses	(3,142)	(911)
Contributions to pension plans	(4,744)	(4,737)
Share-based compensation expense	13,671	10,832
Deferred tax expense (benefit)	2,901	2,592
Changes in assets and liabilities before initial effects of business acquisitions and dispositions	(170,701)	(157,216)
Other, net	3,838	(1,738)
Net cash provided by operating activities	$ 155,222	$ 155,002
Investing Activities		
Purchases of property, plant & equipment	(291,034)	(199,764)
Proceeds from sale of property, plant & equipment	8,530	2,427
Payment for businesses acquired, net of acquired cash	(210,562)	(1,611)
Decrease in restricted cash	9,033	1,150
Other, net	405	1,862
Net cash used for investing activities	$ (483,628)	$ (195,936)
Financing Activities		
Proceeds from line of credit	5,000	3,000
Payment of line of credit	(5,000)	(3,000)
Payment of current maturities and long-term debt	(235,007)	(9)
Proceeds from issuance of long-term debt	1,600,000	0
Debt discounts and issuance costs	(15,046)	0
Purchases of common stock	(60,303)	(69,156)
Dividends paid	(66,194)	(53,338)
Share-based compensation, shares withheld for taxes	(24,231)	(28,721)
Net cash provided by (used for) financing activities	$ 1,199,219	$ (151,224)
Net increase (decrease) in cash and cash equivalents	870,813	(192,158)
Cash and cash equivalents at beginning of year	258,986	284,060
Cash and cash equivalents at end of period	$ 1,129,799	$ 91,902

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

4

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 supplier of construction aggregates (primarily crushed stone, sand and gravel) and a major producer of asphalt mix and ready-mixed concrete.

We operate primarily in the United States and our principal product — aggregates — is used in virtually all types of public and private construction projects and in the production of asphalt mix and ready-mixed concrete. We serve markets in twenty states, Washington D.C., and the local markets surrounding our operations in Mexico and the Bahamas. Our primary focus is serving metropolitan markets in the United States that are expected to experience the most significant growth in population, households and employment. These three demographic factors are significant drivers of demand for aggregates. While aggregates is our focus and primary business, we produce and sell asphalt mix and/or ready-mixed concrete in our mid-Atlantic, Georgia, Southwestern, Tennessee and Western markets.

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, 2016 was derived from the audited financial statement, but it does not include all disclosures required by accounting principles generally accepted in the United States of America. 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 six month periods ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. 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 described in Note 2, the results of the Chemicals business are presented as discontinued operations in the accompanying Condensed Consolidated Statements of Comprehensive Income.

SHARE-BASED COMPENSATION – ACCOUNTING STANDARDS UPDATE

We adopted Accounting Standards Update (ASU) 2016-09, “Improvement to Employee Share-Based Payment Accounting,” in the fourth quarter of 2016. The provisions of this standard were applied as of the beginning of the year of adoption resulting in revisions to our 2016 interim financial statements.

Under ASU 2016-09, tax benefits resulting from tax deductions in excess of the compensation cost recognized (excess tax benefits) are reflected as discrete income tax benefits in the period of exercise or issuance. Before the adoption of this standard, excess tax benefits were recorded directly to equity (APIC). Net excess tax benefits are reflected as a reduction to our income tax expense for the three and six months ended June 30, 2017 ($1,245,000 and $16,758,000, respectively) and revised three and six months ended June 30, 2016 ($959,000 and $22,192,000, respectively). As a result, we also revised our June 30, 2016 diluted share calculation to exclude the assumption that proceeds from excess tax benefits would be used to purchase shares, resulting in an increase in dilutive shares of 813,000 for the quarter and 766,000 year-to-date.

Under ASU 2016-09, gross excess tax benefits are classified as operating cash flows rather than financing cash flows. As a result, for the six months ended June 30, 2016 we increased our operating cash flows and decreased our financing cash flows by $23,749,000. Additionally, this ASU requires cash paid for shares withheld to satisfy statutory income tax withholding obligations be classified as financing activities rather than operating activities. As a result, for the six months ended June 30, 2016 we increased our operating cash flows and decreased our financing cash flows by $28,721,000.

RECLASSIFICATIONS

Certain items previously reported in specific financial statement captions have been reclassified to conform with the 2017 presentation.

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:

	Three Months Ended June 30		Six Months Ended June 30	
in thousands	2017	2016	2017	2016
Weighted-average common shares outstanding	132,413	133,419	132,524	133,619
Dilutive effect of				
Stock-Only Stock Appreciation Rights	1,317	1,383	1,330	1,292
Other stock compensation plans	1,005	1,406	1,071	1,225
Weighted-average common shares outstanding, assuming dilution	134,735	136,208	134,925	136,136

All dilutive common stock equivalents are reflected 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 would be excluded.

Antidilutive common stock equivalents are not included in our earnings per share calculations. The number of antidilutive common stock equivalents for which the exercise price exceeds the weighted-average market price is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
in thousands	2017	2016	2017	2016
Antidilutive common stock equivalents	79	97	79	327

6

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 June 30		Six Months Ended June 30	
in thousands	2017	2016	2017	2016
Discontinued Operations				
Pretax earnings (loss)	$ 12,804	$ (4,197)	$ 14,896	$ (7,177)
Income tax (expense) benefit	(4,414)	1,665	(5,108)	2,839
Earnings (loss) on discontinued operations, net of tax	$ 8,390	$ (2,532)	$ 9,788	$ (4,338)

Our discontinued operations include charges related to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business. The 2017 results noted above primarily reflect charges and related insurance recoveries, including those associated with the Texas Brine matter, 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 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 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 second quarter of 2017, we recorded income tax expense from continuing operations of $45,652,000 compared to income tax expense from continuing operations of $53,241,000 in the second quarter of 2016. The decrease in our income tax expense resulted largely from applying the statutory rate to the decrease in our pretax earnings.

For the first six months of 2017, we recorded income tax expense from continuing operations of $42,477,000 compared to $41,772,000 for the first six months of 2016. The increase in our income tax expense resulted from lower excess tax benefits from share-based compensation in the first six months of 2017, largely offset by applying the statutory rate to the decrease in our pretax earnings.

We recognize deferred tax assets and liabilities (which reflect our best assessment of the future taxes we will pay) based on the differences between the book basis and tax basis of assets and liabilities. Deferred tax assets represent items to be used as a tax deduction or credit in future tax returns while deferred tax liabilities represent items that will result in additional tax in future tax returns.

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 second quarter 2017 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 December 31, 2017, we project deferred tax assets related to state net operating loss carryforwards of $53,394,000, of which $52,256,000 relates to Alabama. The Alabama net operating loss carryforward, if not utilized, would expire in years 2023 – 2029. Before 2015, this Alabama deferred tax asset carried a full valuation allowance. During 2015, we restructured our legal entities which resulted in a partial release of the valuation allowance in the amount of $4,655,000. During the fourth quarter of 2016, we achieved three consecutive years of positive Alabama adjusted earnings which resulted in an additional partial release of the valuation allowance in the amount of $4,791,000. We expect one additional partial release of this valuation allowance once we have returned to sustained profitability, which we project could occur in the fourth quarter of 2017 (“Alabama adjusted earnings” and “sustained profitability” are defined in our most recent Annual Report on Form 10-K).

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, 2016.

Note 4: deferred revenue

In 2013 and 2012, we sold a percentage interest in future production structured as volumetric production payments (VPPs).

The VPPs:

§ relate to eight quarries in Georgia and South Carolina
§ provide the purchaser solely with a nonoperating percentage interest in the subject quarries’ future production from aggregates reserves
§ are both time and volume limited
§ contain no minimum annual or cumulative guarantees for production or sales volume, nor minimum sales price

Our consolidated total revenues exclude the sales of aggregates owned by the VPP purchaser.

We received net cash proceeds from the sale of the VPPs 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 to revenue on a unit-of-sales basis over the terms of the VPPs (expected to be approximately 25 years, limited by volume rather than time).

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

	Three Months Ended June 30		Six Months Ended June 30	
in thousands	2017	2016	2017	2016
Deferred Revenue				
Balance at beginning of period	$ 204,819	$ 212,292	$ 206,468	$ 214,060
Amortization of deferred revenue	(1,719)	(2,092)	(3,368)	(3,860)
Balance at end of period	$ 203,100	$ 210,200	$ 203,100	$ 210,200

Based on expected sales from the specified quarries, we expect to recognize approximately $8,080,000 of deferred revenue as income during the 12-month period ending June 30, 2018 (reflected in other current liabilities in our 2017 Condensed Consolidated Balance Sheet).

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 Fair Value		
in thousands	June 30 2017	December 31 2016	June 30 2016
Fair Value Recurring			
Rabbi Trust			
Mutual funds	$ 5,348	$ 6,883	$ 6,389
Equities	11,785	10,033	7,702
Total	$ 17,133	$ 16,916	$ 14,091

	Level 2 Fair Value		
in thousands	June 30 2017	December 31 2016	June 30 2016
Fair Value Recurring			
Rabbi Trust			
Money market mutual fund	$ 2,338	$ 1,705	$ 2,134
Total	$ 2,338	$ 1,705	$ 2,134

We have 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 the fund (short-term, highly liquid assets in commercial paper, short-term bonds and certificates of deposit).

Net gains of the Rabbi Trust investments were $848,000 and $535,000 for the six months ended June 30, 2017 and 2016, respectively. The portions of the net gains (losses) related to investments still held by the Rabbi Trusts at June 30, 2017 and 2016 were $413,000 and $(571,000), 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 subject to fair value measurement on a nonrecurring basis are summarized below:

	Period ended June 30, 2017		Period ended June 30, 2016	
in thousands	Level 2	Impairment Charges	Level 2	Impairment Charges
Fair Value Nonrecurring				
Property, plant & equipment, net	$ 0	$ 0	$ 0	$ 1,359
Other intangible assets, net	0	0	0	8,180
Other assets	0	0	0	967
Total	$ 0	$ 0	$ 0	$ 10,506

We recorded $10,506,000 of losses on impairment of long-lived assets for the six months ended June 30, 2016, reducing the carrying value of these Aggregates segment assets to their estimated fair value of $0. 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 use 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 lock agreements described below were designated as cash flow hedges. The changes in fair value of our 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.

CASH FLOW HEDGES

During 2007, we entered into fifteen forward starting interest rate locks on $1,500,000,000 of future debt issuances 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:

		Three Months Ended June 30		Six Months Ended June 30	
in thousands	Location on Statement	2017	2016	2017	2016
Cash Flow Hedges					
Loss reclassified from AOCI (effective portion)	Interest expense	$ (539)	$ (497)	$ (1,067)	$ (983)

For the 12-month period ending June 30, 2018, we estimate that $2,198,000 of the pretax loss in AOCI will be reclassified to earnings.

Note 7: Debt

Debt is detailed as follows:

in thousands	Effective Interest Rates	June 30 2017		December 31 2016		June 30 2016	
Short-term Debt							
Bank line of credit expires 2021 1, 2, 3	n/a	$	0	$	0	$	0
Total short-term debt		$	0	$	0	$	0
Long-term Debt							
Bank line of credit expires 2021 1, 2, 3	n/a	$	0	$	235,000	$	235,000
7.00% notes due 2018	7.87%	272,512		272,512		272,512	
10.375% notes due 2018	10.63%	250,000		250,000		250,000	
Floating-rate notes due 2020	2.05%	250,000		0		0	
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	
Term loan due 2021 2, 3	2.41%	250,000		0		0	
4.50% notes due 2025	4.65%	400,000		400,000		400,000	
3.90% notes due 2027	4.00%	400,000		0		0	
	8.05%	240,188		240,188		240,188	

7.15% notes due 2037				
4.50% notes due 2047	4.59%	700,000	0	0
Other notes 3	6.31%	358	365	489
Total long-term debt - face value		$ 3,369,058	$ 2,004,065	$ 2,004,189
Unamortized discounts and debt issuance costs		(33,989)	(21,176)	(21,531)
Total long-term debt - book value		$ 3,335,069	$ 1,982,889	$ 1,982,658
Less current maturities 4		525,776	138	131
Total long-term debt - reported value		$ 2,809,293	$ 1,982,751	$ 1,982,527
Estimated fair value of long-term debt		$ 3,077,069	$ 2,243,213	$ 2,272,149

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 The effective interest rate is the spread over LIBOR as of the most recent balance sheet date.
3 Non-publicly traded debt.
4 Current maturities as of June 30, 2017 includes $522.5 million of notes due in 2018 which were early retired in July 2017 as discussed below within the Term Debt caption.

Our total long-term debt - book value is presented in the table above net of unamortized discounts/premiums from par and unamortized deferred debt issuance costs. Discounts and debt issuance costs are amortized using the effective interest method over the terms of the respective notes resulting in $2,233,000 of net interest expense for these items for the six months ended June 30, 2017.

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 December 2016, among other favorable changes, we extended the maturity date of our unsecured $750,000,000 line of credit from June 2020 to December 2021. The credit agreement contains affirmative, negative and financial covenants customary for an unsecured investment-grade 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 (upon certain acquisitions, the maximum ratio can be 3.75:1 for three quarters), and (2) a minimum ratio of EBITDA to net cash interest expense of 3.0:1. As of June 30, 2017, 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 repayment beyond twelve months. Borrowings bear interest, at our option, at either LIBOR plus a credit margin ranging from 1.00% to 1.75%, or SunTrust Bank's base rate (generally, its prime rate) plus a credit margin ranging from 0.00% to 0.75%. The credit margin for both LIBOR and base rate borrowings is determined by our credit ratings. 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 0.25% determined by our credit ratings. As of June 30, 2017, the credit margin for LIBOR borrowings was 1.25%, the credit margin for base rate borrowings was 0.25%, and the commitment fee for the unused amount was 0.15%.

As of June 30, 2017, our available borrowing capacity was $706,462,000. Utilization of the borrowing capacity was as follows:

§ none was borrowed
§ $43,538,000 was used to provide support for outstanding standby letters of credit

TERM DEBT

All of our term debt is unsecured. $3,118,700,000 of such debt 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 June 30, 2017, we were in compliance with all of the term debt covenants.

In June 2017, we issued $1,000,000,000 of debt composed of three issuances as follows: (1) $700,000,000 of 4.50% senior notes due June 2047, (2) $50,000,000 of 3.90% senior notes due April 2027 (these notes are a further issuance of, and form a single series with, the 3.90% notes issued in March 2017), and (3) $250,000,000 of floating-rate senior notes due June 2020. These issuances resulted in proceeds of $989,512,000 (net of original issue discounts/premiums, underwriter fees and other transaction costs). The proceeds will be used to partially finance the pending acquisition of Aggregates USA, LLC as described in Note 16 and to early retire the notes due in 2018 ($272,512,000 @ 7.00% and $250,000,000 @ 10.375%). This early retirement was completed in July at a cost of $565,559,000 including a $43,020,000 premium above the principal amount of the notes and transaction costs of $27,000. As a result, in the third quarter we will recognize $3,029,000 of net noncash expense associated with the acceleration of unamortized discounts, deferred debt issuance costs and deferred interest rate derivative settlement losses.

In June 2017, we drew the full $250,000,000 on the unsecured delayed draw term loan entered into in December 2016. These funds were used to repay the $235,000,000 borrowed on our line of credit and for general corporate purposes. Borrowings bear interest in the same manner as the line of credit. The term loan principal will be repaid quarterly beginning March 2018 as follows: quarters 5 - 8 @ $1,562,500/quarter; 9 - 12 @ $3,125,000/quarter; 13 - 19 @

$4,687,500/quarter and $198,437,500 for quarter 20 (December 2022). The term loan may be prepaid at any time without penalty. The term loan is provided by the same group of banks that provides our line of credit, and is governed by the same credit agreement as the line of credit. As such, it is subject to the same affirmative, negative, and financial covenants.

In March 2017, we issued $350,000,000 of 3.90% senior notes due April 2027 for proceeds of $345,450,000 (net of original issue discounts, underwriter fees and other transaction costs). The proceeds were used for general corporate purposes. This series of notes now totals $400,000,000 due to the additional $50,000,000 of notes issued in June.

STANDBY LETTERS OF CREDIT

We provide, in the normal course of business, certain third-party beneficiaries with 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 June 30, 2017 are summarized by purpose in the table below:

in thousands	
Standby Letters of Credit	
Risk management insurance	$ 38,111
Reclamation/restoration requirements	5,427
Total	$ 43,538

Note 8: Commitments and Contingencies

As summarized by purpose directly above in Note 7, our standby letters of credit totaled $43,538,000 as of June 30, 2017.

As described in Note 9, our asset retirement obligations totaled $223,953,000 as of June 30, 2017.

LITIGATION AND ENVIRONMENTAL MATTERS

We are subject to occasional governmental proceedings and orders pertaining to occupational safety and health or to protection of the environment, such as proceedings or orders relating to noise abatement, air emissions or water discharges. As part of our continuing program of stewardship in safety, health and environmental matters, we have been able to resolve such proceedings and to comply with such orders without any material adverse effects on our business.

We have received notices from the United States Environmental Protection Agency (EPA) or similar state or local agencies that we are considered a potentially responsible party (PRP) at a limited number of sites under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or Superfund) or similar state and local environmental laws. Generally, we share the cost of remediation at these sites with other PRPs or alleged PRPs in accordance with negotiated or prescribed allocations. There is inherent uncertainty in determining the potential cost of remediating a given site and in determining any individual party's share in that cost. As a result, estimates can change substantially as additional information becomes available regarding the nature or extent of site contamination, remediation methods, other PRPs and their probable level of involvement, and actions by or against governmental agencies or private parties.

We have reviewed the nature and extent of our involvement at each Superfund site, as well as potential obligations arising under other federal, state and local environmental laws. While ultimate resolution and financial liability is uncertain at a number of the sites, in our opinion based on information currently available, the ultimate resolution of claims and assessments related to these sites will not have a material effect on our consolidated results of operations, financial position or cash flows, although amounts recorded in a given period could be material to our results of operations or cash flows for that period.

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, 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 EPA to perform a Remedial Investigation/Feasibility Study (draft RI/FS) of the lower 17 miles of the Passaic River (River). However, before the draft RI/FS was issued in final form, the EPA issued a record of decision (ROD) in March 2016 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 $1.38 billion. In September 2016, the EPA entered into an Administrative Settlement Agreement and Order on Consent with Occidental Chemical Corporation (Occidental) in which Occidental agreed to undertake the remedial design for this bank-to-bank dredging remedy, and to reimburse the United States for certain response costs.

Efforts to remediate the River have been underway for many years and have involved hundreds of entities that have had operations on or near the River at some point during the past several decades. We formerly owned a chemicals operation near the mouth of the River, which was sold in 1974. The major risk drivers in the River have been identified as dioxins, PCBs, DDx and mercury. We did not manufacture any of these risk drivers and have no evidence that any of these were discharged into the River by Vulcan.

The AOC does not obligate us to fund or perform the remedial action contemplated by either the draft RI/FS or the ROD. Furthermore, the parties who will participate in funding the remediation and their respective allocations, have not been determined. We do not agree that a bank-to-bank remedy is warranted, and we are not obligated to fund any of the remedial action at this time; nevertheless, we previously estimated the cost to be incurred by us as a potential participant in a bank-to-bank dredging remedy and recorded an immaterial loss for this matter in 2015.

§ 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 our account. We sold our Chemicals Division in 2005 and assigned the lease to the purchaser, a subsidiary of Occidental, and we have had no association with the leased premises or Texas Brine since that time. In August 2012, a sinkhole developed in the vicinity of the Texas Brine mining operations, and numerous lawsuits were filed in state court in Assumption Parish, Louisiana. Other lawsuits, including class action litigation, were also filed in federal court before the Eastern District of Louisiana in New Orleans.

There are numerous defendants, including Texas Brine and Occidental, 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. We have since been added as a direct and third-party defendant by other parties, including a direct claim by the state of Louisiana. Damage categories encompassed within the litigation include individual plaintiffs' claims for property damage, a claim by the state of Louisiana and Texas Brine for response costs, claims for physical damages to nearby oil and gas pipelines and storage facilities (pipelines), and business interruption claims. In addition to the plaintiffs' claims, we have also been sued for contractual indemnity and comparative fault by both Texas Brine and Occidental. It is alleged that the sinkhole was caused, in whole or in part, by our negligent actions or failure to act. It is also alleged that we

breached the salt lease, as well as an operating agreement and related contracts with Texas Brine; that we are strictly liable for certain property damages in our capacity as a former assignee of the salt lease; and that we violated certain covenants and conditions in the agreement under which we sold our Chemicals Division. We have made claims for contractual indemnity and comparative fault against Texas Brine and Occidental. Discovery is ongoing.

In December 2016, we settled with the plaintiffs in one of these cases involving individual property damages. In the first quarter of 2017, we offered to settle with the plaintiffs in the cases involving physical damages to pipelines and settled with one such plaintiff group. In the second quarter of 2017, we settled with another pipeline plaintiff group. The insurers who have coverage of these settlement amounts agreed that the cases were covered by our policy and have funded the settled cases in excess of our self-insured retention amount. We are scheduled to go to trial in September 2017 against the remaining pipeline plaintiff group, which will include certain cross-party and third-party claims against Vulcan. This will be a bench trial to determine percentages of fault or liability among the defendants, with a damages trial to be held at a later date.

Except for the settled or offered to settle cases, at this time we cannot reasonably estimate a range of liability pertaining to this matter.

§ HEWITT LANDFILL MATTER (SUPERFUND SITE) — In September 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 the former Hewitt Landfill in Los Angeles. The CAO followed a 2014 Investigative Order from the 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 the RWQCB and to create and implement a work plan for further investigation of the Hewitt Landfill. In April 2016, we submitted an interim remedial action plan (IRAP) to the RWQCB, proposing a pilot test of a pump and treat system; testing and implementation of a leachate recovery system; and storm water capture and conveyance improvements. Operation of the pilot-scale treatment system began in January 2017, was completed in April, and a summary evaluation report to the RWQCB is expected this August. With completion of the pilot testing and other investigative work performed in order to complete the summary evaluation report, we accrued $14,216,000 in the second quarter of 2017 (reflected in other operating expense) for the on-site portion of the IRAP. This accrual includes implementation of an on-site groundwater remediation and monitoring system, installation of additional leachate extraction and disposal capacity, and storm water management improvements at the site.

We are also engaged in an ongoing dialogue with the EPA, the Los Angeles Department of Water and Power, and other stakeholders regarding the potential contribution of the Hewitt Landfill to groundwater contamination in the North Hollywood Operable Unit (NHOU) of the San Fernando Valley Superfund Site. 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 PRPs that may have contributed to groundwater contamination in the area.

In July 2016, the EPA sent us a letter requesting that we enter into an AOC for remedial design work at the NHOU including, but not limited to, the design of two or more groundwater extraction wells to be located between the Hewitt Landfill and certain public drinking water wells. We have reached an agreement in principle with the EPA regarding an AOC and Statement of Work for the design of two extraction wells between the Hewitt Landfill site and the North Hollywood West well field. The AOC provides for Vulcan to undertake a preliminary evaluation of the appropriateness of the two-well remedy. We expect to finalize and execute the AOC in the third quarter of 2017. Until the remedial design work and evaluation of the two-well remedy is complete, we cannot identify an appropriate remedial action or reasonably estimate a loss 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.

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 six month periods ended June 30, we recognized ARO operating costs related to accretion of the liabilities and depreciation of the assets as follows:

	Three Months Ended June 30		Six Months Ended June 30	
in thousands	2017	2016	2017	2016
ARO Operating Costs				
Accretion	$ 2,881	$ 2,716	$ 5,763	$ 5,472
Depreciation	1,615	1,621	3,247	3,314
Total	$ 4,496	$ 4,337	$ 9,010	$ 8,786

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	Six Months

			Ended
	June 30		June 30
in thousands	2017	2016	