

VALMONT INDUSTRIES INC  
Form 10-K  
February 25, 2014

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)  
[TABLE OF CONTENTS 2](#)  
[PART IV](#)

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**Form 10-K**

(Mark One)

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

For the fiscal year ended December 28, 2013

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 1-31429

---

**Valmont Industries, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**47-0351813**  
(I.R.S. Employer  
Identification No.)

**One Valmont Plaza,  
Omaha, Nebraska**  
(Address of Principal Executive Offices)

**68154-5215**  
(Zip Code)

**(402) 963-1000**

(Registrant's telephone number, including area code)

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

# Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

**Title of each class**  
Common Stock \$1.00 par value

**Name of exchange on which registered**  
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

Smaller reporting company

(Do not check if a  
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

At February 19, 2014 there were 26,829,691 of the Company's common shares outstanding. The aggregate market value of the voting stock held by non-affiliates of the Company based on the closing sale price the common shares as reported on the New York Stock Exchange on June 29, 2013 was \$3,830,994,339.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's proxy statement for its annual meeting of shareholders to be held on April 29, 2014 (the "Proxy Statement"), to be filed within 120 days of the fiscal year ended December 28, 2013, are incorporated by reference in Part III.

---

Table of Contents

**VALMONT INDUSTRIES, INC.**  
**Annual Report Pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**  
**For the fiscal year ended December 28, 2013**

**TABLE OF CONTENTS**

|                        |  | <b>Page</b> |
|------------------------|--|-------------|
| <b><u>PART I</u></b>   |  |             |
| <u>Item 1</u>          | <u>Business</u>  | <u>3</u>    |
| <u>Item 1A</u>         | <u>Risk Factors</u>  | <u>11</u>   |
| <u>Item 1B</u>         | <u>Unresolved Staff Comments</u>   | <u>18</u>   |
| <u>Item 2</u>          | <u>Properties</u>  | <u>18</u>   |
| <u>Item 3</u>          | <u>Legal Proceedings</u>   | <u>19</u>   |
| <u>Item 4</u>          | <u>Mine Safety Disclosures</u>   | <u>19</u>   |
| <b><u>PART II</u></b>  |  |             |
| <u>Item 5</u>          | <u>Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u> | <u>20</u>   |
| <u>Item 6</u>          | <u>Selected Financial Data</u>   | <u>21</u>   |
| <u>Item 7</u>          | <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>                          | <u>25</u>   |
| <u>Item 7A</u>         | <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>43</u>   |
| <u>Item 8</u>          | <u>Financial Statements and Supplementary Data</u>   | <u>44</u>   |
| <u>Item 9</u>          | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                          | <u>97</u>   |
| <u>Item 9A</u>         | <u>Controls and Procedures</u>   | <u>97</u>   |
| <u>Item 9B</u>         | <u>Other Information</u>   | <u>100</u>  |
| <b><u>PART III</u></b> |  |             |
| <u>Item 10</u>         | <u>Directors, Executive Officers and Corporate Governance</u>  | <u>101</u>  |
| <u>Item 11</u>         | <u>Executive Compensation</u>  | <u>101</u>  |
| <u>Item 12</u>         | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>                | <u>101</u>  |
| <u>Item 13</u>         | <u>Certain Relationships and Related Transactions, and Director Independence</u>                                     | <u>101</u>  |
| <u>Item 14</u>         | <u>Principal Accountant Fees and Services</u>  | <u>101</u>  |
| <b><u>PART IV</u></b>  |  |             |
| <u>Item 15</u>         | <u>Exhibits and Financial Statement Schedules</u>  | <u>102</u>  |

Table of Contents

**PART I**

**ITEM 1. BUSINESS.**

**(a) General Description of Business**

*General*

We are a diversified global producer of fabricated metal products and are a leading producer of steel and aluminum pole, tower and other structures in our Engineered Infrastructure Products (EIP) segment, steel and concrete pole structures in our Utilities Support Structures (Utility) segment and are a global producer of mechanized irrigation systems in our Irrigation segment. We also provide metal coating services, including galvanizing, painting and anodizing in our Coatings segment. Our products sold through the EIP segment include outdoor lighting and traffic control structures, wireless communication structures and components and roadway safety and industrial access systems. Our pole structures sold through our Utility segment support electrical transmission and distribution lines and related power distribution equipment. Our Irrigation segment produces mechanized irrigation equipment that delivers water, chemical fertilizers and pesticides to agricultural crops. Customers and end-users of our products include state and federal governments, contractors, utility and telecommunications companies, manufacturers of commercial lighting fixtures and large farms as well as the general manufacturing sector. In 2013, approximately 37% of our total sales were either sold in markets or produced by our manufacturing plants outside of North America. We were founded in 1946, went public in 1968 and our shares trade on the New York Stock Exchange (ticker: VMI).

*Business Strategy*

Our strategy is to pursue growth opportunities that leverage our existing product portfolio, knowledge of our principal end-markets and customers and engineering capability to increase our sales, earnings and cash flow, including:

*Increasing the Market Penetration of our Existing Products.* Our strategy is to increase our market penetration by differentiating our products from our competitors' products through superior customer service, technological innovation and consistent high quality. For example, in recent years, our Utility segment increased its sales through our engineering capability, effective coordination of our production capacity and strong customer service to meet our customers' requirements, especially on large, complex projects. Our acquisition of Delta plc in May 2010 was in part intended to improve our market presence and penetration in the Australian lighting, communication and utility structures markets and the U.S. industrial galvanizing markets.

*Bringing our Existing Products to New Markets.* Our strategy is to expand the sales of our existing products into geographic areas where we do not currently have a strong presence as well as into applications for which end-users do not currently purchase our type of product. In recent years, our Utility business successfully expanded into new markets in Africa. We have also expanded our geographic presence in Europe and North Africa for lighting structures. We have also been successful introducing our pole products to utility and wireless communication applications where customers have traditionally purchased lattice tower products. Our strategy of building a manufacturing presence in China was based primarily on expanding our offering of pole structures for lighting, utility and wireless communication to the Chinese market. During 2011 we established manufacturing operations in India to provide pole structures for lighting, utility and wireless communications to the Indian market as well as galvanizing services. Our Irrigation segment has a long history of developing new mechanized irrigation markets in emerging markets. In recent years, these markets include China and Eastern Europe. Our 2012 acquisition of Pure Metal Galvanizing provides us with a presence in the Canadian galvanizing market.

Table of Contents

*Developing New Products for Markets that We Currently Serve.* Our strategy is to grow by developing new products for markets where we have a comprehensive understanding of end-user requirements and longstanding relationships with key distributors and end-users. For example, in recent years we developed and sold structures for tramway applications in Europe. The customers for this product line include many of the state and local governments that purchase our lighting structures. Another example is the development and expansion of decorative product concepts for lighting applications that have been introduced to our existing customer base.

*Developing New Products for New Markets and Leverage a Core Competency to Further Diversify our Business.* Our strategy is to increase our sales and diversify our business by developing new products for new markets or to leverage a core competency. For example, we have been expanding our offering of specialized decorative lighting poles in the U.S. The decorative lighting market has different customers than our traditional markets and the products to serve that market are different than the poles we manufacture for the transportation and commercial markets. The acquisition of Delta gave us a presence in highway safety systems and industrial access systems, products that we believe are complementary to our existing products and provide us with future growth opportunities. The establishment and growth of our Coatings segment was based on using our expertise in galvanizing to develop what is now a global business segment.

***Acquisitions***

We have grown internally and by acquisition. Our significant business expansions during the past five years include the following (including the segment where the business reports):

2010

Acquisition of Delta plc, a publiclytraded company headquartered in the United Kingdom that manufactures and distributes steel engineered products, provides galvanizing services and manufactures steel forged grinding media and electrolytic manganese dioxide (EIP, Coatings, Other)

2011

Acquisition of the remaining 40% not previously owned of Donhad Pty. Ltd., a forged steel grinding media manufacturer located in Australia (Other)

Acquisition of an irrigation monitoring services company located in Brazil (Irrigation)

2012

Acquisition of a galvanizing business with three locations in Ontario, Canada (Coatings)

2013

Acquisition of a manufacturer of perforated, expanded metal for the non-residential market, industrial flooring and handrails for the access systems market, and screening media for applications in the industrial and mining sectors in Australia and Asia (EIP)

Acquisition of the remaining 40% not previously owned of Valley Irrigation South Africa Pty. Ltd (Irrigation)

Acquisition of a company holding proprietary intellectual property for products serving the highway safety market located in New Zealand (EIP)

There have been no significant divestitures of businesses in the past five years. In 2011, we exited our structures joint venture in Turkey (formed in 2008) and ceased our structures sales and distribution operation in Italy. Both of these businesses were in the EIP segment. The impact of these events on our financial statements was not material.



Table of Contents

**(b) Segments**

We have four reportable segments based on our management structure. Each segment is global in nature with a manager responsible for segment operational performance and allocation of capital within the segment.

Our reportable segments are as follows:

*Engineered Infrastructure Products:* This segment consists of the manufacture of engineered metal structures and components for global lighting and traffic, wireless communication, roadway safety and access systems applications;

*Utility Support Structures:* This segment consists of the manufacture of engineered steel and concrete structures for the global utility industry;

*Coatings:* This segment consists of galvanizing, anodizing and powder coating services on a global basis; and

*Irrigation:* This segment consists of the manufacture of agricultural irrigation equipment and related parts and services for the global agricultural industry.

*Other:* In addition to these four reportable segments, we have other operations and activities that individually are not more than 10% of consolidated sales, operating income or assets. These activities include the manufacture of forged steel grinding media for the mining industry, tubular products for a variety of industrial customers, electrolytic manganese dioxide for disposable batteries and the distribution of industrial fasteners.

Amounts of sales, operating income and total assets attributable to each segment for each of the last three years is set forth in Note 17 of our consolidated financial statements.

**(c) Narrative Description of Business**

Information concerning the principal products produced and services rendered, markets, competition and distribution methods for each of our four reportable segments is set forth below.

**Engineered Infrastructure Products Segment**

*Products Produced* We manufacture steel and aluminum poles and structures to which lighting and traffic control fixtures are attached for a wide range of outdoor lighting applications, such as streets, highways, parking lots, sports stadiums and commercial and residential developments. The demand for these products is driven by infrastructure, commercial and residential construction and by consumers' desire for well-lit streets, highways, parking lots and common areas to help make these areas safer at night and to support trends toward more active lifestyles and 24-hour convenience. In addition to safety, customers want products that are visually appealing. In Europe, we are a leader in decorative lighting poles, which are attractive as well as functional. We are leveraging this expertise to expand our decorative product sales in North America and China. Traffic poles are structures to which traffic signals are attached and aid the orderly flow of automobile traffic. While standard designs are available, poles are often engineered to customer specifications to ensure the proper function and safety of the structure. Product engineering takes into account factors such as weather (e.g. wind, ice) and the products loaded on the structure (e.g. lighting fixtures, traffic signals, overhead signs) to determine the design of the pole. This product line also includes roadway safety systems, including guard rail barrier systems, wire rope safety barriers, crash attenuation barriers and other products designed to redirect vehicles when off course and to prevent collisions between vehicles. Highway safety systems are also designed and engineered to absorb collisions and ultimately reduce roadway fatalities and injury.

Table of Contents

We also manufacture and distribute a broad range of structures (poles and towers) and components serving the wireless communication market. A wireless communication cell site mainly consists of a steel pole or tower, shelter (enclosure where the radio equipment is located), antennas (devices that receive and transmit data and voice information to and from wireless communication devices) and components (items that are used to mount antennas to the structure and to connect cabling and other parts from the antennas to the shelter). Structures are engineered and designed to customer specifications, which include factors such as the number of antennas on the structure and wind and soil conditions. Due to the size of these structures, design is important to ensure each structure meets performance and safety specifications. We do not provide any significant installation services on the structures we sell.

The EIP segment also produces and distributes access systems. Access systems are engineered structures and components that allow people to move safely and effectively in an industrial, infrastructure or commercial facility. Access systems also are used in architectural applications. Products offered in this product line are usually engineered to specific customer requirements and include floor gratings, handrails, barriers and sunscreens.

*Markets* The key markets for our lighting, traffic and roadway safety products are the transportation and commercial lighting markets and public roadway building and improvement. The transportation market includes street and highway lighting and traffic control, much of which is driven by government spending programs. For example, the U.S. government funds highway and road improvement through the federal highway program. This program provides funding to improve the nation's roadway system, which includes roadway lighting and traffic control enhancements. Matching funding from the various states may be required as a condition of federal funding. The current federal highway program is now operating under a two-year extension that will expire in 2014. In North America, governments desire to improve road and highway systems by reducing traffic congestion. In the United States, there are approximately 4 million miles of public roadways, with approximately 24% carrying over 80% of the traffic. Accordingly, the need to improve traffic flow through traffic controls and lighting is a priority for many communities. Transportation markets in other areas of the world are also heavily funded by local and national governments. The commercial lighting market is mainly funded privately and includes lighting for applications such as parking lots, shopping centers, sports stadiums and business parks. The commercial lighting market is driven by macro-economic factors such as general economic growth rates, interest rates and the commercial construction economy.

The main markets for our communication products have been the wireless telephone carriers and build-to-suit companies (organizations that own cell sites and attach antennas from multiple carriers to the pole or tower structure). We also sell products to state and federal governments for two-way radio communication, radar, broadcasting and security applications. We believe long-term growth should mainly be driven by increased usage, technologies such as 4G (including applications for smart phones, such as streaming video and internet) and demand for improved emergency response systems, as part of the U.S. Homeland Security initiatives. Subscriber growth should continue to increase, although at a lower rate than in the past. In general, as the number of subscribers and usage of wireless communication devices increase, we believe this will result in demand for communication structures and components.

Markets for access systems are typically driven by infrastructure, industrial and commercial construction spending and can be cyclical depending on economic conditions in the markets in which we compete. Customers consist of construction firms or installers who participate in infrastructure, industrial and commercial construction projects, resellers such as steel service centers and end users.

All of the products that we manufacture in this segment are parts of customer investments in basic infrastructure. The total cost of these investments can be substantial, so access to capital is often



Table of Contents

important to fund infrastructure needs. Due to the nature of these markets, demand can be cyclical as projects sometimes can be delayed due to funding or other issues.

*Competition* Our competitive strategy in all of the markets we serve is to provide high value to the customer at a reasonable price. We compete on the basis of product quality, high levels of customer service, timely, complete and accurate delivery of the product and design capability to provide the best solutions to our customers. There are numerous competitors in our markets, most of which are relatively small companies. Companies compete on the basis of price, product quality, reliable delivery and unique product features. Pricing can be very competitive, especially when demand is weak or when strong local currencies result in increased competition from imported products.

*Distribution Methods* Sales and distribution activities are handled through a combination of a direct sales force and commissioned agents. Lighting agents represent Valmont as well as lighting fixture companies and sell other related products. Sales are typically to electrical distributors, who provide the pole, fixtures and other equipment to the end user as a complete package. Commercial lighting and highway safety sales are normally made through Valmont sales employees, who work on a salary plus incentive, although some sales are made through independent, commissioned sales agents.

**Utility Support Structures Segment**

*Products Produced* We manufacture steel and concrete pole structures for electrical transmission, substation and distribution applications. Our products help move electrical power from where it is produced to where it is used. We produce tapered steel and pre-stressed concrete poles for high-voltage transmission lines, substations (which transfer high-voltage electricity to low-voltage transmission) and electrical distribution (which carry electricity from the substation to the end-user). In addition, we produce hybrid structures, which are structures with a concrete base section and steel upper sections. Utility structures can be very large, so product design engineering is important to the function and safety of the structure. Our engineering process takes into account weather and loading conditions, such as wind speeds, ice loads and the power lines attached to the structure, in order to arrive at the final design.

*Markets* Our sales in this segment are mainly in North America, where the key drivers in the utility business are significant upgrades in the electrical grid to support enhanced reliability standards, policy changes encouraging more generation from renewable energy sources, interconnection of regional grids to share more efficient generation to the benefit of the consumer and increased electrical consumption which has outpaced the transmission investment in the past decades. According to the Edison Electric Institute, the electrical transmission grid in the U.S. requires significant investment in the coming years to respond to the compelling industry drivers and lack of investment over the past 25 years. The expected increase in electrical consumption around the world should also require substantial investment in new electricity generation capacity which will prompt further international growth in transmission grid development. We expect these factors to result in increased demand for electrical utility structures to transport electricity from source to user.

*Competition* Our competitive strategy in this segment is to provide high value solutions to the customer at a reasonable price. We compete on the basis of product quality, engineering expertise, high levels of customer service and reliable, timely delivery of the product. There are many competitors. Companies compete on the basis of price, quality and service. Utility sales are often made through a competitive bid process, whereby the lowest bidder is awarded the contract, provided the competitor meets all other qualifying criteria. In weak markets, price is a more important criterion in the bid process.

*Distribution Methods* Products are normally sold through commissioned sales agents or sold directly to electrical utilities.

Table of Contents

**Coatings Segment**

*Services Rendered* We add finishes to metals that inhibit corrosion, extend service lives and enhance physical attractiveness of a wide range of materials and products. Among the services provided include:

Hot-dipped Galvanizing

Anodizing

Powder Coating

E-Coating

In our Coatings segment, we take unfinished products from our customers and return them with a galvanized, anodized or painted finish. Galvanizing is a process that protects steel with a zinc coating that is bonded to the product surface to inhibit rust and corrosion. Anodizing is a process applied to aluminum that oxidizes the surface of the aluminum in a controlled manner, which protects the aluminum from corrosion and allows the material to be dyed a variety of colors. We also paint products using powder coating and e-coating technology (where paint is applied through an electrical charge) for a number of industries and markets.

*Markets* Markets for our products are varied and our profitability is not substantially dependent on any one industry or customer. Demand for coatings services generally follows the local industrial economies. Galvanizing is used in a wide variety of industrial applications where corrosion protection of steel is desired. While markets are varied, our markets for anodized or painted products are more directly dependent on consumer markets than industrial markets.

*Competition* The Coatings markets traditionally have been very fragmented, with a large number of competitors. Most of these competitors are relatively small, privately held companies who compete on the basis of price and personal relationships with their customers. As a result of ongoing industry consolidation, there are also several (public and private) multi-facility competitors. Our strategy is to compete on the basis of quality of the coating finish and timely delivery of the coated product to the customer. We also use the production capacity at our network of plants to ensure that the customer receives quality, timely service.

*Distribution Methods* Due to freight costs, a galvanizing location has an effective service area of an approximate 300 to 500 mile radius. While we believe that we are globally one of the largest custom galvanizers, our sales are a small percentage of the total market. Sales and customer service are provided directly to the user by a direct sales force, generally assigned to each specific location.

**Irrigation Segment**

*Products Produced* We manufacture and distribute mechanical irrigation equipment and related service parts under the "Valley" brand name. A Valley irrigation machine usually is powered by electricity and propels itself over a farm field and applies water and chemicals to crops. Water and, in some instances, chemicals are applied through sprinklers attached to a pipeline that is supported by a series of towers, each of which is propelled via a drive train and tires. A standard mechanized irrigation machine (also known as a "center pivot") rotates in a circle, although we also manufacture and distribute center pivot extensions that can irrigate corners of square and rectangular farm fields as well as conform to irregular field boundaries (referred to as a "corner" machine). Our irrigation machines can also irrigate fields by moving up and down the field as opposed to rotating in a circle (referred to as a "linear" machine). Irrigation machines can be configured to irrigate fields in size from 4 acres to over 500 acres, with a standard size in the U.S. configured for a 160-acre tract of ground. One of the key components of our irrigation machine is the control system. This is the part of the machine that

Table of Contents

allows the machine to be operated in the manner preferred by the grower, offering control of such factors as on/off timing, individual field sector control, rate and depth of water and chemical application. We also offer growers options to control multiple irrigation machines through centralized computer control or mobile remote control. The irrigation machine used in international markets is substantially the same as the one produced for the North American market.

There are other forms of irrigation available to farmers, two of the most prevalent being flood irrigation and drip irrigation. In flood irrigation, water is applied through a pipe or canal at the top of the field and allowed to run down the field by gravity. Drip irrigation involves plastic pipe or tape resting on the surface of the field or buried a few inches below ground level, with water being applied gradually. We estimate that center pivot and linear irrigation comprises 45% of the irrigated acreage in North America. International markets use predominantly flood irrigation, although all forms are used to some extent.

*Markets* Market drivers in North American and international markets are essentially the same. Since the purchase of an irrigation machine is a capital expenditure, the purchase decision is based on the expected return on investment. The benefits a grower may realize through investment in mechanical irrigation include improved yields through better irrigation, cost savings through reduced labor and lower water and energy usage. The purchase decision is also affected by current and expected net farm income, commodity prices, interest rates, the status of government support programs and water regulations in local areas. In many international markets, the relative strength or weakness of local currencies as compared with the U.S. dollar may affect net farm income, since export markets are generally denominated in U.S. dollars.

The demand for mechanized irrigation comes from the following sources:

conversion from flood irrigation

replacement of existing mechanized irrigation machines

converting land that is not irrigated to mechanized irrigation

One of the key drivers in our Irrigation segment worldwide is that the usable water supply is limited. We estimate that:

only 2.5% of total worldwide water supply is freshwater

of that 2.5%, only 30% of freshwater is available to humans

the largest user of that freshwater is agriculture

We believe these factors, along with the trend of a growing worldwide population and improving diets, reflect the need to use water more efficiently while increasing food production to feed this growing population. We believe that mechanized irrigation can improve water application efficiency by 40-90% compared with traditional irrigation methods by applying water uniformly near the root zone and reducing water runoff. Furthermore, reduced water runoff improves water quality in nearby rivers, aquifers and streams, thereby providing environmental benefits in addition to conservation of water.

*Competition* In North America, there are a number of entities that provide irrigation products and services to agricultural customers. We believe we are the leader of the four main participants in the mechanized irrigation business. Participants compete for sales on the basis of price, product innovation and features, product durability and reliability, quality and service capabilities of the local dealer. Pricing can become very competitive, especially in periods when market demand is low. In international markets, our competitors are a combination of our major U.S. competitors and privately-owned local companies. Competitive factors are similar to those in North America, although pricing tends to be a more prevalent competitive strategy in international markets. Since competition in international markets is local, we believe local manufacturing capability is important to competing effectively in international markets and we have that capability in key regions.

Table of Contents

*Distribution Methods* We market our irrigation machines and service parts through independent dealers. There are approximately 270 dealer locations in North America, with another approximately 220 dealers serving international markets. The dealer determines the grower's requirements, designs the configuration of the machine, installs the machine (including providing ancillary products that deliver water and electrical power to the machine) and provides after-sales service. Our dealer network is supported and trained by our technical and sales teams. Our international dealers are supported through our regional headquarters in South America, South Africa, Western Europe, Australia, China and the United Arab Emirates as well as the home office in Valley, Nebraska.

**General**

Certain information generally applicable to each of our four reportable segments is set forth below.

*Suppliers and Availability of Raw Materials.*

Hot rolled steel coil and plate, zinc and other carbon steel products are the primary raw materials utilized in the manufacture of finished products for all segments. We purchase these essential items from steel mills, zinc producers and steel service centers and are usually readily available. While we may experience increased lead times to acquire materials and volatility in our purchase costs, we do not believe that key raw materials would be unavailable for extended periods. We have not experienced extended or wide-spread shortages of steel during this time, due to what we believe are strong relationships with some of the major steel producers. In the past several years, we experienced volatility in zinc and natural gas prices, but we did not experience any disruptions to our operations due to availability.

*Patents, Licenses, Franchises and Concessions.*

We have a number of patents for our manufacturing machinery, poles and irrigation designs. We also have a number of registered trademarks. We do not believe the loss of any individual patent or trademark would have a material adverse effect on our financial condition, results of operations or liquidity.

*Seasonal Factors in Business.*

Sales can be somewhat seasonal based upon the agricultural growing season and the infrastructure construction season. Sales of mechanized irrigation equipment to farmers are traditionally higher during the spring and fall and lower in the summer. Sales of infrastructure products are traditionally higher summer and fall and lower in the winter.

*Customers.*

We are not dependent for a material part of any segment's business upon a single customer or upon very few customers. The loss of any one customer would not have a material adverse effect on our financial condition, results of operations or liquidity.

*Backlog.*

The backlog of orders for the principal products manufactured and marketed was \$666.6 million at the end of the 2013 fiscal year and \$902.5 million at the end of the 2012 fiscal year. We anticipate that

Table of Contents

most of the 2013 backlog of orders will be filled during fiscal year 2014. At year-end, the segments with backlog were as follows (dollar amounts in millions):

|                                    | 12/28/2013 | 12/29/2012 |
|------------------------------------|------------|------------|
| Engineered Infrastructure Products | \$ 200.8   | \$ 211.9   |
| Utility Support Structures         | 334.4      | 434.0      |
| Irrigation                         | 104.4      | 230.6      |
| Coatings                           | 0.7        | 1.4        |
| Other                              | 26.3       | 24.6       |
|                                    | \$ 666.6   | \$ 902.5   |

*Research Activities.*

The information called for by this item is included in Note 1 of our consolidated financial statements.

*Environmental Disclosure.*

We are subject to various federal, state and local laws and regulations pertaining to environmental protection and the discharge of materials into the environment. Although we continually incur expenses and make capital expenditures related to environmental protection, we do not anticipate that future expenditures should materially impact our financial condition, results of operations, or liquidity.

*Number of Employees.*

At December 28, 2013, we had 10,769 employees.

**(d) Financial Information About Geographic Areas**

Our international sales activities encompass over 100 foreign countries. The information called for by this item is included in Note 17 of our consolidated financial statements. While Australia accounted for approximately 15% of our net sales in 2013, no other foreign country accounted for more than 4% of our net sales. Net sales for purposes of Note 17 include sales to outside customers.

**(e) Available Information**

We make available, free of charge through our Internet web site at <http://www.valmont.com>, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

**ITEM 1A. RISK FACTORS.**

The following risk factors describe various risks that may affect our business, financial condition and operations.

***Increases in prices and reduced availability of key commodities such as steel, aluminum, zinc, natural gas and fuel will increase our operating costs and likely reduce our profitability.***

Hot rolled steel coil and other carbon steel products have historically constituted approximately one-third of the cost of manufacturing our products. We also use large quantities of aluminum for lighting structures and zinc for the galvanization of most of our steel products. Our facilities use large



Table of Contents

quantities of natural gas for heating and processing tanks in our galvanizing operations. We use gasoline and diesel fuel to transport raw materials to our locations and to deliver finished goods to our customers. The markets for these commodities can be volatile. The following factors increase the cost and reduce the availability of these commodities:

increased demand, which occurs when we and other industries require greater quantities of these commodities, which can result in higher prices and lengthen the time it takes to receive these commodities from suppliers;

lower production levels of these commodities, due to reduced production capacities or shortages of materials needed to produce these commodities (such as coke and scrap steel for the production of steel) which could result in reduced supplies of these commodities, higher costs for us and increased lead times;

increased cost of major inputs, such as scrap steel, coke, iron ore and energy;

fluctuations in foreign exchange rates can impact the relative cost of these commodities, which may affect the cost effectiveness of imported materials and limit our options in acquiring these commodities; and

international trade disputes, import duties and quotas, since we import some steel for our domestic and foreign manufacturing facilities.

Increases in the selling prices of our products may not fully recover higher commodity costs and generally lag increases in our costs of these commodities. Consequently, an increase in these commodities will increase our operating costs and likely reduce our profitability.

Rising steel prices in 2010 and 2011 put pressure on gross profit margins, especially in our Engineered Infrastructure Products and Utility Support Structures segments. In both of these segments, the elapsed time between the quotation of a sales order and the manufacturing of the product ordered can be several months. As some of these sales are fixed price contracts, rapid increases in steel costs likely will result in lower operating income in these businesses. We believe the volatility over the past several years was due to significant increases in global steel production and consumption (especially in rapidly growing economies, such as China and India). The strong global demand for steel led to rapidly rising costs in key steel-making materials (such as coke, iron ore and scrap steel), thereby raising prices to companies that manufacture products from steel. Under such circumstances, steel supplies may become tighter and impact our ability to acquire steel and meet customer requirements on a timely basis. The speed with which steel suppliers impose price increases on us may prevent us from fully recovering these price increases and result in reduced operating margins, particularly in our lighting and traffic and utility businesses.

***The ultimate consumers of our products operate in cyclical industries that have been subject to significant downturns which have adversely impacted our sales in the past and may again in the future.***

Our sales are sensitive to the market conditions present in the industries in which the ultimate consumers of our products operate, which in some cases have been highly cyclical and subject to substantial downturns. For example, a significant portion of our sales of support structures is to the electric utility industry. Our sales to the U.S. electric utility industry were over \$900 million in 2013. Purchases of our products are deferrable to the extent that utilities may reduce capital expenditures for reasons such as unfavorable regulatory environments, a slow U.S. economy or financing constraints. In the event of weakness in the demand for utility structures due to reduced or delayed spending for electrical generation and transmission projects, our sales and operating income likely will decrease.

The end users of our mechanized irrigation equipment are farmers. Accordingly, economic changes within the agriculture industry, particularly the level of farm income, may affect sales of these products.

Table of Contents

From time to time, lower levels of farm income resulted in reduced demand for our mechanized irrigation and tubing products. Farm income decreases when commodity prices, acreage planted, crop yields, government subsidies and export levels decrease. In addition, weather conditions, such as extreme drought may result in reduced availability of water for irrigation, and can affect farmers' buying decisions. Farm income can also decrease as farmers' operating costs increase. Increases in oil and natural gas prices result in higher costs of energy and nitrogen-based fertilizer (which uses natural gas as a major ingredient). Furthermore, uncertainty as to future government agricultural policies may cause indecision on the part of farmers. The status and trend of government farm supports, financing aids and policies regarding the ability to use water for agricultural irrigation can affect the demand for our irrigation equipment. In the United States, certain parts of the country are considering policies that would restrict usage of water for irrigation. All of these factors may cause farmers to delay capital expenditures for farm equipment. Consequently, downturns in the agricultural industry will likely result in a slower, and possibly a negative, rate of growth in irrigation equipment and tubing sales.

We have also experienced cyclical demand for those of our products that we sell to the wireless communications industry. Sales of wireless structures and components to wireless carriers and build-to-suit companies that serve the wireless communications industry have historically been cyclical. These customers may elect to curtail spending on new capacity to focus on cash flow and capital management. Weak market conditions have led to competitive pricing in recent years, putting pressure on our profit margins on sales to this industry. Changes in the competitive structure of the wireless industry, due to industry consolidation or reorganization, may interrupt capital plans of the wireless carriers as they assess their networks.

Due to the cyclical nature of these markets, we have experienced, and in the future we may experience, significant fluctuations in our sales and operating income with respect to a substantial portion of our total product offering, and such fluctuations could be material and adverse to our overall financial condition, results of operations and liquidity.

***Demand for our infrastructure products and coating services is highly dependent upon the overall level of infrastructure spending.***

We manufacture and distribute engineered infrastructure products for lighting and traffic, utility and other specialty applications. Our Coatings segments serve many construction-related industries. Because these products are used primarily in infrastructure construction, sales in these businesses are highly correlated with the level of construction activity, which historically has been cyclical. Construction activity by our private and government customers is affected by and can decline because of, a number of factors, including (but not limited to):

weakness in the general economy, which may negatively affect tax revenues, resulting in reduced funds available for construction;

interest rate increases, which increase the cost of construction financing; and

adverse weather conditions which slow construction activity.

The current economic uncertainty and slowness in the United States and Europe will have some negative effect on our business. In our North American lighting product line, some of our lighting structure sales are for new residential and commercial areas. As residential and commercial construction remains weak, we have experienced some negative impact on our light pole sales to these markets. In a broader sense, in the event of an overall downturn in the economies in Europe, Australia or China, we may experience decreased demand if our customers have difficulty securing credit for their purchases from us.

In addition, sales in our Engineered Infrastructure Products segment, particularly our lighting, traffic and highway safety products, are highly dependent upon federal, state, local and foreign



Table of Contents

government spending on infrastructure development projects, such as the U.S. federal highway program. The level of spending on such projects may decline for a number of reasons beyond our control, including, among other things, budgetary constraints affecting government spending generally or transportation agencies in particular, decreases in tax revenues and changes in the political climate, including legislative delays, with respect to infrastructure appropriations. For instance, the lack of long-term U.S. federal highway spending legislation has had a negative impact on our sales in this market. A substantial reduction in the level of government appropriations for infrastructure projects could have a material adverse effect on our results of operations or liquidity.

***We may lose some of our foreign investment or our foreign sales and profits may reduce because of risks of doing business in foreign markets.***

We are an international manufacturing company with operations around the world. At December 28, 2013, we operated over 100 manufacturing plants, located on six continents, and sold our products in more than 100 countries. In 2013, approximately 37% of our total sales were either sold in markets or produced by our manufacturing plants outside of North America. We have operations in geographic markets that have recently experienced political instability, such as the Middle East, and economic uncertainty, such as Western Europe. Our geographic diversity also requires that we hire, train and retain competent management for the various local markets. We also have a significant manufacturing presence in Australia, Europe and China. We expect that international sales will continue to account for a significant percentage of our net sales in the future. Accordingly, our foreign business operations and our foreign sales and profits are subject to the following potential risks:

political and economic instability where we have foreign business operations, resulting in the reduction of the value of, or the loss of, our investment;

recessions in economies of countries in which we have business operations, decreasing our international sales;

difficulties and costs of staffing and managing our foreign operations, increasing our foreign operating costs and decreasing profits;

potential violation of local laws or unsanctioned management actions that could affect our profitability or ability to compete in certain markets;

difficulties in enforcing our rights outside the United States for patents on our manufacturing machinery, poles and irrigation designs;

increases in tariffs, export controls, taxes and other trade barriers reducing our international sales and our profit on these sales; and

acts of war or terrorism.

As a result, we may lose some of our foreign investment or our foreign sales and profits may be materially reduced because of risks of doing business in foreign markets.

***We are subject to currency fluctuations from our international sales, which can negatively impact our reported earnings.***

We sell our products in many countries around the world. Approximately 37% of our fiscal 2013 sales were in markets outside the United States and are often made in foreign currencies, mainly the Australian dollar, euro, Brazilian real, Canadian dollar, Chinese renminbi and South African rand. Because our financial statements are denominated in U.S. dollars, fluctuations in currency exchange rates between the U.S. dollar and other currencies have had and will continue to have an impact on our reported earnings. For example, the U.S. dollar appreciated versus the Australian dollar in 2013. As a result, our Australian sales measured in U.S. dollar terms decreased by approximately \$30 million



Table of Contents

due to exchange rate translation effects. If the U.S. dollar weakens or strengthens versus the foreign currencies mentioned above, the result will be an increase or decrease in our reported sales and earnings, respectively. Currency fluctuations have affected our financial performance in the past and may affect our financial performance in any given period. In cases where local currencies are strong, the relative cost of goods imported from outside our country of operation becomes lower and affects our ability to compete profitably in our home markets. We experienced increased pricing competition in our access systems product line in Australia in 2011 and 2012. This increased pricing pressure, in part, was due to the strong Australian dollar and resulting competition from companies outside of Australia.

We also face risks arising from the imposition of foreign exchange controls and currency devaluations. Exchange controls may limit our ability to convert foreign currencies into U.S. dollars or to remit dividends and other payments by our foreign subsidiaries or businesses located in or conducted within a country imposing controls. Currency devaluations result in a diminished value of funds denominated in the currency of the country instituting the devaluation. Actions of this nature could have a material adverse effect on our results of operations and financial condition in any given period.

***Our businesses require skilled labor and management talent and we may be unable to attract and retain qualified employees.***

Our businesses require skilled factory workers and management in order to meet our customer's needs, grow our sales and maintain competitive advantages. Skills such as welding, equipment maintenance and operating complex manufacturing machinery may be in short supply in certain geographic areas, leading to shortages of skilled labor and/or increased labor costs. Management talent is critical as well, to help grow our businesses and effectively plan for succession of key employees upon retirement. In some geographic areas, skilled management talent in certain areas may be difficult to find. To the extent we have difficulty in finding and retaining these skills in the workforce, there may be an adverse effect on our ability to grow profitably in the future.

***We may incur significant warranty or contract management costs.***

In our Utility Support Structures segment, we manufacture large structures for electrical transmission. These products may be highly engineered for very large, complex contracts and subject to terms and conditions that penalize us for late delivery and result in consequential and compensatory damages. From time to time, we may have a product quality issue on a large utility structures order and the costs of curing that issue may be significant. Our products in the Engineered Infrastructure Products segment include structures for a wide range of outdoor lighting and wireless communication applications. In our Irrigation segment, our products are covered under warranties, some for several years. We may incur significant warranty or product related costs, which may include repairing or replacing defective or non-conforming products, even if another party may have contributed to the problem. In such cases, the costs of correcting the quality issue may be significant.

***We face strong competition in our markets.***

We face competitive pressures from a variety of companies in each of the markets we serve. Our competitors include companies who provide the technologies that we provide as well as companies who provide competing technologies, such as drip irrigation. Our competitors include international, national, and local manufacturers, some of whom may have greater financial, manufacturing, marketing and technical resources than we do, or greater penetration in or familiarity with a particular geographic market than we have. In addition, certain of our competitors, particularly with respect to our utility and wireless communication product lines, have sought bankruptcy protection in recent years, and may emerge with reduced debt service obligations, which could allow them to operate at pricing levels that put pressures on our margins. Some of our customers have moved manufacturing operations or product sourcing overseas, which can negatively impact our sales of galvanizing and anodizing services. To remain competitive, we will need to invest continuously in manufacturing, product development and customer service, and we may need to reduce our prices, particularly with respect to customers in industries that are experiencing downturns. We cannot provide assurance that we will be able to maintain our competitive position in each of the markets that we serve.

Table of Contents

***We could incur substantial costs as the result of violations of, or liabilities under, environmental laws.***

Our facilities and operations are subject to U.S. and foreign laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contamination. Failure to comply with these laws and regulations, or with the permits required for our operations, could result in fines or civil or criminal sanctions, third party claims for property damage or personal injury, and investigation and cleanup costs. Potentially significant expenditures could be required in order to comply with environmental laws that regulators may adopt or impose in the future.

Certain of our facilities have been in operation for many years and, over time, we and other predecessor operators of these facilities have generated, used, handled and disposed of hazardous and other regulated wastes. We detected contaminants at some of our present and former sites, principally in connection with historical operations. In addition, from time to time we have been named as a potentially responsible party under Superfund or similar state laws. While we are not aware of any contaminated sites that are not provided for in our financial statements, including third-party sites, at which we may have material obligations, the discovery of additional contaminants or the imposition of additional cleanup obligations at these sites could result in significant liability beyond amounts provided for in our financial statements.

***We may not realize the improved operating results that we anticipate from acquisitions we may make in the future, and we may experience difficulties in integrating the acquired businesses or may inherit significant liabilities related to such businesses.***

We explore opportunities to acquire businesses that we believe are related to our core competencies from time to time, some of which may be material to us. We expect such acquisitions will produce operating results better than those historically experienced or presently expected to be experienced in the future by us in the absence of the acquisition. We cannot provide assurance that this assumption will prove correct with respect to any acquisition.

Any future acquisitions may present significant challenges for our management due to the time and resources required to properly integrate management, employees, information systems, accounting controls, personnel and administrative functions of the acquired business with those of Valmont and to manage the combined company on a going forward basis. We may not be able to completely integrate and streamline overlapping functions or, if such activities are successfully accomplished, such integration may be more costly to accomplish than presently contemplated. We may also have difficulty in successfully integrating the product offerings of Valmont and acquired businesses to improve our collective product offering. Our efforts to integrate acquired businesses could be affected by a number of factors beyond our control, including general economic conditions. In addition, the process of integrating acquired businesses could cause the interruption of, or loss of momentum in, the activities of our existing business. The diversion of management's attention and any delays or difficulties encountered in connection with the integration acquired businesses could adversely impact our business, results of operations and liquidity, and the benefits we anticipate may never materialize. These factors are relevant to any acquisition we undertake.

In addition, although we conduct reviews of businesses we acquire, we may be subject to unexpected claims or liabilities, including environmental cleanup costs, as a result of these acquisitions. Such claims or liabilities could be costly to defend or resolve and be material in amount, and thus could materially and adversely affect our business and results of operations and liquidity.

Table of Contents

*We have, from time to time, maintained a substantial amount of outstanding indebtedness, which could impair our ability to operate our business and react to changes in our business, remain in compliance with debt covenants and make payments on our debt.*

As of December 28, 2013, we had \$490.1 million of total indebtedness outstanding. We had \$382.1 million capacity to borrow under our revolving credit facility at December 28, 2013. We normally borrow money to make business acquisitions and major capital expenditures. From time to time, our borrowings have been significant. Our level of indebtedness could have important consequences, including:

our ability to satisfy our obligations under our debt agreements could be affected and any failure to comply with the requirements, including significant financial and other restrictive covenants, of any of our debt agreements could result in an event of default under the agreements governing our indebtedness;

a substantial portion of our cash flow from operations will be required to make interest and principal payments and will not be available for operations, working capital, capital expenditures, expansion, or general corporate and other purposes, including possible future acquisitions that we believe would be beneficial to our business;

our ability to obtain additional financing in the future may be impaired;

we may be more highly leveraged than our competitors, which may place us at a competitive disadvantage;

our flexibility in planning for, or reacting to, changes in our business and industry may be limited; and

our degree of leverage may make us more vulnerable in the event of a downturn in our business, our industry or the economy in general.

We had \$613.7 million of cash at December 28, 2013, which mitigates the risk associated with our debt. However, as we use cash for acquisitions and other purposes, any of these factors could have a material adverse effect on our business, financial condition, results of operations, cash flows and business prospects.

The restrictions and covenants in our debt agreements could limit our ability to obtain future financings, make needed capital expenditures, withstand a future downturn in our business, or the economy in general, or otherwise conduct necessary corporate activities. These covenants may prevent us from taking advantage of business opportunities that arise.

A large share of our consolidated cash balances are outside the United States and most of our interest-bearing debt is borrowed by U.S. entities. In the event that we would have to repatriate cash from international operations to meet cash needs in the U.S., we are likely to incur significant income tax expenses to repatriate that cash.

A breach of any of these covenants would result in a default under the applicable debt agreement. A default, if not waived, could result in acceleration of the debt outstanding under the agreement and in a default with respect to, and acceleration of, the debt outstanding under our other debt agreements. The accelerated debt would become immediately due and payable. If that should occur, we may not be able to pay all such debt or to borrow sufficient funds to refinance it. Even if new financing were then available, it may not be on terms that are favorable to us.

Table of Contents

*We assumed an underfunded pension liability as part of the Delta acquisition and the combined company may be required to increase funding of the plan and/or be subject to restrictions on the use of excess cash.*

Delta is the sponsor of a United Kingdom defined benefit pension plan that, as of December 28, 2013, covered approximately 6,500 inactive or retired former Delta employees. At December 28, 2013, this plan was, for accounting purposes, underfunded by approximately £93.8 million (\$154.4 million). The current agreement with the trustees of the pension plan for annual funding was approximately £10.0 million (\$16.0 million) in respect of the funding shortfall and approximately £1.0 million (\$1.6 million) in respect of administrative expenses. Although this funding obligation was considered in the offer price for the Delta shares, the underfunded position may adversely affect the combined company as follows:

Laws and regulations in the United Kingdom normally require the plan trustees and us to agree on a new funding plan every three years. The next funding plan will be developed in 2015. Changes in actuarial assumptions, including future discount, inflation and interest rates, investment returns and mortality rates, may increase the underfunded position of the pension plan and cause the combined company to increase its funding levels in the pension plan to cover underfunded liabilities.

The United Kingdom regulates the pension plan and the trustees represent the interests of covered workers. Laws and regulations, under certain circumstances, could create an immediate funding obligation to the pension plan which could be significantly greater than the £93.8 million (\$154.4 million) assumed for accounting purposes as of December 28, 2013. Such immediate funding is calculated by reference to the cost of buying out liabilities on the insurance market, and could affect our ability to use Delta's existing cash or the combined company's future excess cash to grow the business or finance other obligations. The use of Delta's cash and future cash flows beyond the operation of Delta's business or the satisfaction of Delta's obligations would require negotiations with the trustees and regulators.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES.**

Our corporate headquarters are located in a leased facility in Omaha, Nebraska, under a lease expiring in 2021. The headquarters of the Company's reportable segments are located in Valley, Nebraska except for the headquarters of the Company's Utility Support Structures segment, which is located in Birmingham, Alabama. We also maintain a management headquarters in Sydney, Australia. Most of our significant manufacturing locations are owned or are subject to long-term renewable leases. Our principal manufacturing locations are in Valley, Nebraska, McCook, Nebraska, Tulsa, Oklahoma, Brenham, Texas, Charmeil, France and Shanghai, China. All of these facilities are owned by us. We believe that our manufacturing capabilities and capacities are adequate for us to effectively serve our customers. Our capital spending programs consist of investment for replacement, achieving operational efficiencies and expand capacities where needed. Our principal operating locations by reportable segment are listed below.

Engineered Infrastructure Products segment North America manufacturing locations are in Nebraska, Texas, Indiana, Minnesota, Oregon, Washington and Canada. The largest of these operations are in Valley, Nebraska and Brenham, Texas, both of which are owned facilities. We have communication components distribution locations in New York, California and Georgia. International locations are in France, the Netherlands, Finland, Estonia, England, Germany, Poland, Morocco, Australia, Indonesia, the Philippines, Thailand, Malaysia, India and China. The largest of these operations are in Charmeil, France and Shanghai, China, both of which are owned facilities. Access

Table of Contents

systems manufacturing locations are located in Australia, Indonesia, the Philippines, Thailand, Malaysia and China.

Utility Support Structures segment North America manufacturing locations are in Alabama, Georgia, Florida, California, Texas, Oklahoma, Pennsylvania, Tennessee, Kansas, Nebraska and Mexico. The largest of these operations are in Tulsa, Oklahoma, Monterrey, Mexico and Hazleton, Pennsylvania. The Tulsa and Monterrey facilities are owned and the Hazleton facility is located on both owned and leased property. Principal international manufacturing locations are in China and France.

Coatings segment North America operations include U.S. operations located in Nebraska, Illinois, California, Minnesota, Kansas, Iowa, Indiana, Oregon, Utah, Oklahoma, Virginia, Alabama, Florida and South Carolina and three locations near Toronto, Canada. International operations are located in Australia, Malaysia and India.

Irrigation segment North America manufacturing operations are located in Valley and McCook, Nebraska. Our principal manufacturing operations serving international markets are located in Uberaba, Brazil, Nigel, South Africa, Jebel Ali, United Arab Emirates, Madrid, Spain and Shandong, China. All facilities are owned except for China, which is leased.

Our other North America operations are located in Nebraska and Oregon. International operations are located in Australia (forged steel grinding media).

**ITEM 3. LEGAL PROCEEDINGS.**

We are not a party to, nor are any of our properties subject to, any material legal proceedings. We are, from time to time, engaged in routine litigation incidental to our businesses.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not Applicable.

**Executive Officers of the Company**

Our executive officers at February 16, 2014, their ages, positions held, and the business experience of each during the past five years are, as follows:

Mogens C. Bay, age 65, Chairman and Chief Executive Officer since January 1997.

Terry J. McClain, age 66, Senior Vice President and Chief Financial Officer from January 1997 to February 2013 and since August 2013.

Todd G. Atkinson, age 57, Executive Vice President since February 2011. Chief Executive Officer of Delta plc from July 2003 until February 2011.

Mark C. Jaksich, age 56, Vice President and Controller since February 2000.

Walter P. Pasko, age 63, Vice President-Procurement since May 2002.

Brian J. Desigio, age 44, Vice President-Corporate Development since April 2008.

Vanessa K. Brown, age 61, Vice President-Human Resources since July 2011. Director of Human Resources of North America Engineered Infrastructure Products division from 1997 until 2011.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES.**

Our common stock is traded on the New York Stock Exchange under the symbol "VMI". We had approximately 4,500 shareholders of common stock at December 28, 2013. Other stock information required by this item is included in Note 20 "Quarterly Financial Data (unaudited)" to the consolidated financial statements and incorporated herein by reference.

**Issuer Purchases of Equity Securities**

| <b>Period</b>                          | <b>(a)<br/>Total Number<br/>of<br/>Shares<br/>Purchased</b> | <b>(b)<br/>Average Price<br/>paid per share</b> | <b>(c)<br/>Total Number<br/>of<br/>Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>(d)<br/>Maximum<br/>Number of<br/>Shares that<br/>May Yet<br/>Be Purchased<br/>Under<br/>the Plans or<br/>Programs</b> |
|--|---|---|---|---|
| September 29, 2013 to October 26, 2013 | 2,976   | \$ 137.91                                       |   |   |
| October 27, 2013 to November 30, 2013  | 6,988   | 144.54  |   |   |
| December 1, 2013 to December 28, 2013  |   |   |   |   |
| <b>Total</b>                           | <b>9,964</b>  | <b>\$ 142.56</b>                                |   |   |

During the fourth quarter, the shares reflected above were those delivered to the Company by employees as part of stock option exercises, either to cover the purchase price of the option or the related taxes payable by the employee as part of the option exercise. The price paid per share was the market price at the date of exercise.



Table of Contents**ITEM 6. SELECTED FINANCIAL DATA.****SELECTED FIVE-YEAR FINANCIAL DATA**

| (Dollars in thousands, except per share amounts)         | 2013         | 2012         | 2011         | 2010         | 2009         |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Operating Data</b>                                    |              |              |              | (3)          | (2)          |
| Net sales  | \$ 3,304,211 | \$ 3,029,541 | \$ 2,661,480 | \$ 1,975,505 | \$ 1,786,601 |
| Operating income   | 473,069      | 382,296      | 263,310      | 178,413      | 237,994      |
| Net earnings attributable to Valmont Industries, Inc.(1) | 278,489      | 234,072      | 228,308      | 94,379       | 150,562      |
| Depreciation and amortization                            | 77,436       | 70,218       | 74,560       | 59,663       | 44,748       |
| Capital expenditures                                     | 106,753      | 97,074       | 83,069       | 36,092       | 44,129       |
| <b>Per Share Data</b>                                    |              |              |              |              |              |
| Earnings:  |              |              |              |              |              |
| Basic(1)   | \$ 10.45     | \$ 8.84      | \$ 8.67      | \$ 3.62      | \$ 5.80      |
| Diluted(1)   | 10.35        | 8.75         | 8.60         | 3.57         | 5.73         |
| Cash dividends declared                                  | 0.975        | 0.855        | 0.705        | 0.645        | 0.580        |
| <b>Financial Position</b>                                |              |              |              |              |              |
| Working capital  | \$ 1,161,260 | \$ 1,013,507 | \$ 844,873   | \$ 747,312   | \$ 458,605   |
| Property, plant and equipment, net                       | 534,210      | 512,612      | 454,877      | 439,609      | 283,088      |
| Total assets   | 2,776,494    | 2,568,551    | 2,306,076    | 2,090,743    | 1,302,169    |
| Long-term debt, including current installments           | 471,109      | 472,817      | 474,650      | 468,834      | 160,482      |
| Total Valmont Industries, Inc. shareholders' equity.     | 1,522,025    | 1,349,912    | 1,146,962    | 915,892      | 786,261      |
| <b>Cash flow data:</b>                                   |              |              |              |              |              |
| Net cash flows from operating activities                 | \$ 396,442   | \$ 197,097   | \$ 149,671   | \$ 152,220   | \$ 349,520   |
| Net cash flows from investing activities                 | (131,721)    | (136,692)    | (84,063)     | (262,713)    | (43,595)     |
| Net cash flows from financing activities                 | (37,380)     | (16,355)     | (45,911)     | 269,685      | (198,400)    |
| <b>Financial Measures</b>                                |              |              |              |              |              |
| Invested capital(a)                                      | \$ 2,113,903 | \$ 1,981,502 | \$ 1,769,461 | \$ 1,577,707 | \$ 1,029,970 |
| Return on invested capital(a)                            | 15.0%        | 13.2%        | 11.0%        | 8.8%         | 15.6%        |
| EBITDA(b)  | \$ 546,208   | \$ 462,417   | \$ 343,633   | \$ 239,997   | \$ 283,964   |
| Return on beginning shareholders' equity(c)              | 20.6%        | 20.4%        | 24.9%        | 12.0%        | 24.1%        |
| Long-term debt as a percent of invested capital(d)       | 22.3%        | 23.9%        | 26.8%        | 29.7%        | 15.6%        |
| <b>Year End Data</b>                                     |              |              |              |              |              |
| Shares outstanding (000)                                 | 26,825       | 26,674       | 26,481       | 26,374       | 26,297       |
| Approximate number of shareholders                       | 4,500        | 4,500        | 5,000        | 5,200        | 5,400        |
| Number of employees                                      | 10,769       | 10,543       | 9,476        | 9,188        | 6,626        |

- (1) Fiscal 2011 included \$66,026 (\$2.49 per share) of income tax benefits associated with a legal entity restructuring resulting in the removal of valuation allowances on deferred income tax assets and increased income tax basis in certain assets. Fiscal 2013 included \$4,569 (\$0.17 per share) in

## Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

### Table of Contents

after-tax fixed asset impairment losses at Delta EMD Pty. Ltd. (EMD) and \$12,011 (\$0.45 per share) in losses associated with the deconsolidation of EMD.

- (2) On May 12, 2010, the Company acquired Delta plc (Delta). The financial results of Delta are included in the Company's consolidated accounts starting on that date. Fiscal 2011 and 2012, accordingly, include a full year of Delta's operating results.
- (3) Fiscal 2011 was a 53 week fiscal year.
- (a) Return on Invested Capital is calculated as Operating Income (after-tax) divided by the average of beginning and ending Invested Capital. Invested Capital represents total assets minus total liabilities (excluding interest-bearing debt). Return on Invested Capital is one of our key operating ratios, as it allows investors to analyze our operating performance in light of the amount of investment required to generate our operating profit. Return on Invested Capital is also a measurement used to determine management incentives. Return on Invested Capital is not a measure of financial performance or liquidity under generally accepted accounting principles (GAAP). Accordingly, Invested Capital and Return on Invested Capital should not be considered in isolation or as a substitute for net earnings, cash flows from operations or other income or cash flow data prepared in accordance with GAAP or as a measure of our operating performance or liquidity. The table below shows how Invested Capital and Return on Invested Capital are calculated from our income statement and balance sheet.

|   | 2013         | 2012         | 2011         | 2010         | 2009         |
|---|--------------|--------------|--------------|--------------|--------------|
| Operating income                        | \$ 473,069   | \$ 382,296   | \$ 263,310   | \$ 178,413   | \$ 237,994   |
| Effective tax rate(1)                   | 35.1%        | 35.2%        | 30.2%        | 36.0%        | 32.2%        |
| Tax effect on operating income          | (166,047)    | (134,568)    | (79,520)     | (64,153)     | (76,634)     |
| After-tax operating income              | 307,022      | 247,728      | 183,790      | 114,260      | 161,360      |
| Average invested capital                | 2,047,703    | 1,875,482    | 1,673,584    | 1,303,839    | 1,036,827    |
| Return on invested capital              | 15.0%        | 13.2%        | 11.0%        | 8.8%         | 15.6%        |
| Total assets                            | \$ 2,776,494 | \$ 2,568,551 | \$ 2,306,076 | \$ 2,090,743 | \$ 1,302,169 |
| Less: Accounts and income taxes payable | (216,121)    | (212,424)    | (234,537)    | (179,814)    | (118,210)    |
| Less: Accrued expenses                  | (194,527)    | (180,408)    | (157,128)    | (153,686)    | (122,532)    |
| Less: Defined benefit pension liability | (154,397)    | (112,043)    | (68,024)     | (104,171)    |              |
| Less: Deferred compensation             | (39,109)     | (31,920)     | (30,741)     | (23,300)     | (20,503)     |
| Less: Other noncurrent liabilities      | (51,731)     | (44,252)     | (41,418)     | (47,713)     | (7,010)      |
| Less: Dividends payable                 | (6,706)      | (6,002)      | (4,767)      | (4,352)      | (3,944)      |
| Total Invested capital                  | \$ 2,113,903 | \$ 1,981,502 | \$ 1,769,461 | \$ 1,577,707 | \$ 1,029,970 |
| Beginning of year invested capital      | \$ 1,981,502 | \$ 1,769,461 | \$ 1,577,707 | \$ 1,029,970 | \$ 1,043,684 |
| Average invested capital                | \$ 2,047,703 | \$ 1,875,482 | \$ 1,673,584 | \$ 1,303,839 | \$ 1,036,827 |

- 
- (1) The effective tax rate in 2011 does not include the effects of the legal entity reorganization executed in late 2011 (approximately \$66.0 million). The effective tax rate including the effect of the restructuring was 2.0%.

## Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

### Table of Contents

Return on invested capital, as presented, may not be comparable to similarly titled measures of other companies.

(b)

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) is one of our key financial ratios in that it is the basis for determining our maximum borrowing capacity at any one time. Our bank credit agreements contain a financial covenant that our total interest-bearing debt not exceed 3.50x EBITDA for the most recent four quarters. If this covenant is violated, we may incur additional financing costs or be required to pay the debt before its maturity date. EBITDA is not a measure of financial performance or liquidity under GAAP and, accordingly, should not be considered in isolation or as a substitute for net earnings, cash flows from operations or other income or cash flow data prepared in accordance with GAAP or as a measure of our operating performance or liquidity. The calculation of EBITDA is as follows:

|  | 2013              | 2012              | 2011              | 2010              | 2009              |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net cash flows from operations                         | \$ 396,442        | \$ 197,097        | \$ 149,671        | \$ 152,220        | \$ 349,520        |
| Interest expense                                       | 32,502            | 31,625            | 36,175            | 30,947            | 15,760            |
| Income tax expense                                     | 157,781           | 126,502           | 4,590             | 55,008            | 72,894            |
| Deconsolidation of subsidiary                          | (12,011)          |                   |                   |                   |                   |
| Impairment of property, plant and equipment            | (12,161)          |                   |                   |                   |                   |
| Deferred income tax (expense) benefit                  | 10,141            | (3,720)           | 84,962            | (5,017)           | (7,375)           |
| Noncontrolling interest                                | (1,971)           | (4,844)           | (8,918)           | (6,034)           | (3,379)           |
| Equity in earnings of nonconsolidated subsidiaries     | 835               | 6,128             | 8,059             | 2,439             | 751               |
| Stock-based compensation                               | (6,513)           | (5,829)           | (5,931)           | (7,154)           | (6,586)           |
| Pension plan expense                                   | (6,569)           | (4,281)           | (5,449)           | (5,874)           |                   |
| Contribution to pension plan                           | 17,619            | 11,591            | 11,860            |                   |                   |
| Payment of deferred compensation                       |                   |                   |                   | 393               | 267               |
| Changes in assets and liabilities, net of acquisitions | (34,205)          | 108,469           | 69,307            | 26,272            | (136,944)         |
| Other  | 4,318             | (321)             | (693)             | (3,203)           | (944)             |
| <b>EBITDA</b>  | <b>\$ 546,208</b> | <b>\$ 462,417</b> | <b>\$ 343,633</b> | <b>\$ 239,997</b> | <b>\$ 283,964</b> |

|   | 2013              | 2012              | 2011              | 2010              | 2009              |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net earnings attributable to Valmont Industries, Inc. | \$ 278,489        | \$ 234,072        | \$ 228,308        | \$ 94,379         | \$ 150,562        |
| Interest expense                                      | 32,502            | 31,625            | 36,175            | 30,947            | 15,760            |
| Income tax expense                                    | 157,781           | 126,502           | 4,590             | 55,008            | 72,894            |
| Depreciation and amortization expense                 | 77,436            | 70,218            | 74,560            | 59,663            | 44,748            |
| <b>EBITDA</b>   | <b>\$ 546,208</b> | <b>\$ 462,417</b> | <b>\$ 343,633</b> | <b>\$ 239,997</b> | <b>\$ 283,964</b> |

EBITDA, as presented, may not be comparable to similarly titled measures of other companies.

(c)

Return on beginning shareholders' equity is calculated by dividing Net earnings attributable to Valmont Industries, Inc. by the prior year's ending Total Valmont Industries, Inc. shareholders' equity.

(d)

Long-term debt as a percent of invested capital is calculated as the sum of Current portion of long-term debt and Long-term debt divided by Total Invested Capital. This is one of our key financial ratios in that it measures the amount of financial leverage on our balance sheet at any point in time. We also have covenants under our major debt agreements that relate to the amount of debt we carry. If those covenants are violated, we may incur additional financing costs or be

## Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

### Table of Contents

required to pay the debt before its maturity date. We have an internal target to maintain this ratio at or below 40%. This ratio may exceed 40% from time to time to take advantage of opportunities to grow and improve our businesses. Long-term debt as a percent of invested capital is not a measure of financial performance or liquidity under GAAP and, accordingly, should not be considered in isolation or as a substitute for net earnings, cash flows from operations or other income or cash flow data prepared in accordance with GAAP or as a measure of our operating performance or liquidity. The calculation of this ratio is as follows:

|  | <b>2013</b> |                  | <b>2012</b> |                  | <b>2011</b> |                  | <b>2010</b> |                  | <b>2009</b> |                  |
|--|-------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|
| Current portion of long-term debt                      | \$          | 202              | \$          | 224              | \$          | 235              | \$          | 238              | \$          | 231              |
| Long-term debt   |             | 470,907          |             | 472,593          |             | 474,415          |             | 468,596          |             | 160,251          |
| <b>Total long-term debt</b>                            |             | <b>471,109</b>   |             | <b>472,817</b>   |             | <b>474,650</b>   |             | <b>468,834</b>   |             | <b>160,482</b>   |
| <b>Total invested capital</b>                          |             | <b>2,113,903</b> |             | <b>1,981,502</b> |             | <b>1,769,461</b> |             | <b>1,577,707</b> |             | <b>1,029,970</b> |
| <b>Long-term debt as a percent of invested capital</b> |             | <b>22.3%</b>     |             | <b>23.9%</b>     |             | <b>26.8%</b>     |             | <b>29.7%</b>     |             | <b>15.6%</b>     |

Long-term debt as a percent of invested capital, as presented, may not be comparable to similarly titled measures of other companies.

Table of Contents

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Forward-Looking Statements**

Management's discussion and analysis, and other sections of this annual report, contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on assumptions that management has made in light of experience in the industries in which the Company operates, as well as management's perceptions of historical trends, current conditions, expected future developments and other factors believed to be appropriate under the circumstances. These statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond the Company's control) and assumptions. Management believes that these forward-looking statements are based on reasonable assumptions. Many factors could affect the Company's actual financial results and cause them to differ materially from those anticipated in the forward-looking statements. These factors include, among other things, risk factors described from time to time in the Company's reports to the Securities and Exchange Commission, as well as future economic and market circumstances, industry conditions, company performance and financial results, operating efficiencies, availability and price of raw materials, availability and market acceptance of new products, product pricing, domestic and international competitive environments, and actions and policy changes of domestic and foreign governments.

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our consolidated results of operations and financial position. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes.

References to 2013 and 2012 relate to the fifty-two week periods ended December 28, 2013 and December 29, 2012, respectively. 2011 relates to the fifty-three week period ended December 31, 2011.

Table of Contents**General**

|  | 2013       | 2012       | Change<br>2013 - 2012 | 2011       | Change<br>2012 - 2011 |
|--|------------|------------|-----------------------|------------|-----------------------|
| <b>Dollars in millions, except per share amounts</b> |            |            |                       |            |                       |
| <b>Consolidated</b>                                  |            |            |                       |            |                       |
| Net sales  | \$ 3,304.2 | \$ 3,029.5 | 9.1%                  | \$ 2,661.5 | 13.8%                 |
| Gross profit   | 945.2      | 802.5      | 17.8%                 | 666.8      | 20.4%                 |
| <i>as a percent of sales</i>                         | 28.6%      | 26.5%      |                       | 25.1%      |                       |
| SG&A expense   | 472.1      | 420.2      | 12.4%                 | 403.5      | 4.1%                  |
| <i>as a percent of sales</i>                         | 14.3%      | 13.9%      |                       | 15.2%      |                       |
| Operating income                                     | 473.1      | 382.3      | 23.8%                 | 263.3      | 45.2%                 |
| <i>as a percent of sales</i>                         | 14.3%      | 12.6%      |                       | 9.9%       |                       |
| Net interest expense                                 | 26.0       | 23.4       | 11.1%                 | 26.9       | (13.0)%               |
| Effective tax rate                                   | 35.1%      | 35.2%      |                       | 2.0%       |                       |
| Net earnings attributable to Valmont Industries, Inc | 278.5      | 234.1      | 19.0%                 | 228.3      | 2.5%                  |
| Diluted earnings per share                           | \$ 10.35   | \$ 8.75    | 18.3%                 | \$ 8.60    | 1.7%                  |
| <b>Engineered Support Structures Segment</b>         |            |            |                       |            |                       |
| Net sales  | \$ 897.5   | \$ 833.3   | 7.7%                  | \$ 792.6   | 5.1%                  |
| Gross profit   | 256.4      | 215.8      | 18.8%                 | 189.1      | 14.1%                 |
| SG&A expense   | 168.7      | 161.8      | 4.3%                  | 148.3      | 9.1%                  |
| Operating income                                     | 87.7       | 54.0       | 62.4%                 | 40.8       | 32.4%                 |
| <b>Utility Support Structures Segment</b>            |            |            |                       |            |                       |
| Net sales  | 959.7      | 869.7      | 10.3%                 | 620.8      | 40.1%                 |
| Gross profit   | 257.4      | 200.4      | 28.4%                 | 139.2      | 44.0%                 |
| SG&A expense   | 82.7       | 71.4       | 15.8%                 | 68.6       | 4.1%                  |
| Operating income                                     | 174.7      | 129.0      | 35.4%                 | 70.6       | 82.7%                 |
| <b>Coatings Segment</b>                              |            |            |                       |            |                       |
| Net sales  | 301.0      | 282.1      | 6.7%                  | 280.8      | 0.5%                  |
| Gross profit   | 106.7      | 104.4      | 2.2%                  | 93.5       | 11.7%                 |
| SG&A expense   | 31.8       | 32.8       | (3.0)%                | 34.9       | (6.0)%                |
| Operating income                                     | 74.9       | 71.6       | 4.6%                  | 58.6       | 22.2%                 |
| <b>Irrigation Segment</b>                            |            |            |                       |            |                       |
| Net sales  | 882.2      | 750.6      | 17.5%                 | 665.9      | 12.7%                 |
| Gross profit   | 272.7      | 216.1      | 26.2%                 | 178.6      | 21.0%                 |
| SG&A expense   | 91.2       | 72.4       | 26.0%                 | 70.8       | 2.3%                  |
| Operating income                                     | 181.5      | 143.7      | 26.3%                 | 107.8      | 33.3%                 |
| <b>Other</b>   |            |            |                       |            |                       |
| Net sales  | 263.8      | 293.9      | (10.2)%               | 301.4      | (2.5)%                |
| Gross profit   | 51.8       | 65.7       | (21.2)%               | 65.9       | (0.3)%                |
| SG&A expense   | 20.8       | 19.1       | 8.9%                  | 20.2       | (5.4)%                |
| Operating income                                     | 31.0       | 46.6       | (33.5)%               | 45.7       | 2.0%                  |
| <b>Net corporate expense</b>                         |            |            |                       |            |                       |
| Gross profit   | 0.2        |            | NA                    | 0.5        | (100.0)%              |
| SG&A expense   | 76.9       | 62.6       | 22.8%                 | 60.7       | 3.1%                  |
| Operating loss                                       | (76.7)     | (62.6)     | 22.5%                 | (60.2)     | 4.0%                  |



Table of Contents**RESULTS OF OPERATIONS****FISCAL 2013 COMPARED WITH FISCAL 2012***Overview*

On a consolidated basis, the increase in net sales in 2013, as compared with 2012, reflected improved sales in all reportable segments while sales were down in the "Other" category. The increase in net sales in 2013, as compared with 2012, was due to the following factors:

|                      | <b>Total</b> | <b>EIP</b> | <b>Utility</b> | <b>Coatings</b> | <b>Irrigation</b> | <b>Other</b> |
|----------------------|--------------|------------|----------------|-----------------|-------------------|--------------|
| Sales 2012           | \$ 3,029.5   | \$ 833.3   | \$ 869.6       | \$ 282.1        | \$ 750.6          | \$ 293.9     |
| Volume               | 120.3        | 9.2        | 9.3            | (9.3)           | 114.7             | (3.6)        |
| Pricing/mix          | 98.2         | (2.0)      | 80.8           | 1.4             | 27.5              | (9.5)        |
| Acquisitions         | 99.0         | 64.7       |                | 34.3            |                   |              |
| Currency translation | (42.8)       | (7.7)      |                | (7.5)           | (10.6)            | (17.0)       |
| Sales 2013           | \$ 3,304.2   | \$ 897.5   | \$ 959.7       | \$ 301.0        | \$ 882.2          | \$ 263.8     |

Volume effects are estimated based on a physical production or sales measure, such as tons. As the products we sell are not uniform in nature, pricing and mix relate to a combination of changes in sales prices and the attributes of the product sold. Accordingly, pricing and mix changes do not necessarily result in increased operating income. Acquisitions included Locker Group Holdings ("Locker") and Pure Metal Galvanizing ("PMG"). We acquired PMG in December 2012 and Locker in February 2013. We report Locker in the Engineered Infrastructure Products segment and PMG in the Coatings segment.

In 2013, we realized a decrease in operating profit, as compared with 2012, due to currency translation effects. On average, the U.S. dollar strengthened in particular against the Australian dollar, Brazilian Real and the South Africa Rand, resulting in less operating profit in U.S. dollar terms. The breakdown of this effect by the affected segment was as follows:

| <b>Total</b> | <b>EIP</b> | <b>Coatings</b> | <b>Irrigation</b> | <b>Other</b> | <b>Corporate</b> |
|--------------|------------|-----------------|-------------------|--------------|------------------|
| \$ (5.5)     | \$ (1.2)   | \$ (1.1)        | \$ (1.7)          | \$ (1.7)     | \$ 0.2           |

The increase in gross margin (gross profit as a percent of sales) in 2013, as compared with 2012, was due to a combination of improved sales prices and sales mix, improved factory operations and moderating raw material costs in 2013, as compared with 2012. In general, our cost of steel and other raw materials were slightly lower in 2013, as compared with 2012. 2013 included a \$12.2 million fixed asset impairment loss in our electrolytic manganese dioxide (EMD) operation, which was recorded as Product Cost of Sales. The impairment was a result of continued global oversupply of global manganese dioxide in the market, increased price competition and increasing input costs. In addition, a major customer advised us that its purchases from us in 2014 would be substantially below prior years. As future prospects for the operation were not as favorable as the past, we undertook an impairment review in the fourth quarter of 2013, which resulted in the \$12.2 million impairment.

Selling, general and administrative (SG&A) spending in 2013 increased over 2012, mainly due to the following factors:

Expenses recorded by Locker and PMG of \$19.4 million;

Increased employee incentive accruals of \$13.8 million, due to improved operating results and increased share price in valuing long-term incentive plans;



Table of Contents

Increased compensation expenses of \$8.2 million, mainly associated with increased employment levels and salary increases;

Increased doubtful account provisions of \$3.1 million, principally in the Irrigation segment, and;

Increased deferred compensation expenses of \$2.4 million, which was offset by the same amount of other income.

In addition, certain non-recurring items affecting the comparisons of SG&A expenses included:

The sale of one of our galvanizing facilities in Australia resulted in a gain of \$4.6 million in 2013, which was reported as a reduction of SG&A expense, and;

Insurance proceeds received related to a fire in one of our galvanizing facilities in Australia resulted in a non-recurring reduction in SG&A in 2012 of \$2.0 million.

On a reportable segment basis, all segments realized improved operating income in 2013, as compared with 2012.

Net interest expense increased in 2013, as compared with 2012, due to a combination of lower interest income and slightly higher interest expense. Interest income for 2013 was lower than 2012 due mainly to lower interest rates and lower average cash balances in Australia. The increase in interest expense principally was due to higher bank fees and interest incurred due to increased short-term borrowings to finance working capital in our India operation.

The increase in other income in 2013, as compared with 2012, mainly was attributable to \$2.4 million of higher investment gains in our deferred compensation plan assets. This benefit was offset by an increase in SG&A expense of the same amount.

Our effective income tax rate in 2013 was comparable with 2012. In 2012 and 2013, U.K. tax rates were collectively reduced from 26% to 20%. Accordingly, we reduced the value of our deferred tax assets associated with net operating loss carryforwards and certain timing differences by \$8.3 million in 2013 (\$4.8 million in 2012), with a corresponding increase in income tax expense. The effects of the U.K. tax rate decrease were offset somewhat by approximately \$3.2 million of tax benefits associated with the 2013 sale of our nonconsolidated investment in South Africa and \$1.8 million of increased research and development tax credits in the U.S.

Earnings in non-consolidated subsidiaries were lower in 2013, as compared with 2012, due to the sale of our 49% owned manganese materials operation in February 2013. There was no significant gain or loss on the sale.

Earnings attributable to non-controlling interests in 2013 was lower than 2012, mainly due to the impairment loss recorded in our electromagnetic manganese dioxide (EMD) operation. The total after-tax impairment loss was approximately \$8.8 million. Our proportionate share of this loss was \$4.6 million (\$0.17 per share) and the remainder was attributable to the non-controlling interest. This decrease was offset to a degree by improved earnings realized by our other operations that are less than 100% owned.

In December 2013, we reduced our ownership interest in the EMD operation to below 50% and deconsolidated this entity. Accordingly, we recognized a \$12.0 million after-tax loss, or \$0.45 per share, in accordance with the relevant accounting standards. The loss upon deconsolidation consisted of \$8.6 million of currency translation adjustments previously recorded in the balance sheet and \$3.4 million related to reducing the book value of the remaining EMD investment to fair value, including \$1.7 million in deferred income taxes.

Table of Contents

The reported earnings per share in 2013 of \$10.35 included the deconsolidation and fixed asset impairment loss at EMD, which aggregated to \$0.62 per share. The earnings per share improvement in 2013 over 2012 was the result of higher net earnings in 2013, as compared with 2012.

Our cash flows generated by operations were approximately \$396.4 million in 2013, as compared with \$197.1 million in 2012. The increase in operating cash flow in 2013 was the result of improved net earnings and less additional working capital to support the improved sales in 2013, as compared with 2012.

***Engineered Infrastructure Products (EIP) segment***

The increase in net sales in 2013, as compared with 2012, was mainly due to improved access systems and communication products sales. Global lighting sales in 2013 were comparable with 2012. The transportation market for lighting and traffic structures in the U.S., while stable, continues to be challenging, due in part to the lack of long-term U.S. federal highway funding legislation. Sales in other market channels such as sales to lighting fixture manufacturers and commercial construction projects in fiscal 2013 improved somewhat as compared with the same periods in 2012. In Europe, sales in 2013 were approximately 7% lower than 2012, as low economic growth and budget restrictions have hampered government roadway spending activity and demand for lighting structures.

Communication product line sales improved in 2013, as compared with 2012. On a regional basis, North American sales in 2013 improved over the same periods in 2012 by \$16.9 million. The increase in North America sales was mainly attributable to stronger sales demand for components due to 4G wireless communication development. In China, sales of wireless communication structures in 2013 were lower than 2012, as we believe local wireless communication carriers have delayed their 4G investment upgrades until 2014.

Access systems product line sales improved in 2013, as compared with 2012, due to the Locker acquisition in February 2013. Otherwise, access systems sales in 2013 were lower than 2012, due a combination of slowness in mining sector investment in Australia, exchange rate effects due to a weaker Australian dollar in 2013 and related competitive pricing effects. Highway safety product sales in 2013 were comparable with 2012, as growth in spending for roads and highways in Australia continues to be affected by budgetary restrictions.

Operating income for the segment in 2013 increased, as compared with 2012, due primarily to:

improved operating performance of our lighting operations as a result of better factory operating performance (approximately \$18.2 million);

improved North American communication product sales (approximately \$5.9 million), and;

operating profit generated from Locker (approximately \$4.7 million).

The increase in SG&A spending was attributable to Locker (approximately \$14.7 million). SG&A spending otherwise was lower in 2013, as compared with 2012, mainly associated with cost cutting measures taken in Europe in the third and fourth quarters of 2012.

***Utility Support Structures (Utility) segment***

In the Utility segment, the sales increase in 2013, as compared with 2012, was due mainly to improved sales in the U.S. market. International sales were slightly lower in 2013, as compared with 2012, as bid projects in the Asia Pacific region were somewhat lower.

In the U.S., electrical utility companies continue to invest in the electrical grid at a high rate, as evidenced by record backlogs at December 29, 2012 and continued strong order flow in 2013. Certain

Table of Contents

low margin orders that shipped and were completed in 2012 contributed to improved sales prices and mix in 2013, as compared with 2012.

Operating income in 2013, as compared with 2012, increased due to improved sales pricing and mix as well as increased volumes. The improvements in sales pricing and mix largely were related to strong market conditions and certain large low margin orders that were completed in 2012 and did not recur in 2013. In addition, 2012 included approximately \$12.9 million of unanticipated production and rework costs associated with one large order. These costs did not recur in 2013, which contributed to the gross profit improvements in 2013, as compared with 2012. The increase in SG&A expense in 2013, as compared with 2012, were mainly due to increased employee compensation (approximately \$3.6 million) and incentives (approximately \$1.7 million) associated with the increase in business levels and operating income.

*Coatings segment*

Coatings segment sales increased in 2013, as compared with 2012, due mainly to the December 2012 PMG acquisition. North America experienced slightly lower external demand for galvanizing services, although internal demand from our other segments was higher in 2013, as compared with 2012. Asia Pacific volumes in 2013 were lower than 2012 due to lower demand in Australia. Unit pricing in 2013 was comparable with 2012.

The increase in segment operating income in 2013, as compared with 2012, was mainly due to the gain on the sale of an Australian galvanizing operation in the second quarter of 2013 of \$4.6 million, and operating income provided by PMG (approximately \$4.1 million). These two positive effects on 2013 operating income were offset to an extent by the effect of lower external demand for coatings services in Australia and the settlement of a dispute with a vendor of approximately \$0.9 million in 2012.

In 2013, we had a kettle failure in one North America facility and a fire in another. In 2012, we realized recoveries related to fire and storm damages at one of our Australian galvanizing facilities. The effect of these events on 2013 operating profit was not significant, as the related insurance recoveries to this point approximated certain related incurred costs and the carrying value of assets that were damaged. The insurance claims process is continuing and expected to conclude in 2014.

*Irrigation segment*

The increase in Irrigation segment net sales in 2013, as compared with 2012, was mainly due to sales volume increases in both North American and International markets. The pricing and sales mix effect was generally due to sales price increases that took effect in 2012 to recover higher material costs in early 2012. In global markets, the sales growth was due to strong net farm income and agricultural economies around the world. We believe that farm commodity prices have been generally favorable due to strong demand, including consumption in the production of ethanol and other fuels, and traditionally low inventories of major farm commodities. In addition, in North America, we believe widespread drought throughout much of the country in 2012 further highlighted the benefits of center pivot irrigation and contributed to enhanced demand for our products. In international markets, sales improved in 2013, as compared with 2012, mainly due to increased activity in Brazil, Eastern Europe and Australia. These increases were offset somewhat by lower sales in China, Argentina and the Middle East, which were due to certain economic and political uncertainties in these regions.

Operating income for the segment improved in 2013 over 2012, due to improved global sales unit volumes and related price increases. Moderating raw material prices in light of higher selling prices also contributed to improved operating income in 2013, as compared with 2012. The most significant reasons for the increase in SG&A expense in 2013, as compared with 2012, related to employee compensation costs and incentives (approximately \$7.3 million), approximately \$2.6 million in provisions

Table of Contents

for international receivables recorded in 2013 and other expenses incurred to support the business activity levels and product development.

*Other*

This unit includes the grinding media, industrial tubing, EMD and industrial fasteners operations. The decrease in sales in 2013, as compared with 2012, was mainly due to lower sales prices in the tubing and grinding media operations due to lower steel prices and exchange rate translation effects. Operating income in 2013 was lower than 2012, mainly due to a \$12.2 million fixed asset impairment charge recorded by the EMD operation. Otherwise, lower raw material prices helped to dampen the effects of lower selling prices on operating income.

*Net corporate expense*

Net corporate expense in 2013 increased over 2012. This increase were mainly due to:

higher employee incentives of approximately \$6.3 million associated with improved net earnings and share price, which affected long-term incentive plans;

higher compensation and employee benefit costs (approximately \$4.2 million);

increased expenses associated with the Delta Pension Plan (approximately \$2.5 million), and;

insurance settlements realized in 2012 related to a fire and storm damage to one of our galvanizing facilities in Australia of \$2.0 million that did not recur in 2013;

**FISCAL 2012 COMPARED WITH FISCAL 2011**

*Overview*

On a consolidated basis, the increase in net sales in 2012, as compared with 2011, was due to the following factors:

Unit sales volumes increased approximately \$353 million in 2012, as compared with 2011. All reportable segments contributed to the higher sales volumes, with the most significant unit sales increases within the Utility Support Structures and Irrigation segments. Depending on the segment, unit volumes are measured in tons, units or some other physical measure of volume.

Sales prices and mix in 2012, as compared with 2011, were favorable, resulting in increased sales of approximately \$50 million. As many of our products are either built to order or configured to customer specifications, sales mix can be due to a number of factors, in addition to pricing. These factors may include product specifications, options and other factors that may affect the unit price at which a product is sold. In some cases, pricing and mix may affect our cost of the product sold.

2012 included 52 weeks of operations, as compared with 2011, which was 53 weeks. This was the result of our year ending the last Saturday in December. Accordingly, all 2011 operational figures were higher than had the year been 52 weeks in length. The estimated effect of our 2011 net sales and net earnings due to the extra week of operations was approximately \$50 million and \$3 million, respectively.

Foreign currency translation factors, in the aggregate, resulted in lower net sales and operating income in 2012, as compared with 2011. On average, the U.S. dollar strengthened against most currencies in 2012. The most significant currencies that contributed to this movement were the euro,



## Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

### Table of Contents

Brazilian real and the South African rand. On a segment basis, the approximate currency effects on net sales and operating income in 2012, as compared with 2011, were as follows (in millions of dollars):

|                                    | Net Sales        | Operating<br>Income |
|------------------------------------|------------------|---------------------|
| Engineered Infrastructure Products | \$ (14.8)        | \$ (0.6)            |
| Utility Support Structures         | 0.5              |                     |
| Coatings                           |                  |                     |
| Irrigation                         | (15.0)           | (2.5)               |
| Other                              | (5.7)            | (0.6)               |
| Corporate                          |                  |                     |
| <b>Total</b>                       | <b>\$ (35.0)</b> | <b>\$ (3.7)</b>     |

The increase in gross profit margin (gross profit as a percent of sales) in 2012, as compared with 2011, was primarily due to improved sales pricing and mix and moderating raw material costs in 2012 as compared with 2011. Steel prices and zinc prices in 2012 were down slightly as compared with 2011. LIFO expense in 2012 was \$10.7 lower than 2011, contributing to the comparatively higher gross profit margin in 2012, as compared with 2011.

Selling, general and administrative (SG&A) expense in 2012, as compared with 2011, increased mainly due to the following factors:

Increased compensation expenses of approximately \$8.0 million, associated with increased employment levels and increased employee benefit costs;

Increased employee incentive accruals of approximately \$10.6 million, due to improved operating results; and

Deferred compensation expense of \$2.4 million incurred in 2012 associated with the increase in deferred compensation plan liabilities. The corresponding increase in deferred compensation plan assets was recorded as a decrease in "Other" expense.

These increases were offset to a degree by foreign exchange transaction effects of \$4.7 million. SG&A spending as a percent of sales decreased from 15.2% in 2011 to 13.9% in 2012, as we achieved leverage of the fixed portion of SG&A expense in light of the sales increase.

The increase in operating income on a reportable segment basis in fiscal 2012, as compared with 2011, was due to improved operating performance in all reportable segments. The most significant increases were in the Irrigation and Utility segments.

The decrease in net interest expense in 2012, as compared with 2011, was the net effect of lower interest expense of \$4.5 million and lower interest income of \$1.0 million. The decrease in interest expense was attributable to interest savings realized from the refinancing of our \$150 million of senior subordinated debt in June 2011 and approximately \$2.8 million of expense incurred in the second quarter of 2011 related to the refinancing of our \$150 million of senior subordinated notes. The decrease in interest income was due to interest received on certain income tax refunds in 2011. Average borrowing levels in 2012 were comparable with 2011.

The decrease in "Other" expenses in 2012, as compared with 2011, of \$3.0 million was mainly due to investment returns in the assets held in our deferred compensation plan of \$2.4 million. The increase in the value of these assets was offset by a corresponding increase in our deferred compensation liabilities, which was reflected as an increase in SG&A expense. Accordingly, there was no effect on net earnings from these investment gains.



Table of Contents

Our effective income tax rate in 2012 of 35.2% was higher than the 2011 effective rate of 2.0%. Our effective tax rate in 2011 was abnormally low, mainly due to tax benefits associated with the legal entity restructuring of Delta Ltd. in the fourth quarter of 2011. Aside from these non-recurring benefits, our 2011 effective tax would have been approximately 33%. Our effective tax rate in 2012 was affected by the following factors that contributed to increased income tax expense:

In 2012, the U.K. reduced its income tax rate from 26% to 24%. As a result, our income tax expense increased in 2012 by \$4.8 million, mainly due to the revaluation of deferred income tax assets, and;

Adjustments to the final accounting calculations related to the 2011 legal restructuring of Delta Ltd. resulted in a \$2.4 million unfavorable adjustment.

Going forward, depending on our geographic mix of earnings and currently enacted income tax rates in the countries in which we operate, we expect our effective tax rate to approximate 34%.

Earnings attributable to noncontrolling interests was lower in 2012, as compared with 2011, mainly due to lower net earnings in those consolidated operations that are less than 100% owned, the most significant of what was the manganese dioxide operation. In addition, \$2.4 million of the 2012 decrease was due to our purchase of the noncontrolling interest in our grinding media operation in June 2011. This operation was previously 40% owned by noncontrolling interests.

Our cash flows provided by operations were \$197.1 million in 2012, as compared with \$149.7 million in 2011. While net earnings in 2012 was comparable with 2011, \$66.0 million of 2011 earnings was due to tax benefits resulting from the Delta Ltd. legal reorganization, which were non-cash in nature.

***Engineered Infrastructure Products (EIP) segment***

The increase in EIP segment net sales in 2012, as compared with 2011, was due to improved sales volumes of approximately \$33 million, \$22 million of favorable pricing and sales mix changes, offset to a degree by unfavorable foreign exchange translation effects of approximately \$15 million. The pricing increases largely followed raw material inflation realized in 2011.

In the lighting product line, North American sales in 2012 were up modestly from 2011. The increase in sales resulted from higher sales prices and favorable sales mix. The transportation market for lighting and traffic structures continues to be steady but not particularly strong. While a two-year extension to the current U.S. highway funding legislation was enacted in the of 2012, this event has not yet affected the market for lighting and traffic structures. We also believe that state budget issues are limiting roadway project activity. Sales in other market channels such as sales to lighting fixture manufacturers and commercial construction projects in 2012 were comparable with 2011. In Europe, lighting sales in 2012 were lower than 2011. We divested our Turkish and Italian operations in late 2011, resulting in lower sales in 2012, as compared with 2011, of \$17.5 million. Current economic conditions in Europe are weak and uncertain. As a result, public spending for streets and highways is under pressure, as governments cope with lower tax receipts and budget deficits. However, lighting sales in local currency were higher in 2012, as compared with 2011. Stronger sales in France, Scandinavia and the U.K. were offset somewhat by weaker sales volumes in northern Europe. Lighting sales in the Asia Pacific region in 2012 were comparable with 2011.

Communication product line sales in 2012 were improved over 2011. North America sales in 2012 were \$27 million higher than 2011. The increase in sales was attributable to improved market conditions (somewhat attributable to the build out of 4G wireless technology) and the resolution of the proposed AT&T/T-Mobile merger, which we believe slowed sales activity for structures and components in 2011. In China, sales of wireless communication structures in 2012 were comparable with 2011.

Table of Contents

Sales in the access systems product line in 2012 were improved as compared with 2011, as industrial production investments in the mining and energy economic sectors are increasing in the Asia Pacific region.

Sales of highway safety products in 2012 were slightly higher than 2011. While public spending on roadways in Australia did not grow in 2012, establishment of sales channels in other countries in the Asia Pacific region contributed to sales volume increases for the product line.

Operating income for the segment in 2012 was higher than 2011. Improved operating income resulted from higher sales volumes, improved sales prices and moderating raw material costs (including \$2.7 million of lower LIFO expense). These improvements were offset by factory productivity issues that negatively affected operating income by approximately \$14.3 million. The productivity matters mainly were due to excessive start-up costs associated with capacity expansions in the U.S. and various factory productivity matters in the Europe and Asia Pacific regions. The increase in SG&A spending in 2012, as compared with 2011, mainly was attributable to higher compensation costs of \$7.6 million and increased employee incentives of \$5.0 million. These increases were offset to a degree by a \$3.0 million write down in a trade name recorded in 2011 and currency translation effects of \$2.6 million.

*Utility Support Structures (Utility) segment*

In the Utility segment, the sales increase in the 2012, as compared with 2011, was primarily due to improved unit sales volumes of approximately \$239 million. In U.S. markets, investments in the electrical grid by utility companies is increasing, resulting in improved sales of transmission and substation structures. The effect of sales mix was favorable in 2012, as compared with 2011, by approximately \$10 million. Sales mix was mainly related to certain large orders that were taken in 2010 and early 2011, when market pricing was particularly low. As market conditions improved, pricing recovered to a degree, resulting in improved pricing and mix as the year progressed. Sales in international markets in 2012 were improved over 2011. Sales in the Asia Pacific region are higher, offset to some extent by lower sales in Europe and the Middle East.

Operating income in 2012, as compared with 2011, increased due to the increase in North America sales volume, moderating raw material costs and leverage effects on fixed SG&A and factory expenses. These positive effects were offset to a degree by \$12.9 million of additional rework and other unanticipated costs related to certain large orders. The increase in SG&A expense for the segment in 2012 as compared with 2011, was mainly due to increased employee compensation of \$3.1 million and increased sales commissions of \$1.0 million, associated with the increase in business levels.

*Coatings segment*

Coatings segment sales to outside customers in 2012 was comparable with 2011, as improved sales in the United States was offset to a degree by lower sales in the Asia Pacific region. In the United States, we experienced broad-based improved demand from customers, especially in the agriculture, petrochemical and energy economic sectors, which included higher sales for galvanizing services to our other segments. Asia Pacific volumes in 2012 were down from 2011, due to slowness in the Australian industrial economy not related to mining. Average selling prices in 2012 were comparable with 2011.

The increase in segment operating income in 2012, as compared with 2011, was mainly due to improved productivity and operating leverage through volume increases and lower zinc costs. The effect of lower zinc costs on segment operating income in 2012, as compared with 2011, was approximately \$5.7 million. SG&A expenses for the segment in 2012, as compared with 2011, were slightly lower, mainly due to a \$0.9 million favorable dispute settlement with a vendor in 2012 and a \$0.8 million write down of a trade name recorded in 2011. In 2012, we completed the insurance settlement related to the 2011 storm and fire at one of our facilities in Australia. Settlements in 2012 totaled \$1.2 million, as compared with \$1.5 million in 2011, which were recorded in operating income.

Table of Contents

***Irrigation segment***

The increase in Irrigation segment net sales in 2012, as compared with 2011, was mainly due to improved sales volumes of approximately \$78 million and favorable pricing and sales mix of approximately \$23 million. These increases were offset by unfavorable currency translation effects of approximately \$15 million in 2012, as compared with 2011. The pricing and sales mix effect was generally due to sales price increases that took effect in the second half of 2011 to recover higher material costs in early 2011. In global markets, the sales growth was due to very strong agricultural economies around the world. Farm commodity prices continue to be favorable, with a positive outlook for net farm income in most markets around the world. We believe that farm commodity prices have been favorable due to strong demand, including consumption in the production of ethanol and other fuels, and traditionally low inventories of major farm commodities. We believe the drought conditions in much of the U.S. this summer contributed to the increased demand for irrigation equipment and related service parts in 2012. The very dry growing conditions throughout much of the U.S. highlight the benefits of irrigation in order to maintain crop yields under these circumstances. In international markets, the sales improvement in 2012, as compared with 2011, was also realized in most markets due to generally favorable economic conditions in the global farm economy.

Operating income for the segment improved in 2012, as compared with 2011, due to improved sales unit volumes and improved sales prices in light of stable material costs. The higher average selling prices resulted from rising material costs in 2011, when sales price increases lagged material cost inflation. The stability in raw material purchase costs also resulted in \$4.6 million in lower LIFO expenses in 2012, as compared with 2011. SG&A expenses in 2012 were comparable with 2011.

***Other***

This category includes the grinding media, industrial tubing, electrolytic manganese and industrial fasteners operations. In 2012, sales were lower than 2011, mainly due currency translation effects of \$5.7 million and slightly lower sales in grinding media. Operating income in 2012 was comparable with 2011, as improvement in tubing was offset by lower operating earnings in our manganese dioxide operation.

***Net corporate expense***

Net corporate expense in 2012 was higher than 2011, mainly due to:

higher employee incentives of \$5.1 million associated with improved net earnings and share price, which affected long-term incentive plans, and;

higher deferred compensation expenses (approximately \$2.4 million) related to investment returns on assets in the deferred compensation plan. These increases are offset by decreases in "Other" expense.

These increases were offset by lower corporate spending in various areas, including lower expenses for the Delta Pension Plan of \$1.2 million.

**LIQUIDITY AND CAPITAL RESOURCES**

***Cash Flows***

***Working Capital and Operating Cash Flows*** Net working capital was \$1,161.3 million at December 28, 2013, as compared with \$1,013.5 million at December 29, 2012. The increase in net working capital in 2013 mainly resulted from increased cash on hand due to increased profitability on higher sales and slightly lower receivables and inventory on-hand in 2013. Operating cash flow was \$396.4 million in 2013, as compared with \$197.1 million in 2012 and \$149.7 million in 2011. The

Table of Contents

increase in operating cash flow in 2013 mainly was the result of improved operations and management of working capital. The loss upon the deconsolidation of EMD of \$12.0 million and the impairment of EMD's fixed assets of \$12.2 million were non-cash in nature. The increase in operating cash flow in 2012 as compared with 2011 mainly resulted from the reduction in the non-cash tax benefits associated with the Delta Ltd. legal reorganization recorded as a reduction of income tax expense (\$66.0 million) in fiscal 2011.

*Investing Cash Flows* Capital spending in fiscal 2013 was \$106.8 million, as compared with \$97.1 million in fiscal 2012. The most significant capital spending projects in 2013 included certain capacity expansions in the Utility and Irrigation segments. We expect our capital spending for the 2014 fiscal year to be approximately \$100 million. In 2013, investing cash flows included proceeds from asset sales of \$37.6 million, principally consisting of \$29.2 million received from the sale of our 49% owned non-consolidated subsidiary in South Africa and \$8.2 million received from the sale of the Western Australia galvanizing operation. Investing cash flows included \$63.2 million paid for the Locker and Armorflex acquisitions in 2013 and \$45.7 million paid for the PMG acquisition in 2012.

*Financing Cash Flows* Our total interest-bearing debt was \$490.1 million at December 28, 2013, as compared with \$486.2 million at December 29, 2012. Financing cash flows in 2013 included approximately \$9.3 million to acquire the remaining 40% of the shares of Valley Irrigation South Africa Pty. Ltd. and \$11.6 million in cash held by EMD that was removed from our consolidated balance sheet upon deconsolidation. 2011 financing cash flows included approximately \$25.3 million to acquire the remaining 40% of the shares of Donhad Pty. Ltd.

***Sources of Financing and Capital***

We have historically funded our growth, capital spending and acquisitions through a combination of operating cash flows and debt financing. We have an internal long-term objective to maintain long-term debt as a percent of invested capital at or below 40%. At December 28, 2013, our long-term debt to invested capital ratio was 22.3%, as compared with 23.9% at December 29, 2012. Subject to our level of acquisition activity and steel industry operating conditions (which could affect the levels of inventory we need to fulfill customer commitments), we plan to maintain this ratio below 40% in 2014.

Our debt financing at December 28, 2013 consisted primarily of long-term debt. We also maintain certain short-term bank lines of credit totaling \$105.2 million, \$87.0 million of which was unused at December 28, 2013. Our long-term debt principally consists of:

\$450 million face value (\$461 million carrying value) of senior unsecured notes that bear interest at 6.625% per annum and are due in April 2020. We are allowed to repurchase the notes at specified prepayment premiums. These notes are guaranteed by certain of our subsidiaries.

\$400 million revolving credit agreement with a group of banks. We may increase the credit facility by up to an additional \$200 million at any time, subject to participating banks increasing the amount of their lending commitments. The interest rate on our borrowings will be, at our option, either:

- (a) LIBOR (based on a 1, 2, 3 or 6 month interest period, as selected by us) plus 125 to 225 basis points (inclusive of facility fees), depending on our ratio of debt to earnings before taxes, interest, depreciation and amortization (EBITDA), or;
- (b) the higher of

The higher of (a) the prime lending rate and (b) the Federal Funds rate plus 50 basis points plus in each case, 25 to 125 basis points (inclusive of facility fees), depending on our ratio of debt to EBITDA, or

Table of Contents

LIBOR (based on a 1 week interest period) plus 125 to 225 basis points (inclusive of facility fees), depending on our ratio of debt to EBITDA

At December 28, 2013, we had no outstanding borrowings under the revolving credit agreement. The revolving credit agreement has a termination date of August 15, 2017 and contains certain financial covenants that may limit our additional borrowing capability under the agreement. At December 28, 2013, we had the ability to borrow \$382.1 million under this facility, after consideration of standby letters of credit of \$17.9 million associated with certain insurance obligations.

These debt agreements contain covenants that require us to maintain certain coverage ratios and may limit us with respect to certain business activities, including capital expenditures. Our key debt covenants are as follows:

Interest-bearing debt is not to exceed 3.50x EBITDA of the prior four quarters; and

EBITDA over the prior four quarters must be at least 2.50x our interest expense over the same period.

At December 28, 2013, we were in compliance with all covenants related to these debt agreements. The key covenant calculations at December 28, 2013 were as follows:

|                                     |            |
|-------------------------------------|------------|
| Interest-bearing debt               | \$ 490,133 |
| EBITDA-last four quarters           | 546,208    |
| Leverage ratio                      | 0.90       |
| EBITDA-last four quarters           | \$ 546,208 |
| Interest expense-last four quarters | 32,502     |
| Interest earned ratio               | 16.81      |

The calculation of EBITDA-last four quarters is presented under the column for fiscal 2013 in footnote (b) to the table "Selected Five-Year Data" in Item 6 Selected Financial Data.

Our businesses are cyclical, but we have diversity in our markets, from a product, customer and a geographical standpoint. We have demonstrated the ability to effectively manage through business cycles and maintain liquidity. We have consistently generated operating cash flows in excess of our capital expenditures. Based on our available credit facilities, recent issuance of senior unsecured notes and our history of positive operational cash flows, we believe that we have adequate liquidity to meet our needs for fiscal 2014 and beyond.

We have not made any provision for U.S. income taxes in our financial statements on approximately \$644.3 million of undistributed earnings of our foreign subsidiaries, as we intend to reinvest those earnings. Of our cash balances of \$613.7 million at December 28, 2013, \$395.1 million is held in entities outside the United States. If we need to repatriate foreign cash balances to the United States to meet our cash needs, income taxes would be paid to the extent that those cash repatriations were undistributed earnings of our foreign subsidiaries. The income taxes that we would pay if cash were repatriated depends on the amounts to be repatriated and from which country. If we repatriated all of our cash outside the United States to the United States, depending on the timing and nature of such repatriations, we estimate that we would pay approximately from \$49.8 million to \$138.3 million in income taxes to repatriate that cash.

Table of Contents**FINANCIAL OBLIGATIONS AND FINANCIAL COMMITMENTS**

We have future financial obligations related to (1) payment of principal and interest on interest-bearing debt, (2) Delta pension plan contributions, (3) operating leases and (4) purchase obligations. These obligations at December 28, 2013 were as follows (in millions of dollars):

| <b>Contractual Obligations</b>            | <b>Total</b>      | <b>2014</b>     | <b>2015 - 2016</b> | <b>2017 - 2018</b> | <b>After 2018</b> |
|---|-------------------|-----------------|--------------------|--------------------|-------------------|
| Long-term debt                            | \$ 459.9          | \$ 0.2          | \$ 0.5             | \$                 | \$ 459.2          |
| Interest                                  | 189.0             | 29.9            | 59.7               | 59.6               | 39.8              |
| Delta pension plan contributions          | 181.1             | 18.1            | 36.2               | 36.2               | 90.6              |
| Operating leases                          | 118.5             | 27.5            | 40.0               | 22.1               | 28.9              |
| Acquisition earn-out payments             | 11.4              | 2.7             | 4.0                |                    | 4.7               |
| Unconditional purchase commitments        | 88.4              | 88.0            | 0.4                |                    |                   |
| <b>Total contractual cash obligations</b> | <b>\$ 1,048.3</b> | <b>\$ 166.4</b> | <b>\$ 140.8</b>    | <b>\$ 117.9</b>    | <b>\$ 623.2</b>   |

Long-term debt mainly consisted of \$450.0 million principal amount of senior unsecured notes. At December 28, 2013, we had no outstanding borrowings under our bank revolving credit agreement. Obligations under these agreements may be accelerated in event of non-compliance with debt covenants. The Delta pension plan contributions are related to the current cash funding commitments to the plan with the plan's trustees. Operating leases relate mainly to various production and office facilities and are in the normal course of business.

Acquisition earn-out payments relate to anticipated payments to the prior owners of PMG and Locker, as a portion of the consideration paid for these entities is contingent in nature. The earn-out arrangements generally relate to the meeting of certain profitability targets. Locker's target period ends in February 2015 and PMG's ends in December 2017.

Unconditional purchase commitments relate to purchase orders for zinc, aluminum and steel, all of which we plan to use in 2014, and certain capital investments planned for 2014. We believe the quantities under contract are reasonable in light of normal fluctuations in business levels and we expect to use the commodities under contract during the contract period.

At December 28, 2013, we had approximately \$43.9 million of various long-term liabilities related to certain income tax, environmental and other matters. These items are not scheduled above because we are unable to make a reasonably reliable estimate as to the timing of any potential payments.

**OFF BALANCE SHEET ARRANGEMENTS**

We have operating lease obligations to unaffiliated parties on leases of certain production and office facilities and equipment. These leases are in the normal course of business and generally contain no substantial obligations for us at the end of the lease contracts. We also maintain standby letters of credit for contract performance on certain sales contracts.

**MARKET RISK***Changes in Prices*

Certain key materials we use are commodities traded in worldwide markets and are subject to fluctuations in price. The most significant materials are steel, aluminum, zinc and natural gas. Over the last several years, prices for these commodities have been volatile. The volatility in these prices was due to such factors as fluctuations in supply and demand conditions, government tariffs and the costs of steel-making inputs. We have also experienced volatility in natural gas prices in the past several years. Our main strategies in managing these risks are a combination of fixed price purchase contracts with our vendors to reduce the volatility in our purchase prices and sales price increases where possible. We use natural gas swap contracts on a limited basis to mitigate the impact of rising gas prices on our operating income.

Table of Contents*Risk Management*

**Market Risk** The principal market risks affecting us are exposure to interest rates, foreign currency exchange rates and natural gas. We normally do not use derivative financial instruments to hedge these exposures (except as described below), nor do we use derivatives for trading purposes.

**Interest Rates** Our interest-bearing debt at December 28, 2013 was mostly fixed rate debt. Our notes payable and a small portion of our long-term debt accrue interest at a variable rate. Assuming average interest rates and borrowings on variable rate debt, a hypothetical 10% change in interest rates would have affected our interest expense in 2013 and 2012 by approximately \$0.2 million and \$0.1 million, respectively. Likewise, we have excess cash balances on deposit in interest-bearing accounts in financial institutions. An increase or decrease in interest rates of ten basis points would have impacted our annual interest earnings in 2013 by approximately \$0.4 million.

**Foreign Exchange** Exposures to transactions denominated in a currency other than the entity's functional currency are not material, and therefore the potential exchange losses in future earnings, fair value and cash flows from these transactions are not material. From time to time, as market conditions indicate, we will enter into foreign currency contracts to manage the risks associated with anticipated future transactions and current balance sheet positions that are in currencies other than the functional currencies of our operations. At December 28, 2013, the Company had open foreign currency forward contracts related to a large sales contract that will be settled in Canadian dollars. The notional amount of the open forward contracts to sell Canadian dollars is \$28,032 and will be settled by the end of March 2014. Much of our cash in non-U.S. entities is denominated in foreign currencies, where fluctuations in exchange rates will impact our cash balances in U.S. dollar terms. A hypothetical 10% change in the value of the U.S. dollar would impact our reported cash balance by approximately \$32.7 million in 2013 and \$32.4 million in 2012.

We manage our investment risk in foreign operations by borrowing in the functional currencies of the foreign entities where appropriate. The following table indicates the change in the recorded value of our most significant investments at year-end assuming a hypothetical 10% change in the value of the U.S. Dollar.

|                   | 2013          | 2012    |
|-------------------|---------------|---------|
|                   | (in millions) |         |
| Australian dollar | \$ 24.0       | \$ 27.3 |
| Chinese renminbi  | 14.9          | 13.9    |
| Canadian dollar   | 8.1           | 8.8     |
| Euro              | 5.7           | 6.8     |
| Brazilian real    | 3.2           | 3.3     |
| U.K. pound        | 3.5           | 2.3     |

**Commodity risk** Natural gas is a significant commodity used in our factories, especially in our Coatings segment galvanizing operations, where natural gas is used to heat tanks that enable the hot-dipped galvanizing process. Natural gas prices are volatile and we mitigate some of this volatility through the use of derivative commodity instruments. Our current policy is to manage this commodity price risk for 0-50% of our U.S. natural gas requirements for the upcoming 6-12 months through the purchase of natural gas swaps based on NYMEX futures prices for delivery in the month being hedged. The objective of this policy is to mitigate the impact on our earnings of sudden, significant increases in the price of natural gas. At December 28, 2013, we have open natural gas swaps for 120,000 MMBtu.

**CRITICAL ACCOUNTING POLICIES**

The following accounting policies involve judgments and estimates used in preparation of the consolidated financial statements. There is a substantial amount of management judgment used in

Table of Contents

preparing financial statements. We must make estimates on a number of items, such as provisions for bad debts, warranties, contingencies, impairments of long-lived assets, and inventory obsolescence. We base our estimates on our experience and on other assumptions that we believe are reasonable under the circumstances. Further, we re-evaluate our estimates from time to time and as circumstances change. Actual results may differ under different assumptions or conditions. The selection and application of our critical accounting policies are discussed annually with our audit committee.

*Allowance for Doubtful Accounts*

In determining an allowance for accounts receivable that will not ultimately be collected in full, we consider:

- age of the accounts receivable
- customer credit history
- customer financial information
- reasons for non-payment (product, service or billing issues).

If our customer's financial condition was to deteriorate, resulting in an impaired ability to make payment, additional allowances may be required.

*Warranties*

All of our businesses must meet certain product quality and performance criteria. We rely on historical product claims data to estimate the cost of product warranties at the time revenue is recognized. In determining the accrual for the estimated cost of warranty claims, we consider our experience with:

- costs to correct the product problem in the field, including labor costs
- costs for replacement parts
- other direct costs associated with warranty claims
- the number of product units subject to warranty claims

In addition to known claims or warranty issues, we estimate future claims on recent sales. The key assumptions in our estimates are the rates we apply to those recent sales (which is based on historical claims experience) and our expected future warranty costs for products that are covered under warranty for an extended period of time. Our provision for various product warranties was approximately \$20.7 million at December 28, 2013. If our estimate changed by 50%, the impact on operating income would be approximately \$10.4 million. If our cost to repair a product or the number of products subject to warranty claims is greater than we estimated, then we would have to increase our accrued cost for warranty claims.

*Inventories*

We use the last-in first-out (LIFO) method to determine the value of approximately 43% of our inventory. The remaining 57% of our inventory is valued on a first-in first-out (FIFO) basis. In periods of rising costs to produce inventory, the LIFO method will result in lower profits than FIFO, because higher more recent costs are recorded to cost of goods sold than under the FIFO method. Conversely, in periods of falling costs to produce inventory, the LIFO method will result in higher profits than the FIFO method.



In 2013 and 2012, we experienced lower costs to produce inventory than in the prior year, due mainly to lower cost for steel and steel-related products. This resulted in lower cost of goods sold (and

Table of Contents

higher operating income) in 2013 and 2012 of approximately \$0.6 million and \$3.7 million, respectively, than had our entire inventory been valued on the FIFO method. In 2011, we experienced higher costs compared to previous years and operating income was lower by approximately \$7.0 million than had our entire inventory been valued on the FIFO method.

We write down slow-moving and obsolete inventory by the difference between the value of the inventory and our estimate of the reduced value based on potential future uses, the likelihood that overstocked inventory will be sold and the expected selling prices of the inventory. If our ability to realize value on slow-moving or obsolete inventory is less favorable than assumed, additional inventory write downs may be required.

*Depreciation, Amortization and Impairment of Long-Lived Assets*

Our long-lived assets consist primarily of property, plant and equipment, goodwill and intangible assets acquired in business acquisitions. We have assigned useful lives to our property, plant and equipment and certain intangible assets ranging from 3 to 40 years. In 2013, we determined that the property, plant and equipment in our EMD operation was impaired. The impairment was due to continued global oversupply of global manganese dioxide in the market, increased price competition and increasing input costs. In addition, a major customer advised us that its purchases of EMD in 2014 would be substantially below prior years. As future prospects for the operation were not as favorable as the past, the company undertook an impairment review in the fourth quarter of 2013, which resulted in the \$12.2 million impairment.

We identified twelve reporting units for purposes of evaluating goodwill and we annually evaluate our reporting units for goodwill impairment during the third fiscal quarter, which usually coincides with our strategic planning process. We assess the value of our reporting units using after-tax cash flows from operations (less capital expenses) discounted to present value and as a multiple of earnings before interest, taxes, depreciation and amortization (EBITDA). The key assumptions in the discounted cash flow analysis are the discount rate and the projected cash flows. We also use sensitivity analysis to determine the impact of changes in discount rates and cash flow forecasts on the valuation of the reporting units. As allowed for under current accounting standards, we rely on our previous valuations for the annual impairment testing provided that the following criteria for each reporting unit are met: (1) the assets and liabilities that make up the reporting unit have not changed significantly since the most recent fair value determination and (2) the most recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin.

The valuation of our reporting units exceeded their respective carrying values. Accordingly, no further valuation of our reporting units was necessary. If our assumptions on discount rates and future cash flows change as a result of events or circumstances, and we believe these assets may have declined in value, then we may record impairment charges, resulting in lower profits. Our reporting units are all cyclical and their sales and profitability may fluctuate from year to year. In the evaluation of our reporting units, we look at the long-term prospects for the reporting unit and recognize that current performance may not be the best indicator of future prospects or value, which requires management judgment.

Our indefinite-lived intangible assets consist of trade names. We assess the values of these assets apart from goodwill as part of the annual impairment testing. We use the relief-from-royalty method to evaluate our trade names, under which the value of a trade name is determined based on a royalty that could be charged to a third party for using the trade name in question. The royalty, which is based on a reasonable rate applied against estimated future sales, is tax-effected and discounted to present value. The most significant assumptions in this evaluation include estimated future sales, the royalty rate and the after-tax discount rate. For our evaluation purposes, the royalty rates used vary between 0.5% and 1.5% of sales and the after-tax discount rate of 16% to 17%, which we estimate to be the after-tax cost

Table of Contents

of capital for such assets. The Company's trade names were tested for impairment in the third quarter of 2013 and 2012 and the Company determined that the value of its trade names were not impaired. In 2011, the Company determined the PiRod and Industrial Galvanizers of America trade names were impaired, which resulted in a write down of \$3.8 million.

*Income Taxes*

We record valuation allowances to reduce our deferred tax assets to amounts that are more likely than not to be realized. We consider future taxable income expectations and tax-planning strategies in assessing the need for the valuation allowance. If we estimate a deferred tax asset is not likely to be fully realized in the future, a valuation allowance to decrease the amount of the deferred tax asset would decrease net earnings in the period the determination was made. Likewise, if we subsequently determine that we are able to realize all or part of a net deferred tax asset in the future, an adjustment reducing the valuation allowance would increase net earnings in the period such determination was made.

At December 28, 2013, we had approximately \$146.5 million in deferred tax assets relating to tax credits and loss carryforwards, with a valuation allowance of \$107.8 million. As a result of a legal entity restructuring within the Delta group in fiscal 2011, we released a portion of valuation allowances previously established. Prior to the legal entity restructuring, because these tax losses were generated in the U.K. and Delta had no operations or future income taxable in the U.K., Delta historically did not establish a value on its financial statements for deferred tax assets associated with net operating losses and book and tax basis differences in its pension plan liability. Also, at December 28, 2013, \$100.1 million in valuation allowances remain in the Delta entities related to capital loss carryforwards, which are unlikely ever to be realized. If circumstances related to our deferred tax assets change in the future, we may be required to increase or decrease the valuation allowance on these assets, resulting in an increase or decrease in income tax expense and a reduction or increase in net income.

During 2013 we recorded \$1.3 million in income tax expense on \$8.6 million of undistributed earnings of foreign subsidiaries which we determined are not permanently invested. Foreign subsidiaries not considered permanently invested had total cash of \$17.2 million at December 28, 2013. We have not made any U.S. income tax provision in our financial statements for \$644.3 million of undistributed earnings of our foreign subsidiaries, as we intend to reinvest those earnings. Foreign subsidiaries considered permanently invested had total cash of \$366.8 million at December 28, 2013. If circumstances change and we determine that we are not permanently invested, we would need to record an income tax expense on our financial statements for the resulting income tax that would be paid upon repatriation. The amount of that income tax would depend on how much of those earnings were repatriated and the related timing but could range from a low of \$49.8 million to a high of \$138.3 million.

We are subject to examination by taxing authorities in the various countries in which we operate. The tax years subject to examination vary by jurisdiction. We regularly consider the likelihood of additional income tax assessments in each of these taxing jurisdictions based on our experiences related to prior audits and our understanding of the facts and circumstances of the related tax issues. We include in current income tax expense any changes to accruals for potential tax deficiencies. If our judgments related to tax deficiencies differ from our actual experience, our income tax expense could increase or decrease in a given fiscal period.

*Pension Benefits*

Delta Ltd. maintains a defined benefit pension plan for qualifying employees in the United Kingdom. There are no active employees as members in the plan. Independent actuaries assist in properly measuring the liabilities and expenses associated with accounting for pension benefits to

Table of Contents

eligible employees. In order to use actuarial methods to value the liabilities and expenses, we must make several assumptions. The critical assumptions used to measure pension obligations and expenses are the discount rate and expected rate of return on pension assets.

We evaluate our critical assumptions at least annually. Key assumptions are based on the following factors:

Discount rate is based on the yields available on AA-rated corporate bonds with durational periods similar to that of the pension liabilities.

Expected return on plan assets is based on our asset allocation mix and our historical return, taking into consideration current and expected market conditions. Most of the assets in the pension plan are invested in corporate bonds, the expected return of which are estimated based on the yield available on AA rated corporate bonds. The long-term expected returns on equities are based on historic performance over the long-term.

Inflation is based on the estimated change in the consumer price index ("CPI") or the retail price index ("RPI"), depending on the relevant plan provisions.

The following tables present the key assumptions used to measure pension expense for 2014 and the estimated impact on 2014 pension expense relative to a change in those assumptions:

| <b>Assumptions</b>             | <b>Pension</b> |
|--------------------------------|----------------|
| Discount rate                  | 4.45%          |
| Expected return on plan assets | 5.50%          |
| Inflation CPI                  | 2.70%          |
| Inflation RPI                  | 3.60%          |

| <b>Assumptions In Millions of Dollars</b>        | <b>Increase<br/>in Pension<br/>Expense</b> |
|--|--|
| 0.50% decrease in discount rate                  | \$ 1.0                                     |
| 0.50% decrease in expected return on plan assets | \$ 2.5                                     |
| 0.50% increase in inflation                      | \$ 2.5                                     |

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

The information required is included under the captioned paragraph, "Risk Management" on page 34 of this report.

Table of Contents

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The following consolidated financial statements of the Company and its subsidiaries are included herein as listed below:

|  | <b>Page</b> |
|--|-------------|
| <u>Consolidated Financial Statements</u>   |             |
| <u>Report of Independent Registered Public Accounting Firm</u>                                   | <u>45</u>   |
| <u>Consolidated Statements of Earnings Three-Year Period Ended December 28, 2013</u>             | <u>46</u>   |
| <u>Consolidated Statements of Comprehensive Income Three-Year Period Ended December 28, 2013</u> | <u>47</u>   |
| <u>Consolidated Balance Sheets December 28, 2013 and December 29, 2012</u>                       | <u>48</u>   |
| <u>Consolidated Statements of Cash Flows Three-Year Period Ended December 28, 2013</u>           | <u>49</u>   |
| <u>Consolidated Statements of Shareholders' Equity Three-Year Period Ended December 28, 2013</u> | <u>50</u>   |
| <u>Notes to Consolidated Financial Statements Three-Year Period Ended December 28, 2013</u>      | <u>51</u>   |

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Valmont Industries, Inc.  
Omaha, Nebraska

We have audited the accompanying consolidated balance sheets of Valmont Industries, Inc. and subsidiaries (the "Company") as of December 28, 2013 and December 29, 2012, and the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for each of the three fiscal years in the period ended December 28, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Valmont Industries, Inc. and subsidiaries as of December 28, 2013 and December 29, 2012, and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 28, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 28, 2013, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP  
Omaha, Nebraska  
February 25, 2014

Table of Contents**Valmont Industries, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF EARNINGS****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)**

|   | <b>2013</b>  | <b>2012</b>  | <b>2011</b>  |
|---|--------------|--------------|--------------|
| Product sales   | \$ 2,976,359 | \$ 2,721,512 | \$ 2,353,470 |
| Services sales  | 327,852      | 308,029      | 308,010      |
| Net sales   | 3,304,211    | 3,029,541    | 2,661,480    |
| Product cost of sales   | 2,144,942    | 2,032,030    | 1,788,908    |
| Services cost of sales  | 214,041      | 195,055      | 205,762      |
| Total cost of sales   | 2,358,983    | 2,227,085    | 1,994,670    |
| Gross profit  | 945,228      | 802,456      | 666,810      |
| Selling, general and administrative expenses  | 472,159      | 420,160      | 403,500      |
| Operating income  | 473,069      | 382,296      | 263,310      |
| Other income (expenses):  |              |              |              |
| Interest expense  | (32,502)     | (31,625)     | (36,175)     |
| Interest income   | 6,477        | 8,272        | 9,265        |
| Other   | 2,373        | 347          | (2,643)      |
| Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries | (23,652)     | (23,006)     | (29,553)     |
|   | 449,417      | 359,290      | 233,757      |
| Income tax expense (benefit):   |              |              |              |
| Current   | 167,922      | 122,782      | 89,552       |
| Deferred  | (10,141)     | 3,720        | (84,962)     |
|   | 157,781      | 126,502      | 4,590        |
| Earnings before equity in earnings of nonconsolidated subsidiaries                  | 291,636      | 232,788      | 229,167      |
| Equity in earnings of nonconsolidated subsidiaries                                  | 835          | 6,128        | 8,059        |
| Loss from deconsolidation of subsidiary   | (12,011)     |              |              |
| Net earnings  | 280,460      | 238,916      | 237,226      |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|   |         |         |         |
|---|---------|---------|---------|
| Less: Earnings attributable to noncontrolling interests | (1,971) | (4,844) | (8,918) |
|---|---------|---------|---------|

|   |            |            |            |
|---|------------|------------|------------|
| Net earnings attributable to Valmont Industries, Inc. | \$ 278,489 | \$ 234,072 | \$ 228,308 |
|---|------------|------------|------------|

Earnings per share:

|         |          |         |         |
|---------|----------|---------|---------|
| Basic   | \$ 10.45 | \$ 8.84 | \$ 8.67 |
| Diluted | \$ 10.35 | \$ 8.75 | \$ 8.60 |

|                                   |          |          |          |
|-----------------------------------|----------|----------|----------|
| Cash dividends declared per share | \$ 0.975 | \$ 0.855 | \$ 0.705 |
|-----------------------------------|----------|----------|----------|

See accompanying notes to consolidated financial statements.



Table of Contents**Valmont Industries, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****Three-year period ended December 28, 2013****(Dollars in thousands)**

|  | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|-------------|
| Net earnings   | \$ 280,460  | \$ 238,916  | \$ 237,226  |
| Other comprehensive income (loss), net of tax:   |             |             |             |
| Foreign currency translation adjustments:  |             |             |             |
| Unrealized gains (losses) arising during the period  | (71,698)    | 15,741      | (21,976)    |
| Realized loss on sale of foreign entity investment included in other expense   | 5,194       |             | 1,446       |
| Realized loss on deconsolidation of subsidiary   | 8,559       |             |             |
|  | (57,945)    | 15,741      | (20,530)    |
| Unrealized loss on cash flow hedge:  |             |             |             |
| Loss arising during the period   |             |             | (3,568)     |
| Amortization cost included in interest expense   | 400         | 400         | 233         |
|  | 400         | 400         | (3,335)     |
| Actuarial gain (loss) in defined benefit pension plan liability, net of tax expense (benefit) of (\$10,143) in 2013, (\$12,377) in 2012, and \$8,697 in 2011 | (41,282)    | (35,020)    | 22,365      |
| Other comprehensive income (loss)  | (98,827)    | (18,879)    | (1,500)     |
| Comprehensive income   | 181,633     | 220,037     | 235,726     |
| Comprehensive income attributable to noncontrolling interests  | (9,174)     | (6,079)     | (7,011)     |
| Comprehensive income attributable to Valmont Industries, Inc.  | \$ 172,459  | \$ 213,958  | \$ 228,715  |

See accompanying notes to consolidated financial statements.

Table of Contents**Valmont Industries, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS****December 28, 2013 and December 29, 2012****(Dollars in thousands, except shares and per share amounts)**

|  | 2013         | 2012         |
|--|--------------|--------------|
| <b>ASSETS</b>  |              |              |
| Current assets:  |              |              |
| Cash and cash equivalents  | \$ 613,706   | \$ 414,129   |
| Receivables, less allowance for doubtful receivables of \$10,369 in 2013 and \$7,898 in 2012 | 515,440      | 515,902      |
| Inventories  | 380,000      | 412,384      |
| Prepaid expenses   | 22,997       | 25,144       |
| Refundable and deferred income taxes   | 65,697       | 58,381       |
| <br>   |              |              |
| Total current assets   | 1,597,840    | 1,425,940    |
| <br>   |              |              |
| Property, plant and equipment, at cost   | 1,017,126    | 994,774      |
| Less accumulated depreciation and amortization   | 482,916      | 482,162      |
| <br>   |              |              |
| Net property, plant and equipment  | 534,210      | 512,612      |
| <br>   |              |              |
| Goodwill   | 349,632      | 330,791      |
| Other intangible assets  | 170,917      | 172,270      |
| Other assets   | 123,895      | 126,938      |
| <br>   |              |              |
| Total assets   | \$ 2,776,494 | \$ 2,568,551 |
| <br><b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |              |              |
| Current liabilities:   |              |              |
| Current installments of long-term debt   | \$ 202       | \$ 224       |
| Notes payable to banks   | 19,024       | 13,375       |
| Accounts payable   | 216,121      | 212,424      |
| Accrued employee compensation and benefits   | 122,967      | 101,905      |
| Accrued expenses   | 71,560       | 78,503       |
| Dividends payable  | 6,706        | 6,002        |
| <br>   |              |              |
| Total current liabilities  | 436,580      | 412,433      |
| <br>   |              |              |
| Deferred income taxes  | 78,924       | 88,300       |
| Long-term debt, excluding current installments   | 470,907      | 472,593      |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|  |              |              |
|--|--------------|--------------|
| Defined benefit pension liability  | 154,397      | 112,043      |
| Deferred compensation  | 39,109       | 31,920       |
| Other noncurrent liabilities   | 51,731       | 44,252       |
| Commitments and contingencies (Note 18)  |              |              |
| Shareholders' equity:  |              |              |
| Preferred stock of \$1 par value   |              |              |
| Authorized 500,000 shares; none issued   |              |              |
| Common stock of \$1 par value  |              |              |
| Authorized 75,000,000 shares; issued 27,900,000 shares                           | 27,900       | 27,900       |
| Additional paid-in capital   |              |              |
| Retained earnings  | 1,562,670    | 1,300,529    |
| Accumulated other comprehensive income   | (47,685)     | 43,938       |
| Cost of treasury stock, common shares of 1,075,039 in 2013 and 1,225,836 in 2012 | (20,860)     | (22,455)     |
| <br>   |              |              |
| Total Valmont Industries, Inc. shareholders' equity                              | 1,522,025    | 1,349,912    |
| <br>   |              |              |
| Noncontrolling interest in consolidated subsidiaries                             | 22,821       | 57,098       |
| <br>   |              |              |
| Total shareholders' equity   | 1,544,846    | 1,407,010    |
| <br>   |              |              |
| Total liabilities and shareholders' equity                                       | \$ 2,776,494 | \$ 2,568,551 |

See accompanying notes to consolidated financial statements.

Table of Contents**Valmont Industries, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF CASH FLOWS****Three-year period ended December 28, 2013****(Dollars in thousands)**

|   | 2013             | 2012             | 2011            |
|---|------------------|------------------|-----------------|
| <b>Cash flows from operating activities:</b>                                    |                  |                  |                 |
| Net earnings  | \$ 280,460       | \$ 238,916       | \$ 237,226      |
| <b>Adjustments to reconcile net earnings to net cash flows from operations:</b> |                  |                  |                 |
| Depreciation and amortization   | 77,436           | 70,218           | 74,560          |
| Deconsolidation of subsidiary   | 12,011           |                  |                 |
| Impairment of property, plant and equipment                                     | 12,161           |                  |                 |
| Stock-based compensation  | 6,513            | 5,829            | 5,931           |
| Defined benefit pension plan expense  | 6,569            | 4,281            | 5,449           |
| Contribution to defined benefit pension plan                                    | (17,619)         | (11,591)         | (11,860)        |
| (Gain) loss on sale of property, plant and equipment                            | (4,318)          | 321              | 693             |
| Equity in earnings in nonconsolidated subsidiaries                              | (835)            | (6,128)          | (8,059)         |
| Deferred income taxes   | (10,141)         | 3,720            | (84,962)        |
| <b>Changes in assets and liabilities (net of the effect from acquisitions):</b> |                  |                  |                 |
| Receivables   | (12,708)         | (84,890)         | (17,430)        |
| Inventories   | 13,431           | (13,613)         | (118,866)       |
| Prepaid expenses  | 4,115            | 1,243            | (4,042)         |
| Accounts payable  | 12,448           | (6,249)          | 42,637          |
| Accrued expenses  | 21,698           | 20,640           | 11,845          |
| Other noncurrent liabilities  | (1,474)          | (4,350)          | (5,881)         |
| Income taxes payable (refundable)   | (3,305)          | (21,250)         | 22,430          |
| <b>Net cash flows from operating activities</b>                                 | <b>396,442</b>   | <b>197,097</b>   | <b>149,671</b>  |
| <b>Cash flows from investing activities:</b>                                    |                  |                  |                 |
| Purchase of property, plant and equipment                                       | (106,753)        | (97,074)         | (83,069)        |
| Acquisitions (net of cash acquired)   | (63,152)         | (45,687)         | (1,539)         |
| Proceeds from sale of assets  | 37,582           | 6,025            | 3,706           |
| Other, net  | 602              | 44               | (3,161)         |
| <b>Net cash flows from investing activities</b>                                 | <b>(131,721)</b> | <b>(136,692)</b> | <b>(84,063)</b> |
| <b>Cash flows from financing activities:</b>                                    |                  |                  |                 |
| Net borrowings under short-term agreements                                      | 5,510            | 1,828            | 2,698           |
| Proceeds from long-term borrowings  | 274              | 39,126           | 277,832         |
| Principal payments on long-term obligations                                     | (591)            | (39,564)         | (271,245)       |
| Cash decrease due to deconsolidation of subsidiary                              | (11,615)         |                  |                 |
| Dividends paid  | (25,414)         | (21,520)         | (18,227)        |
| Dividends to noncontrolling interest  | (1,767)          | (1,944)          | (4,958)         |
| Purchase of noncontrolling interest   | (9,324)          |                  | (25,253)        |
| Proceeds from sale of partial ownership interest                                |                  | 1,404            |                 |
| Settlement of financial derivative  |                  |                  | (3,568)         |
| Debt issuance fees  |                  | (1,747)          | (1,339)         |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|  |            |            |            |
|--|------------|------------|------------|
| Proceeds from exercises under stock plans                    | 16,348     | 21,827     | 20,008     |
| Excess tax benefits from stock option exercises              | 5,306      | 5,494      | 3,033      |
| Purchase of treasury shares                                  |            |            | (4,802)    |
| Purchase of common treasury shares stock plan exercises      | (16,107)   | (21,259)   | (20,090)   |
| Net cash flows from financing activities                     | (37,380)   | (16,355)   | (45,911)   |
| Effect of exchange rate changes on cash and cash equivalents | (27,764)   | 7,185      | (3,707)    |
| Net change in cash and cash equivalents                      | 199,577    | 51,235     | 15,990     |
| Cash and cash equivalents beginning of year                  | 414,129    | 362,894    | 346,904    |
| Cash and cash equivalents end of year                        | \$ 613,706 | \$ 414,129 | \$ 362,894 |

See accompanying notes to consolidated financial statements.

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three-year period ended December 28, 2013

(Dollars in thousands, except shares and per share amounts)

|   | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Treasury<br>stock | Noncontrolling<br>interest in<br>consolidated<br>subsidiaries | Total<br>shareholders'<br>equity |
|---|-----------------|----------------------------------|----------------------|---|-------------------|---|----------------------------------|
| <b>Balance at December 25, 2010</b>               | \$ 27,900       | \$                               | \$ 850,269           | \$ 63,645   | \$ (25,922)       | \$ 94,235   | \$ 1,010,127                     |
| Net earnings                                      |                 |                                  | 228,308              |   |                   | 8,918   | 237,226                          |
| Other comprehensive income<br>(loss)              |                 |                                  |                      | 407   |                   | (1,907)   | (1,500)                          |
| Cash dividends declared (\$0.705<br>per share)    |                 |                                  | (18,642)             |   |                   |   | (18,642)                         |
| Dividends to noncontrolling<br>interests          |                 |                                  |                      |   |                   | (4,958)   | (4,958)                          |
| Purchase of noncontrolling<br>interest            |                 | 16,592                           |                      |   |                   | (41,845)  | (25,253)                         |
| Other changes in noncontrolling<br>interest       |                 |                                  |                      |   |                   | (3,494)   | (3,494)                          |
| Purchase of 53,847 treasury<br>shares             |                 |                                  |                      |   | (4,802)           |   | (4,802)                          |
| Stock plan exercises; 184,639<br>shares acquired  |                 |                                  |                      |   | (20,090)          |   | (20,090)                         |
| Stock options exercised;<br>306,218 shares issued |                 | (25,556)                         | 19,763               |   | 25,801            |   | 20,008                           |
| Tax benefit from stock option<br>exercises        |                 | 3,033                            |                      |   |                   |   | 3,033                            |
| Stock option expense                              |                 | 5,623                            |                      |   |                   |   | 5,623                            |
| Stock awards; 23,968 shares<br>issued             |                 | 308                              |                      |   | 325               |   | 633                              |
| <b>Balance at December 31, 2011</b>               | 27,900          |                                  | 1,079,698            | 64,052  | (24,688)          | 50,949  | 1,197,911                        |
| Net earnings                                      |                 |                                  | 234,072              |   |                   | 4,844   | 238,916                          |
| Other comprehensive income<br>(loss)              |                 |                                  |                      | (20,114)  |                   | 1,235   | (18,879)                         |
| Cash dividends declared (\$0.855<br>per share)    |                 |                                  | (22,756)             |   |                   |   | (22,756)                         |
| Dividends to noncontrolling<br>interests          |                 |                                  |                      |   |                   | (1,944)   | (1,944)                          |
| Sale of partial ownership<br>interest             |                 | (610)                            |                      |   |                   | 2,014   | 1,404                            |
| Stock plan exercises; 174,943<br>shares acquired  |                 |                                  |                      |   | (21,259)          |   | (21,259)                         |
| Stock options exercised;<br>341,090 shares issued |                 | (10,713)                         | 9,515                |   | 23,025            |   | 21,827                           |
| Tax benefit from stock option<br>exercises        |                 | 5,494                            |                      |   |                   |   | 5,494                            |
| Stock option expense                              |                 | 4,934                            |                      |   |                   |   | 4,934                            |
| Stock awards; 20,998 issued                       |                 | 895                              |                      |   | 467               |   | 1,362                            |
| <b>Balance at December 29, 2012</b>               | 27,900          |                                  | 1,300,529            | 43,938  | (22,455)          | 57,098  | 1,407,010                        |
| Net earnings                                      |                 |                                  | 278,489              |   |                   | 1,971   | 280,460                          |
| Other comprehensive loss                          |                 |                                  |                      | (91,623)  |                   | (7,204)   | (98,827)                         |
|   |                 |                                  | (26,118)             |   |                   |   | (26,118)                         |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|  |         |       |          |          |
|--|---------|-------|----------|----------|
| Cash dividends declared (\$0.975 per share)    |         |       |          |          |
| Dividends to noncontrolling interests          |         |       | (1,767)  | (1,767)  |
| Acquisition of Locker                          |         |       | 325      | 325      |
| Purchase of noncontrolling interests           | (2,038) |       | (7,286)  | (9,324)  |
| Deconsolidation of subsidiary                  |         |       | (20,316) | (20,316) |
| Stock plan exercises; 103,023 shares acquired  |         |       | (16,107) | (16,107) |
| Stock options exercised; 216,105 shares issued | (9,781) | 9,770 | 16,359   | 16,348   |
| Tax benefit from stock option exercises        | 5,306   |       |          | 5,306    |
| Stock option expense                           | 5,194   |       |          | 5,194    |
| Stock awards; 33,721 shares issued             | 1,319   |       | 1,343    | 2,662    |

**Balance at December 28, 2013**    \$ 27,900    \$            \$ 1,562,670    \$            \$ (47,685)    \$ (20,860)    \$            \$ 22,821    \$ 1,544,846

See accompanying notes to consolidated financial statements.

Table of Contents

**Valmont Industries, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Three-year period ended December 28, 2013**

**(Dollars in thousands, except per share amounts)**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation*

The consolidated financial statements include the accounts of Valmont Industries, Inc. and its wholly and majority-owned subsidiaries (the Company). The investment in Delta EMD Pty. Ltd ("EMD") was recorded at fair value subsequent to its deconsolidation. Investments in other 20% to 50% owned affiliates and joint ventures are accounted for by the equity method. Investments in less than 20% owned affiliates are accounted for by the cost method. All significant intercompany items have been eliminated.

*Cash overdrafts*

Cash book overdrafts totaling \$21,713 and \$23,321 were classified as accounts payable at December 28, 2013 and December 29, 2012, respectively. The Company's policy is to report the change in book overdrafts as an operating activity in the Consolidated Statements of Cash Flows.

*Segments*

The Company has four reportable segments based on its management structure. Each segment is global in nature with a manager responsible for segment operational performance and allocation of capital within the segment. Reportable segments are as follows:

**ENGINEERED INFRASTRUCTURE PRODUCTS:** This segment consists of the manufacture of engineered metal structures and components for the global lighting and traffic, wireless communication, roadway safety and access systems applications;

**UTILITY SUPPORT STRUCTURES:** This segment consists of the manufacture of engineered steel and concrete structures for the global utility industry;

**COATINGS:** This segment consists of galvanizing, anodizing and powder coating services on a global basis; and

**IRRIGATION:** This segment consists of the manufacture of agricultural irrigation equipment and related parts and services for the global agricultural industry.

In addition to these four reportable segments, there are other businesses and activities that individually are not more than 10% of consolidated sales. These operations include the manufacture of forged steel grinding media for the mining industry, tubular products for industrial customers, electrolytic manganese dioxide for disposable batteries and the distribution of industrial fasteners. These operations collectively are reported in the "Other" category.

*Fiscal Year*

The Company operates on a 52 or 53 week fiscal year with each year ending on the last Saturday in December. Accordingly, the Company's fiscal years ended December 28, 2013 and December 29, 2012 consisted of 52 weeks. The Company's fiscal year ended December 31, 2011 consisted of 53 weeks. The estimated impact on the company's results of operations due to the extra week in fiscal



Table of Contents

**Valmont Industries, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Three-year period ended December 28, 2013**

**(Dollars in thousands, except per share amounts)**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2011 was additional net sales of approximately \$50,000 and additional net earnings of approximately \$3,000.

*Accounts Receivable*

Accounts receivable are reported on the balance sheet net of any allowance for doubtful accounts. Allowances are maintained in amounts considered to be appropriate in relation to the outstanding receivables based on age of the receivable, economic conditions and customer credit quality.

*Inventories*

Approximately 43% and 43% of inventory is valued at the lower of cost, determined on the last-in, first-out (LIFO) method, or market as of December 28, 2013 and December 29, 2012, respectively. All other inventory is valued at the lower of cost, determined on the first-in, first-out (FIFO) method or market. Finished goods and manufactured goods inventories include the costs of acquired raw materials and related factory labor and overhead charges required to convert raw materials to manufactured and finished goods. The excess of replacement cost of inventories over the LIFO value is approximately \$45,204 and \$45,822 at December 28, 2013 and December 29, 2012, respectively.

*Long-Lived Assets*

Property, plant and equipment are recorded at historical cost. The Company generally uses the straight-line method in computing depreciation and amortization for financial reporting purposes and accelerated methods for income tax purposes. The annual provisions for depreciation and amortization have been computed principally in accordance with the following ranges of asset lives: buildings and improvements 15 to 40 years, machinery and equipment 3 to 12 years, transportation equipment 3 to 24 years, office furniture and equipment 3 to 7 years and intangible assets 5 to 20 years. Depreciation expense in fiscal 2013, 2012 and 2011 was \$62,291, \$55,559 and \$54,352, respectively.

An impairment loss is recognized if the carrying amount of an asset may not be recoverable and exceeds estimated future undiscounted cash flows of the asset. A recognized impairment loss reduces the carrying amount of the asset to its fair value. In November 2013, it was determined that the carrying amount of certain fixed assets of Delta EMD, Ltd. were not recoverable and an impairment loss of \$12,161 was recorded to reduce the carrying amount of the fixed assets to fair value. The impairment was a result of continued global oversupply of global manganese dioxide in the market, increased price competition and increasing input costs. In addition, a major customer advised us that its purchases of EMD in 2014 would be substantially below prior years. This charge was recorded in Product Cost of Sales in the Consolidated Statements of Earnings.

The Company evaluates its reporting units for impairment of goodwill during the third fiscal quarter of each year. Reporting units are evaluated using after-tax operating cash flows (less capital expenditures) discounted to present value. Indefinite-lived intangible assets are assessed separately from goodwill as part of the annual impairment testing, using a relief-from-royalty method. If the underlying assumptions related to the valuation of a reporting unit's goodwill or an indefinite-lived intangible asset change materially before or after the annual impairment testing, the reporting unit or asset is evaluated

Table of Contents

**Valmont Industries, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Three-year period ended December 28, 2013**

**(Dollars in thousands, except per share amounts)**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

for potential impairment. In these evaluations, management considers recent operating performance, expected future performance, industry conditions and other indicators of potential impairment. In fiscal 2011, upon evaluation of future uses of its trade names, the Company recorded impairment in the aggregate of \$3,779 in selling, general and administrative expenses.

*Income Taxes*

The Company uses the asset and liability method to calculate deferred income taxes. Deferred tax assets and liabilities are recognized on temporary differences between financial statement and tax bases of assets and liabilities using enacted tax rates. The effect of tax rate changes on deferred tax assets and liabilities is recognized in income during the period that includes the enactment date.

*Warranties*

The Company's provision for product warranty reflects management's best estimate of probable liability under its product warranties. Estimated future warranty costs are recorded at the time a sale is recognized. Future warranty liability is determined based on applying historical claim rate experience to units sold that are still within the warranty period. In addition, the Company records provisions for known warranty claims.

*Pension Benefits*

Certain expenses are incurred in connection with a defined benefit pension plan. In order to measure expense and the related benefit obligation, various assumptions are made including discount rates used to value the obligation, expected return on plan assets used to fund these expenses and estimated future inflation rates. These assumptions are based on historical experience as well as current facts and circumstances. An actuarial analysis is used to measure the expense and liability associated with pension benefits.

*Derivative Instrument*

The Company may enter into derivative financial instruments to manage risk associated with fluctuation in interest rates, foreign currency rates or commodities. Where applicable, the Company may elect to account for such derivatives as either a cash flow or fair value hedge.

*Comprehensive Income*

Comprehensive income includes net income, currency translation adjustments, certain derivative-related activity and changes in net actuarial gains/losses from a pension plan. Results of operations for foreign subsidiaries are translated using the average exchange rates during the period. Assets and

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

liabilities are translated at the exchange rates in effect on the balance sheet dates. The components of accumulated other comprehensive income (loss) consisted of the following:

|                                     | Foreign<br>Currency<br>Translation<br>Adjustments | Unrealized<br>Loss on Cash<br>Flow Hedge | Defined<br>Benefit<br>Pension Plan | Accumulated<br>Other<br>Comprehensive<br>Income |
|-------------------------------------|---|--|------------------------------------|---|
| Balance at December 29, 2012        | \$ 30,576   | \$ (2,935)                               | \$ 16,297                          | \$ 43,938                                       |
| Current-period comprehensive income | (50,741)  | 400                                      | (41,282)                           | (91,623)  |
| Balance at December 28, 2013        | \$ (20,165)                                       | \$ (2,535)                               | \$ (24,985)                        | \$ (47,685)                                     |

*Revenue Recognition*

Revenue is recognized upon shipment of the product or delivery of the service to the customer, which coincides with passage of title and risk of loss to the customer. Customer acceptance provisions exist only in the design stage of our products. Acceptance of the design by the customer is required before the product is manufactured and delivered to the customer. We are not entitled to any compensation solely based on design of the product and we do not recognize any revenue associated with the design stage. No general rights of return exist for customers once the product has been delivered. Shipping and handling costs associated with sales are recorded as cost of goods sold. Sales discounts and rebates are estimated based on past experience and are recorded as a reduction of net sales in the period in which the sale is recognized. Service revenues predominantly consist of coatings services provided by our Coatings segment to its customers.

*Use of Estimates*

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the reported amounts of revenue and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

*Equity Method Investments*

The Company has equity method investments in non-consolidated subsidiaries which are recorded within "Other assets" on the Consolidated Balance Sheet. In February 2013, the Company sold its nonconsolidated investment in Manganese Materials Company Pty. Ltd. to the majority owner of the business for approximately \$29,250. The profit on the sale was not significant, which included the recognition of \$5,194 in currency translation adjustments previously recorded as part of "Accumulated other comprehensive income" on the Consolidated Balance Sheet. The Company also recognized certain deferred tax benefits of approximately \$3,200 associated with the sale in the first quarter of 2013.

Table of Contents

**Valmont Industries, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Three-year period ended December 28, 2013**

**(Dollars in thousands, except per share amounts)**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Treasury Stock*

Repurchased shares are recorded as "Treasury Stock" and result in a reduction of "Shareholders' Equity." When treasury shares are reissued, the Company uses the last-in, first-out method, and the difference between the repurchase cost and re-issuance price is charged or credited to "Additional Paid-In Capital."

*Research and Development*

Research and development costs are charged to operations in the year incurred. These costs are a component of "Selling, general and administrative expenses" on the Consolidated Statements of Earnings. Research and development expenses were approximately \$10,200 in 2013, \$7,100 in 2012, and \$6,200 in 2011.

*Subsequent Events*

The Company has evaluated all subsequent events requiring recognition after December 28, 2013 and did not identify any subsequent events that require disclosure.

*Recently Issued Accounting Pronouncements*

On February 5, 2013, the FASB issued Accounting Standards Update 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which adds additional disclosure requirements for items reclassified out of accumulated other comprehensive income. This guidance was adopted in fiscal 2013 and it did not have a significant effect on the Company's financial position, results of operations or cash flows.

**(2) ACQUISITIONS AND DECONSOLIDATION**

*Acquisitions of Businesses*

On February 5, 2013, the Company purchased 100% of the outstanding shares of Locker Group Holdings Pty. Ltd. ("Locker"). Locker is a manufacturer of perforated and expanded metal for the non-residential market, industrial flooring and handrails for the access systems market, and screening media for applications in the industrial and mining sectors in Australia and Asia. The purchase price paid for the business at closing (net of \$116 cash acquired) was \$53,152. In addition, a maximum of \$7,911 additional purchase price may be paid to the sellers upon the achievement of certain gross profit and inventory targets over the next two years. The Company determined the present value of the potential additional purchase price at February 5, 2013 to be \$7,178. The acquisition, which was funded by cash held by the Company, was completed to expand our product offering and sales coverage for access systems and related products in the Asia Pacific region and is part of the Engineered Infrastructure Products segment.

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (2) ACQUISITIONS AND DECONSOLIDATION (Continued)

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the date of the Locker acquisition (goodwill is not deductible for tax purposes):

|   | At February 5,<br>2013 |        |
|---|------------------------|--------|
| Current Assets                          | \$                     | 25,584 |
| Property, plant and equipment           |                        | 20,412 |
| Intangible assets                       |                        | 11,205 |
| Goodwill                                |                        | 14,325 |
| <br>                                    |                        |        |
| Total fair value of assets acquired     | \$                     | 71,526 |
| <br>                                    |                        |        |
| Current liabilities                     |                        | 9,595  |
| Deferred income taxes                   |                        | 483    |
| Other non-current liabilities           |                        | 677    |
| Non-controlling interests               |                        | 325    |
| <br>                                    |                        |        |
| Total fair value of liabilities assumed |                        | 11,080 |
| <br>                                    |                        |        |
| Net assets acquired                     | \$                     | 60,446 |

The Company's Consolidated Statements of Earnings for the 52 weeks ended December 28, 2013 includes net sales and net earnings of \$64,709 and \$2,132, respectively, resulting from Locker's operations from February 5, 2013 to December 28, 2013.

Based on the fair value assessments, the Company allocated \$11,205 of the purchase price to acquired intangible assets. The following table summarizes the major classes of Locker acquired intangible assets and the respective weighted-average amortization periods:

|                         | Amount   | Weighted<br>Average<br>Amortization<br>Period<br>(Years) |
|-------------------------|----------|--|
| Trade Names             | \$ 4,116 | Indefinite   |
| Customer Relationships  | 6,042    | 10.0   |
| Software and Technology | 1,047    | 5.0  |

|                         |           |
|-------------------------|-----------|
| Total Intangible Assets | \$ 11,205 |
|-------------------------|-----------|

In December 2013, the Company purchased 100% of the outstanding shares of Armorflex International Ltd. ("Armorflex") for \$10,000. Armorflex is a company holding proprietary intellectual property for products serving the highway safety market. In the preliminary measurement of fair values of assets acquired and liabilities assumed, we recorded goodwill of \$6,864 and an aggregate of \$3,792 for customer relationships, patented technology and other intangible assets. The fair value measurements are not yet complete, due to final working capital calculations and certain income tax measurements that have not been finalized. The Company expects these measurements to be completed in the first quarter of 2014. The goodwill is not deductible for tax purposes. Armorflex is included in

Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(2) ACQUISITIONS AND DECONSOLIDATION (Continued)**

the Engineered Infrastructure Products segment and was acquired to expand the Company's highway safety product offerings in the Asia Pacific region. This acquisition did not have a significant effect on the Company's fiscal 2013 financial results.

On December 19, 2012, the Company acquired Pure Metal Galvanizing for \$45,687 in cash, net of cash acquired, plus assumed liabilities. In addition, the purchase price includes contingent consideration with a fair value of \$3,884 to be paid at the end of five years if certain earnings objectives are met over the period. Pure Metal Galvanizing operates three custom galvanizing operations in Ontario, Canada. In the purchase price allocation, goodwill of \$12,676 and \$14,066 of customer relationships, trade name and other intangible assets was recorded. A portion of the goodwill is deductible for tax purposes. This business is included in the Coatings segment and was acquired to expand the Company's geographic presence into the Canadian galvanizing market.

The Company's Consolidated Statement of Earnings for the the fiscal year ended December 28, 2013 included net sales of \$98,295 and net earnings of \$4,666 resulting from the Locker, Armorflex and Pure Metal acquisitions. The pro forma effect of these acquisitions on the fiscal 2012 Statement of Earnings was as follows:

|                            | <b>Fifty-two weeks<br/>Ended<br/>December 29,<br/>2012</b> |
|----------------------------|--|
| Net sales                  | \$ 3,144,054   |
| Net earnings               | 234,847  |
| Earnings per share diluted | \$ 8.79  |

In 2011, the Company acquired 60% of an irrigation monitoring services company for \$1,539. This acquisition did not have a significant effect on the Company's fiscal 2011 financial results.

***Acquisitions of Noncontrolling Interests***

In June 2011, the Company acquired the remaining 40% of Donhad Pty. Ltd. ("Donhad") that it did not own for \$25,253. In October 2013, the Company acquired the remaining 40% of Valley Irrigation South Africa Pty. Ltd. that it did not own for \$9,324. As these transactions were acquisitions of the remaining shares of a consolidated subsidiary with no change in control, they were recorded within shareholders' equity and as a financing cash flow in the Consolidated Statement of Cash Flows.

***Deconsolidation***

In December 2013, the Company's ownership in Delta EMD, Ltd. ("EMD"), a consolidated subsidiary located in South Africa, was reduced below 50% through a supplementary contribution of 1,500,000 shares to the Delta Pension Plan ("DPP"). The DPP is managed by independent trustees whose fiduciary responsibility is to make decisions for the DPP based on the best interests of the participants. The loss recognized on the deconsolidation of EMD was \$12,011, or \$0.45 per share, which consisted of \$8,559 realized losses on foreign currency translation adjustments previously reported in shareholders' equity and \$3,452 in losses due to remeasurement of the remaining

Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(2) ACQUISITIONS AND DECONSOLIDATION (Continued)**

investment to fair value based on the market value of EMD shares, which are publicly traded on the Johannesburg stock exchange (JSE:DTA). The Company made a fair value election with respect to its remaining ownership interest in EMD and will report its investment at fair value going forward, using the quoted market price of the EMD shares as fair value.

The net sales of EMD included in the Company's Consolidated Statements of Earnings in 2013, 2012 and 2011 were \$38,621, \$44,290 and \$50,387, respectively. The net earnings of EMD attributable to the Company for the same years were a loss of \$3,535 in 2013 and earnings of \$1,043 and \$3,707 in 2012 and 2011, respectively.

**(3) CASH FLOW SUPPLEMENTARY INFORMATION**

The Company considers all highly liquid temporary cash investments purchased with an original maturity of three months or less at the time of purchase to be cash equivalents. Cash payments for interest and income taxes (net of refunds) were as follows:

|              | 2013      | 2012      | 2011      |
|--------------|-----------|-----------|-----------|
| Interest     | \$ 32,655 | \$ 31,276 | \$ 34,176 |
| Income taxes | 167,146   | 137,121   | 66,898    |

**(4) INVENTORIES**

Inventories consisted of the following at December 28, 2013 and December 29, 2012:

|                                       | 2013       | 2012       |
|---------------------------------------|------------|------------|
| Raw materials and purchased parts     | \$ 179,576 | \$ 199,808 |
| Work-in-process                       | 27,294     | 36,114     |
| Finished goods and manufactured goods | 218,334    | 222,284    |
| Subtotal                              | 425,204    | 458,206    |
| Less: LIFO reserve                    | 45,204     | 45,822     |
|                                       | \$ 380,000 | \$ 412,384 |

**(5) PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, at cost, consist of the following:

|                            | 2013      | 2012      |
|----------------------------|-----------|-----------|
| Land and improvements      | \$ 71,726 | \$ 73,713 |
| Buildings and improvements | 265,112   | 254,171   |
| Machinery and equipment    | 520,262   | 519,212   |



Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|                                |              |            |
|--------------------------------|--------------|------------|
| Transportation equipment       | 37,213       | 37,205     |
| Office furniture and equipment | 73,200       | 72,728     |
| Construction in progress       | 49,613       | 37,745     |
|                                | \$ 1,017,126 | \$ 994,774 |

Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(5) PROPERTY, PLANT AND EQUIPMENT (Continued)**

The Company leases certain facilities, machinery, computer equipment and transportation equipment under operating leases with unexpired terms ranging from one to fifteen years. Rental expense for operating leases amounted to \$26,567, \$24,645, and \$22,775 for fiscal 2013, 2012, and 2011, respectively.

Minimum lease payments under operating leases expiring subsequent to December 28, 2013 are:

|                    |           |
|--------------------|-----------|
| Fiscal year ending |           |
| 2014               | \$ 27,490 |
| 2015               | 22,547    |
| 2016               | 17,406    |
| 2017               | 13,225    |
| 2018               | 8,871     |
| Subsequent         | 28,903    |

Total minimum lease payments \$ 118,442

**(6) GOODWILL AND INTANGIBLE ASSETS**

The Company's annual impairment testing of goodwill was performed during the third quarter of 2013. As a result of that testing, the Company determined that its goodwill was not impaired, as the valuation of the reporting units exceeded their respective carrying values. The Company continues to monitor changes in the global economy that could impact future operating results of its reporting units. If such conditions arise, the Company will test a given reporting unit for impairment prior to the annual test.

*Amortized Intangible Assets*

The components of amortized intangible assets at December 28, 2013 and December 29, 2012 were as follows:

|                                  | As of December 28, 2013 |                          |                       |
|----------------------------------|-------------------------|--------------------------|-----------------------|
|                                  | Gross Carrying Amount   | Accumulated Amortization | Weighted Average Life |
| Customer Relationships           | \$ 177,495              | \$ 76,024                | 13 years              |
| Proprietary Software & Database  | 3,896                   | 2,896                    | 6 years               |
| Patents & Proprietary Technology | 11,334                  | 7,239                    | 8 years               |
| Non-compete Agreements           | 1,620                   | 1,438                    | 6 years               |
|                                  | \$ 194,345              | \$ 87,597                |                       |



Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (6) GOODWILL AND INTANGIBLE ASSETS (Continued)

|                                  | As of December 29, 2012     |                             |                             |
|----------------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Weighted<br>Average<br>Life |
| Customer Relationships           | \$ 170,556                  | \$ 62,957                   | 13 years                    |
| Proprietary Software & Database  | 3,073                       | 2,795                       | 6 years                     |
| Patents & Proprietary Technology | 9,953                       | 5,517                       | 8 years                     |
| Non-compete Agreements           | 1,807                       | 1,542                       | 6 years                     |
|                                  | \$ 185,389                  | \$ 72,811                   |                             |

Amortization expense for intangible assets was \$15,233, \$14,332, and \$14,833 for the fiscal years ended December 28, 2013, December 29, 2012 and December 31, 2011, respectively.

Estimated annual amortization expense related to finite-lived intangible assets is as follows:

|      | Estimated<br>Amortization<br>Expense |
|------|--------------------------------------|
| 2014 | \$ 15,724                            |
| 2015 | 14,817                               |
| 2016 | 14,252                               |
| 2017 | 14,212                               |
| 2018 | 12,491                               |

The useful lives assigned to finite-lived intangible assets include consideration of factors such as the Company's past and expected experience related to customer retention rates, the remaining legal or contractual life of the underlying arrangement that resulted in the recognition of the intangible asset and the Company's expected use of the intangible asset.

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

**(6) GOODWILL AND INTANGIBLE ASSETS (Continued)***Non-amortized intangible assets*

Intangible assets with indefinite lives are not amortized. The carrying values of trade names at December 28, 2013 and December 29, 2012 were as follows:

|                                | December 28,<br>2013 | December 29,<br>2012 | Year<br>Acquired |
|--------------------------------|----------------------|----------------------|------------------|
| Webforge                       | \$ 17,787            | \$ 17,411            | 2010             |
| Newmark                        | 11,111               | 11,111               | 2004             |
| Ingal EPS/Ingal Civil Products | 9,387                | 9,189                | 2010             |
| Donhad                         | 7,082                | 6,932                | 2010             |
| Pure Metal Galvanizing         | 1,888                | 2,022                | 2012             |
| PiRod                          | 1,750                | 1,750                | 2001             |
| Industrial Galvanizers         | 4,117                | 4,030                | 2010             |
| Other                          | 11,047               | 7,247                |                  |
|                                | \$ 64,169            | \$ 59,692            |                  |

The Company's trade names were tested for impairment separately from goodwill in the third quarter of 2013. The values of the trade names were determined using the relief-from-royalty method. The Company determined that the value of its trade names were not impaired.

In its determination of these intangible assets as indefinite-lived, the Company considered such factors as its expected future use of the intangible asset, legal, regulatory, technological and competitive factors that may impact the useful life or value of the intangible asset and the expected costs to maintain the value of the intangible asset. The Company expects that these intangible assets will maintain their value indefinitely. Accordingly, these assets are not amortized.

*Goodwill*

The carrying amount of goodwill by segment as of December 28, 2013 was as follows:

|                                 | Engineered<br>Infrastructure<br>Products<br>Segment | Utility<br>Support<br>Structures<br>Segment | Coatings<br>Segment | Irrigation<br>Segment | Other     | Total      |
|---------------------------------|---|---|---------------------|-----------------------|-----------|------------|
| Balance at December 29,<br>2012 | \$ 155,185  | \$ 77,141                                   | \$ 77,053           | \$ 2,517              | \$ 18,895 | \$ 330,791 |
| Acquisition                     | 21,189  |   |                     |                       |           | 21,189     |
| Foreign currency<br>translation | (2,669)   |   | 9                   | (97)                  | 409       | (2,348)    |
| Other                           | 1,737   | (1,737)                                     |                     |                       |           |            |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|                                 |    |         |    |        |    |        |    |       |    |        |    |         |
|---------------------------------|----|---------|----|--------|----|--------|----|-------|----|--------|----|---------|
| Balance at December 28,<br>2013 | \$ | 175,442 | \$ | 75,404 | \$ | 77,062 | \$ | 2,420 | \$ | 19,304 | \$ | 349,632 |
|---------------------------------|----|---------|----|--------|----|--------|----|-------|----|--------|----|---------|

The Company examined the goodwill assigned to its reporting units in the third quarter of 2013 and determined that the goodwill on its consolidated balance sheet at December 28, 2013 was not impaired. The acquisition amount arose from the acquisitions of Locker and Armorflex. The other

Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(6) GOODWILL AND INTANGIBLE ASSETS (Continued)**

category relates to a minor component that was transferred from the Utility Support Structure segment to the Engineered Infrastructure Products segment.

The carrying amount of goodwill by segment as of December 29, 2012 was as follows:

|                                 | <b>Engineered<br/>Infrastructure<br/>Products<br/>Segment</b> | <b>Utility<br/>Support<br/>Structures<br/>Segment</b> | <b>Coatings<br/>Segment</b> | <b>Irrigation<br/>Segment</b> | <b>Other</b> | <b>Total</b> |
|---------------------------------|---|---|-----------------------------|-------------------------------|--------------|--------------|
| Balance at December 31,<br>2011 | \$ 151,558  | \$ 77,141   | \$ 64,820                   | \$ 2,576                      | \$ 18,567    | \$ 314,662   |
| Impairment                      |   |   |                             |                               |              |              |
| Acquisition                     |   |   | 12,676                      |                               |              | 12,676       |
| Foreign currency<br>translation | 3,627   |   | (443)                       | (59)                          | 328          | 3,453        |
| Balance at December 29,<br>2012 | \$ 155,185  | \$ 77,141   | \$ 77,053                   | \$ 2,517                      | \$ 18,895    | \$ 330,791   |

The acquisition amount arose from the acquisition of Pure Metal Galvanizing.

**(7) BANK CREDIT ARRANGEMENTS**

The Company maintains various lines of credit for short-term borrowings totaling \$105,187 at December 28, 2013. As of December 28, 2013, \$18,144 was outstanding. The interest rates charged on these lines of credit vary in relation to the banks' costs of funds. The unused and available borrowings under the lines of credit were \$87,043 at December 28, 2013. The lines of credit can be modified at any time at the option of the banks. The Company pays no fees in connection with these lines of credit. In addition to the lines of credit, the Company also maintains other short-term bank loans. The weighted average interest rate on short-term borrowings was 8.65% at December 28, 2013, and 7.18% at December 29, 2012. Other notes payable of \$880 and \$573 were outstanding at December 28, 2013 and December 29, 2012, respectively.

**(8) INCOME TAXES**

Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries are as follows:

|               | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|---------------|-------------|-------------|-------------|
| United States | \$ 338,163  | \$ 248,840  | \$ 134,363  |
| Foreign       | 111,254     | 110,450     | 99,394      |
|               | \$ 449,417  | \$ 359,290  | \$ 233,757  |





Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(8) INCOME TAXES (Continued)**

Income tax expense (benefit) consists of:

|              | 2013       | 2012       | 2011      |
|--------------|------------|------------|-----------|
| Current:     |            |            |           |
| Federal      | \$ 110,847 | \$ 81,000  | \$ 53,005 |
| State        | 16,398     | 10,342     | 8,915     |
| Foreign      | 39,285     | 32,294     | 29,287    |
|              | 166,530    | 123,636    | 91,207    |
| Non-current: | 1,392      | (854)      | (1,655)   |
| Deferred:    |            |            |           |
| Federal      | (8,661)    | (3,824)    | (4,586)   |
| State        | (307)      | (660)      | (1,180)   |
| Foreign      | (1,173)    | 8,204      | (79,196)  |
|              | (10,141)   | 3,720      | (84,962)  |
|              | \$ 157,781 | \$ 126,502 | \$ 4,590  |

The reconciliations of the statutory federal income tax rate and the effective tax rate follows:

|  | 2013  | 2012  | 2011   |
|--|-------|-------|--------|
| Statutory federal income tax rate                          | 35.0% | 35.0% | 35.0%  |
| State income taxes, net of federal benefit                 | 2.4   | 1.7   | 1.5    |
| Carryforwards, credits and changes in valuation allowances | 0.9   | 1.8   | (27.7) |
| Foreign tax rate differences                               | (2.4) | (2.5) | (2.7)  |
| Changes in unrecognized tax benefits                       | 0.3   | (0.2) | (0.7)  |
| Domestic production activities deduction                   | (2.1) | (2.3) | (2.3)  |
| Other  | 1.0   | 1.7   | (1.1)  |
|  | 35.1% | 35.2% | 2.0%   |

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax

Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(8) INCOME TAXES (Continued)**

purposes, and (b) operating loss and tax credit carryforwards. The tax effects of significant items comprising the Company's net deferred income tax liabilities are as follows:

|   | 2013      | 2012      |
|---|-----------|-----------|
| Deferred income tax assets:               |           |           |
| Accrued expenses and allowances           | \$ 17,038 | \$ 18,020 |
| Accrued insurance                         | 1,508     | 1,283     |
| Tax credits and loss carryforwards        | 146,473   | 161,348   |
| Defined benefit pension liability         | 30,879    | 25,770    |
| Inventory allowances                      | 3,938     | 4,151     |
| Accrued warranty                          | 6,552     | 5,463     |
| Deferred compensation                     | 51,413    | 42,031    |
| <br>                                      |           |           |
| Gross deferred income tax assets          | 257,801   | 258,066   |
| Valuation allowance                       | (107,767) | (120,979) |
| <br>                                      |           |           |
| Net deferred income tax assets            | 150,034   | 137,087   |
| <br>                                      |           |           |
| Deferred income tax liabilities:          |           |           |
| Property, plant and equipment             | 36,657    | 35,756    |
| Intangible assets                         | 57,787    | 60,134    |
| Other liabilities                         | 7,206     | 11,198    |
| <br>                                      |           |           |
| Total deferred income tax liabilities     | 101,650   | 107,088   |
| <br>                                      |           |           |
| Net deferred income tax asset/(liability) | \$ 48,384 | \$ 29,999 |

Deferred income tax assets (liabilities) are presented as follows on the Consolidated Balance Sheets:

| <b>Balance Sheet Caption</b>         | <b>2013</b> | <b>2012</b> |
|--------------------------------------|-------------|-------------|
| Refundable and deferred income taxes | \$ 57,344   | \$ 57,209   |
| Other assets                         | 69,964      | 61,090      |
| Deferred income taxes                | (78,924)    | (88,300)    |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

Net deferred income tax asset/(liability)                      \$   48,384    \$   29,999

Management of the Company has reviewed recent operating results and projected future operating results. The Company's belief that realization of its net deferred tax assets is more likely than not is based on, among other factors, changes in operations that have occurred in recent years and available tax planning strategies. At December 28, 2013 and December 29, 2012 respectively, there were \$146,473 and \$161,348 relating to tax credits and loss carryforwards and \$30,879 and \$25,770 related to the defined benefit pension obligation.

Valuation allowances have been established for certain losses that reduce deferred tax assets to an amount that will, more likely than not, be realized. The deferred tax assets at December 28, 2013 that

Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(8) INCOME TAXES (Continued)**

are associated with tax loss and tax credit carryforwards not reduced by valuation allowances expire in periods starting 2014 through 2028.

Uncertain tax positions included in other non-current liabilities are evaluated in a two-step process, whereby (1) the Company determine whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more likely than not recognition threshold, the Company would recognize the largest amount of tax benefit that is greater than fifty percent likely to be realized upon ultimate settlement with the related tax authority.

The following summarizes the activity related to our unrecognized tax benefits in 2013 and 2012, in thousands:

|   | 2013     | 2012     |
|---|----------|----------|
| Gross unrecognized tax benefits beginning of year | \$ 3,370 | \$ 4,304 |
| Gross increases tax positions in prior period     | 1,464    | 37       |
| Gross decreases tax positions in prior period     |          | (3)      |
| Gross increases current-period tax positions      | 1,336    | 328      |
| Lapse of statute of limitations                   | (1,443)  | (1,296)  |
| <br>  |          |          |
| Gross unrecognized tax benefits end of year       | \$ 4,727 | \$ 3,370 |

There are approximately \$639 of uncertain tax positions for which reversal is reasonably possible during the next 12 months due to the closing of the statute of limitations. The nature of these uncertain tax positions is generally the computation of a tax deduction or tax credit. During 2013, the Company recorded a reduction of its gross unrecognized tax benefit of \$1,443 with \$938 recorded as a reduction of income tax expense, due to the expiration of statutes of limitation in the United States and Australia. In the third and fourth quarters of 2012, the company recorded a reduction of its gross unrecognized tax benefit of \$541 and \$756 respectively, with \$351 and \$491 recorded as a reduction of its income tax expense, due to the expiration of statutes of limitation in the United States and Australia. In addition to these amounts, there was an aggregate of \$314 and \$405 of interest and penalties at December 28, 2013 and December 29, 2012, respectively. The Company's policy is to record interest and penalties directly related to income taxes as income tax expense in the Consolidated Statements of Earnings.

The Company files income tax returns in the U.S. and various states as well as foreign jurisdictions. Tax years 2010 and forward remain open under U.S. statutes of limitation. Generally, tax years 2009 and forward remain open under state statutes of limitation. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$4,491 and \$3,164 at December 28, 2013 and December 29, 2012, respectively.

On January 2, 2013, the American Taxpayer Relief Act of 2012 was enacted, which retroactively extended the research and experimentation (R&E) tax credit in the U.S. for two years, from January 1, 2012 through December 31, 2013. Because a change in tax law is accounted for in the period of

Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(8) INCOME TAXES (Continued)**

enactment, the retroactive effect of the Act on the Company's U.S. federal taxes for 2012 of a benefit of approximately \$750 was recognized in the first quarter of 2013.

On September 13, 2013, the US Treasury and IRS issued final Tangible Property Regulations ("TPR") under IRC Section 162 and IRC Section 263(a). The regulations are not effective until tax years beginning on or after January 1, 2014; however, certain portions may require a tax method change on a retroactive basis, thus requiring a IRC Section 481(a) adjustment related to fixed and real asset deferred taxes. The accounting rules under ASC 740 treat the release of the regulations as a change in tax law as of the date of issuance and require the Company to determine whether there will be an impact on its financial statements for the period ended December 28, 2013. Any such impact of the final tangible property regulations would affect temporary deferred taxes only and result in a balance sheet reclassification between current and deferred taxes. The Company has analyzed the expected impact of the TPR on the Company and concluded that the expected impact is minimal. The Company will continue to monitor the impact of any future changes to the TPR on the Company prospectively.

During 2013 the Company recorded \$1,326 in income tax expense on \$8,572 of undistributed earnings of foreign subsidiaries which are not considered permanently invested. Provision has not been made for United States income taxes on a portion of the undistributed earnings of the Company's foreign subsidiaries (approximately \$644,290 at December 28, 2013 and \$586,198 at December 29, 2012, respectively) because the Company intends to reinvest those earnings. Such earnings would become taxable upon the sale or liquidation of these foreign subsidiaries or upon remittance of dividends. Furthermore, the currency translation adjustments in "Accumulated other comprehensive income (loss)" are not adjusted for income taxes as they relate to indefinite investments in foreign subsidiaries.

**(9) LONG-TERM DEBT**

|  | December 28,<br>2013 | December 29,<br>2012 |
|--|----------------------|----------------------|
| 6.625% senior unsecured notes(a)                 | \$ 450,000           | \$ 450,000           |
| Unamortized premium on senior unsecured notes(a) | 11,241               | 12,708               |
| Revolving credit agreement(b)                    |                      |                      |
| IDR Bonds(c)                                     | 8,500                | 8,500                |
| Other notes                                      | 1,368                | 1,609                |
| <br>   |                      |                      |
| Total long-term debt                             | 471,109              | 472,817              |
| Less current installments of long-term debt      | 202                  | 224                  |
| <br>   |                      |                      |
| Long-term debt, excluding current installments   | \$ 470,907           | \$ 472,593           |

(a) The senior unsecured notes include an aggregate principal amount of \$450,000 on which interest is paid and an unamortized premium balance of \$11,241 at December 28, 2013. The notes bear interest at 6.625% per annum and are due in April 2020. The premium will be amortized against interest expense as interest payments are made over the term of



Table of Contents

**Valmont Industries, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Three-year period ended December 28, 2013**

**(Dollars in thousands, except per share amounts)**

**(9) LONG-TERM DEBT (Continued)**

the notes. These notes may be repurchased at specified prepayment premiums. These notes are guaranteed by certain subsidiaries of the Company.

(b) On August 15, 2012, the Company entered into a five-year multicurrency \$400,000 revolving credit agreement with a group of banks. The Company may increase the credit agreement by up to an additional \$200,000 at any time, subject to the participating banks increasing the amount of their lending commitments. The interest rate on outstanding borrowings is, at the Company's option, either:

(i) LIBOR (based on a 1, 2, 3 or 6 month interest period, as selected by the Company) plus 125 to 225 basis points (inclusive of facility fees), depending on the Company's ratio of debt to EBITDA, or;

(ii) the higher of

The higher of (a) the prime lending rate and (b) the Federal Funds rate plus 50 basis points plus, in each case, 25 to 125 basis points (inclusive of facility fees), depending on the Company's ratio of debt to EBITDA, or

LIBOR (based on a 1 month interest period) plus 125 to 225 basis points (inclusive of facility fees), depending on the Company's ratio of debt to EBITDA

At December 28, 2013, the Company had no outstanding borrowings under the revolving credit agreement. The revolving credit agreement has a termination date of August 15, 2017 and contains certain financial covenants that may limit additional borrowing capability under the agreement. At December 28, 2013, the Company had the ability to borrow \$382.1 million under this facility. Standby letters of credit totaling \$17.9 million related to various insurance obligations were outstanding at December 28, 2013 and reduce the amount available to borrow under this agreement.

(c) The Industrial Development Revenue Bonds were issued to finance the construction of a manufacturing facility in Jasper, Tennessee. Variable interest is payable until final maturity June 1, 2025. The effective interest rates at December 28, 2013 and December 29, 2012 were 0.21% and 0.30%, respectively.

The lending agreements include certain maintenance covenants, including financial leverage and interest coverage. The Company was in compliance with all financial debt covenants at December 28, 2013. The minimum aggregate maturities of long-term debt for each of the five years following 2013 are: \$202, \$235, \$229, \$15 and \$7.



Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(10) STOCK-BASED COMPENSATION**

The Company maintains stock-based compensation plans approved by the shareholders, which provide that the Compensation Committee of the Board of Directors may grant incentive stock options, nonqualified stock options, stock appreciation rights, non-vested stock awards and bonuses of common stock. At December 28, 2013, 1,476,466 shares of common stock remained available for issuance under the plans. Shares and options issued and available are subject to changes in capitalization. The Company's policy is to issue shares upon exercise of stock options from treasury shares held by the Company.

Under the stock option plans, the exercise price of each option equals the market price at the time of the grant. Options vest beginning on the first anniversary of the grant in equal amounts over three to six years or on the fifth anniversary of the grant. Expiration of grants is from six to ten years from the date of grant. The Company recorded \$5,194, \$4,934 and \$5,623 of compensation expense (included in selling, general and administrative expenses) in the 2013, 2012 and 2011 fiscal years, respectively. The associated tax benefits recorded in the 2013, 2012 and 2011 fiscal years was \$1,974, \$1,875 and \$2,137, respectively.

At December 28, 2013, the amount of unrecognized stock option compensation expense, to be recognized over a weighted average period of 2.31 years, was approximately \$10,418.

The Company uses a binomial option pricing model to value its stock options. The fair value of each option grant made in 2013, 2012 and 2011 was estimated using the following assumptions:

|                                 | 2013    | 2012    | 2011    |
|---------------------------------|---------|---------|---------|
| Expected volatility             | 33.26%  | 33.76%  | 32.50%  |
| Risk-free interest rate         | 1.16%   | 0.74%   | 0.88%   |
| Expected life from vesting date | 3.0 yrs | 3.0 yrs | 3.0 yrs |
| Dividend yield                  | 0.72%   | 0.77%   | 0.82%   |

Following is a summary of the activity of the stock plans during 2011, 2012 and 2013:

|   | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|---|---------------------|--|---|---------------------------------|
| Outstanding at December 25, 2010                        | 1,222,894           | \$ 66.22                                 |   |                                 |
| Granted   | 214,206             | 85.40                                    |   |                                 |
| Exercised   | (306,218)           | (61.57)                                  |   |                                 |
| Forfeited   | (52,169)            | (76.12)                                  |   |                                 |
| Outstanding at December 31, 2011                        | 1,078,713           | \$ 70.88                                 | 4.68  | \$ 22,382                       |
| Options vested or expected to vest at December 31, 2011 | 1,048,182           | \$ 70.52                                 | 4.63  | 22,113                          |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|  |         |    |       |      |        |
|--|---------|----|-------|------|--------|
| Options exercisable at December 31, 2011 | 618,844 | \$ | 61.57 | 3.56 | 18,441 |
|--|---------|----|-------|------|--------|

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (10) STOCK-BASED COMPENSATION (Continued)

The weighted average per share fair value of options granted during 2011 was \$23.32.

|   | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|---|---------------------|--|---|---------------------------------|
| Outstanding at December 31, 2011                        | 1,078,713           | \$ 70.88                                 |   |                                 |
| Granted   | 140,007             | 136.01                                   |   |                                 |
| Exercised   | (341,090)           | (61.53)                                  |   |                                 |
| Forfeited   | (8,638)             | (84.18)                                  |   |                                 |
| Outstanding at December 29, 2012                        | 868,992             | \$ 84.91                                 | 4.68  | \$ 43,410                       |
| Options vested or expected to vest at December 29, 2012 | 845,470             | \$ 84.26                                 | 4.64  | 42,765                          |
| Options exercisable at December 29, 2012                | 485,786             | \$ 71.06                                 | 3.67  | 30,846                          |

The weighted average per share fair value of options granted during 2012 was \$38.17.

|                                  | Number<br>of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|------------------------|--|---|---------------------------------|
| Outstanding at December 29, 2012 | 868,992                | \$ 84.91                                 |   |                                 |
| Granted                          | 155,254                | 144.86                                   |   |                                 |
| Exercised                        | (216,105)              | (72.17)                                  |   |                                 |
| Forfeited                        | (12,920)               | (129.08)                                 |   |                                 |
| Outstanding at December 28, 2013 | 795,221                | \$ 99.29                                 | 4.56  | \$ 39,994                       |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|   |         |    |       |      |        |
|---|---------|----|-------|------|--------|
| Options vested or expected to vest at December 28, 2013 | 775,237 | \$ | 98.41 | 4.51 | 39,678 |
|---|---------|----|-------|------|--------|

|  |         |    |       |      |        |
|--|---------|----|-------|------|--------|
| Options exercisable at December 28, 2013 | 464,377 | \$ | 81.73 | 3.58 | 31,508 |
|--|---------|----|-------|------|--------|

The weighted average per share fair value of options granted during 2013 was \$37.88.

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (10) STOCK-BASED COMPENSATION (Continued)

Following is a summary of the status of stock options outstanding at December 28, 2013:

| Outstanding and Exercisable By Price Range |                     |   |                                 |                     |                                 |
|--|---------------------|---|---------------------------------|---------------------|---------------------------------|
| Exercise Price Range                       | Options Outstanding |   |                                 | Options Exercisable |                                 |
|  | Number              | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number              | Weighted Average Exercise Price |
| \$20.53 - 53.09                            | 53,199              | 1.39 years                                  | \$ 31.34                        | 38,499              | \$ 23.77                        |
| \$57.46 - 86.72                            | 446,370             | 3.73 years                                  | 80.80                           | 372,481             | 80.49                           |
| \$105.44 - 151.45                          | 295,652             | 6.37 years                                  | 139.45                          | 53,397              | 132.24                          |
|  | 795,221             |   |                                 | 464,377             |                                 |

In accordance with shareholder-approved plans, the Company grants stock under various stock-based compensation arrangements, including non-vested stock and stock issued in lieu of cash bonuses. Under such arrangements, stock is issued without direct cost to the employee. In addition, the Company grants restricted stock units. The restricted stock units are settled in Company stock when the restriction period ends. During fiscal 2013, 2012 and 2011, the Company granted non-vested stock and restricted stock units to directors and certain management employees as follows (which are not included in the above stock plan activity tables):

|  | 2013      | 2012      | 2011     |
|--|-----------|-----------|----------|
| Shares issued                                  | 47,271    | 27,293    | 47,417   |
| Weighted-average per share price on grant date | \$ 146.72 | \$ 132.21 | \$ 88.26 |
| Compensation expense                           | \$ 3,667  | \$ 2,835  | \$ 2,004 |

At December 28, 2013 the amount of deferred stock-based compensation granted, to be recognized over a weighted-average period of 1.95 years, was approximately \$8,796.

Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(11) EARNINGS PER SHARE**

The following table provides a reconciliation between Basic and Diluted earnings per share (EPS):

|   | Basic<br>EPS | Dilutive<br>Effect of<br>Stock<br>Options | Diluted<br>EPS |
|---|--------------|---|----------------|
| <b>2013:</b>  |              |   |                |
| Net earnings attributable to Valmont Industries, Inc. | \$ 278,489   | \$  | \$ 278,489     |
| Weighted average shares outstanding (000's)           | 26,641       | 258                                       | 26,899         |
| Per share amount                                      | \$ 10.45     | \$ 0.10                                   | \$ 10.35       |
| <b>2012:</b>  |              |   |                |
| Net earnings attributable to Valmont Industries, Inc. | \$ 234,072   | \$  | \$ 234,072     |
| Weighted average shares outstanding (000's)           | 26,471       | 293                                       | 26,764         |
| Per share amount                                      | \$ 8.84      | \$ 0.09                                   | \$ 8.75        |
| <b>2011:</b>  |              |   |                |
| Net earnings attributable to Valmont Industries, Inc. | \$ 228,308   | \$  | \$ 228,308     |
| Weighted average shares outstanding (000's)           | 26,329       | 221                                       | 26,550         |
| Per share amount                                      | \$ 8.67      | \$ 0.07                                   | \$ 8.60        |

Basic and diluted net earnings and earnings per share for 2013 included a non-cash after-tax loss of \$12,011 (\$0.45 per share) associated with the deconsolidation of Delta EMD Pty. Ltd. (EMD) and an after-tax loss of \$4,569 (\$0.17 per share) related to a fixed asset impairment loss recorded by EMD in the fourth quarter of 2013. Basic and diluted net earnings and earnings per share for 2011 included an income tax benefit of \$66,026 (\$2.49 per share) related to a legal entity reorganization of Delta Ltd.

At the end of fiscal years 2013, 2012 and 2011, there were approximately 1,200, 137,000, and 20,000 options outstanding, respectively, with exercise prices exceeding the market value of common stock that were therefore excluded from the computation of diluted shares outstanding.

**(12) EMPLOYEE RETIREMENT SAVINGS PLAN**

Established under Internal Revenue Code Section 401(k), the Valmont Employee Retirement Savings Plan ("VERSP") is a defined contribution plan available to all eligible employees. Participants can elect to contribute up to 50% of annual pay, on a pretax and/or after-tax basis. The Company also makes contributions to the Plan and a non-qualified deferred compensation plan for certain Company executives. The 2013, 2012 and 2011 Company contributions to these plans amounted to approximately \$11,600, \$10,000 and \$8,700 respectively.

The Company sponsors a fully-funded, non-qualified deferred compensation plan for certain Company executives who otherwise would be limited in receiving company contributions into VERSP under Internal Revenue Service regulations. The invested assets and related liabilities of these participants were approximately \$27,133 and \$20,087 at December 28, 2013 and December 29, 2012, respectively. Such amounts are included in "Other assets" and "Other noncurrent liabilities" on the Consolidated Balance Sheets. Amounts distributed from the Company's non-qualified deferred compensation plan to participants under the transition rules of section 409A of the Internal Revenue Code were approximately \$1,626 and \$250 at December 28, 2013 and December 29, 2012, respectively. All distributions were made in cash.

Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(13) DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amount of cash and cash equivalents, receivables, accounts payable, notes payable to banks and accrued expenses approximate fair value because of the short maturity of these instruments. The fair values of each of the Company's long-term debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's current borrowing rate for similar debt instruments of comparable maturity (Level 2). The fair value estimates are made at a specific point in time and the underlying assumptions are subject to change based on market conditions. At December 28, 2013 the carrying amount of the Company's long-term debt was \$471,109 with an estimated fair value of approximately \$517,807. At December 29, 2012 the carrying amount of the Company's long-term debt was \$472,817 with an estimated fair value of approximately \$541,559.

For financial reporting purposes, a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date is used. Inputs refers broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

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

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Trading Securities: The assets and liabilities recorded for the investments held in the Valmont Deferred Compensation Plan of \$27,133 (\$20,087 in 2012) represent mutual funds, invested in debt and equity securities, classified as trading securities, considering the employee's ability to change investment allocation of their deferred compensation at any time. The Company's remaining ownership in Delta EMD Pty. Ltd. (JSE:DTA) of \$13,910 is recorded at fair value at December 28, 2013. Quoted market prices are available for these securities in an active market and therefore categorized as a Level 1 input.

|                    | Carrying Value<br>December 28,<br>2013 | Fair Value Measurement Using:   |  |  |
|--------------------|--|---|--|--|
|                    |  | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets (Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:            |  |   |  |  |
| Trading Securities | \$ 41,043                              | \$ 41,043   | \$   | \$   |

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (13) DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

|  | Carrying Value<br>December 29,<br>2013 | Fair Value Measurement Using:   |  |  |
|--|--|---|--|--|
|  |  | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets (Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |

## Assets:

|                    |           |           |    |    |
|--------------------|-----------|-----------|----|----|
| Trading Securities | \$ 20,087 | \$ 20,087 | \$ | \$ |
|--------------------|-----------|-----------|----|----|

## (14) DERIVATIVE FINANCIAL INSTRUMENTS

The Company manages risk from foreign currency rate risk related to foreign currency denominated transactions and from natural gas supply pricing. From time to time, the Company manages these risks using derivative financial instruments. Most of these derivative financial instruments are marked to market and recorded in the Company's consolidated statements of earnings. Some derivative financial instruments may be accounted for as a fair value or cash flow hedge. Derivative financial instruments have credit risk and market risk. To manage credit risk, the Company only enters into derivative transactions with counterparties who are recognized, stable multinational banks.

**Natural Gas Prices:** Natural gas supplies to meet production requirements of production facilities are purchased at market prices. Natural gas market prices are volatile and the Company effectively fixes prices for a portion of its natural gas usage requirements of certain of its U.S. facilities through the use of swaps. These contracts reference physical natural gas prices or appropriate NYMEX futures contract prices. While there is a strong correlation between the NYMEX futures contract prices and the Company's delivered cost of natural gas, the use of financial derivatives may not exactly offset the change in the price of physical gas. The contracts are traded in months forward and settlement dates are scheduled to coincide with gas purchases during that future period.

Annual consolidated purchase requirements for North America are approximately 1,113,800 MMBtu. At December 28, 2013 there were open swaps totaling 120,000 MMBtu with a total unrealized gain of \$73, which was recorded in the Company's consolidated statement of earnings for the fiscal year ended December 28, 2013. At December 29, 2012 there were open swaps totaling 70,000 MMBtu with a total unrealized gain of \$3, which was recorded in the Company's consolidated statement of earnings for the fiscal year ended December 29, 2012.

**Interest Rate Fluctuations:** In connection with the issuance of the \$150,000 principal amount of senior notes in June 2011, the Company executed a contract for a notional amount of \$130,000 to hedge the risk of potential fluctuations in the treasury rates which would change the amount of net proceeds received from the debt offering. As the benchmark rate component of the fixed rate debt issuance and the cash flow hedged risk is based on that same benchmark, this was deemed an effective hedge at inception. On June 8, 2011, this contract was settled with the Company paying approximately \$3,568 to the counterparty. As such, the Company recorded the \$3,568 in accumulated accumulated other comprehensive income in fiscal 2011 and amortizes this loss to interest expense as interest payments are made over the term of the debt.



Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(14) DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

**Foreign Currency Fluctuations:** The Company operates in a number of different foreign countries and may enter into business transactions that are in currencies that are different from a given operation's functional currency. In certain cases, the Company may enter into foreign currency exchange contracts to manage a portion of the foreign exchange risk associated with either a receivable or payable denominated in a foreign currency, a forecasted transaction or a series of forecasted transactions denominated in a foreign currency.

At December 28, 2013, the Company had open foreign currency forward contracts related to a large sales contract that will be settled in Canadian dollars. The purpose of the contracts was to reduce the effect of exchange rate fluctuations on the profitability of the contract and is accounted for as a fair value hedge. The notional amount of the open forward contracts to sell Canadian dollars is \$28,032 and will be settled by the end of March 2014. Total unrealized gains on the forward contracts at the end of fiscal 2013 were \$475. There were no significant open foreign currency contracts at December 29, 2012 or December 31, 2011.

**(15) GUARANTEES**

The Company's product warranty accrual reflects management's best estimate of probable liability under its product warranties. Historical product claims data is used to estimate the cost of product warranties at the time revenue is recognized.

Changes in the product warranty accrual, which is recorded in "Accrued expenses", for the years ended December 28, 2013 and December 29, 2012, were as follows:

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Balance, beginning of period                                | \$ 15,333   | \$ 13,586   |
| Payments made   | (9,033)     | (14,997)    |
| Change in liability for warranties issued during the period | 15,193      | 16,542      |
| Change in liability for pre-existing warranties             | (782)       | 202         |
| Balance, end of period                                      | \$ 20,711   | \$ 15,333   |

**(16) DEFINED BENEFIT RETIREMENT PLAN**

Delta Ltd., a wholly-owned subsidiary of the Company, is the sponsor of the Delta Pension Plan ("Plan"). The Plan provides defined benefit retirement income to eligible employees in the United Kingdom. Pension retirement benefits to qualified employees are 1.67% of final salary per year of service upon reaching the age of 65 years. This Plan has no active employees as members at December 28, 2013.

**Funded Status**

The Company recognizes the overfunded or underfunded status of the pension plan as an asset or liability. The funded status represents the difference between the projected benefit obligation (PBO) and the fair value of the plan assets. The PBO is the present value of benefits earned to date by plan



Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (16) DEFINED BENEFIT RETIREMENT PLAN (Continued)

participants, including the effect of assumed future salary increases (if applicable) and inflation. Plan assets are measured at fair value. Because the pension plan is denominated in British pounds sterling, the Company used exchange rates of \$1.6121/£ and \$1.6469/£ to translate the net pension liability into U.S. dollars at December 29, 2012 and December 28, 2013, respectively.

*Projected Benefit Obligation and Fair Value of Plan Assets* The accumulated benefit obligation (ABO) is the present value of benefits earned to date, assuming no future compensation growth. As there are no active employees in the plan, the ABO is equal to the PBO. The underfunded ABO represents the difference between the PBO and the fair value of plan assets. Changes in the PBO and fair value of plan assets for the pension plan for the period from December 31, 2011 to December 29, 2012 were as follows:

|                                 | Projected<br>Benefit<br>Obligation | Plan<br>Assets | Funded<br>status |
|---------------------------------|------------------------------------|----------------|------------------|
| Fair value at December 31, 2011 | \$ 492,519                         | \$ 424,495     | \$ (68,024)      |
| Employer contributions          |                                    | 11,591         |                  |
| Interest cost                   | 23,445                             |                |                  |
| Actual return on plan assets    |                                    | 41,345         |                  |
| Benefits paid                   | (11,722)                           | (11,722)       |                  |
| Actuarial loss                  | 69,859                             |                |                  |
| Currency translation            | 23,666                             | 20,015         |                  |
| Fair Value at December 29, 2012 | \$ 597,767                         | \$ 485,724     | \$ (112,043)     |

Changes in the PBO and fair value of plan assets for the pension plan for the period from December 29, 2012 to December 28, 2013 were as follows:

|                                 | Projected<br>Benefit<br>Obligation | Plan<br>Assets | Funded<br>status |
|---------------------------------|------------------------------------|----------------|------------------|
| Fair Value at December 29, 2012 | \$ 597,767                         | \$ 485,724     | \$ (112,043)     |
| Employer contributions          |                                    | 17,619         |                  |
| Interest cost                   | 26,431                             |                |                  |
| Actual return on plan assets    |                                    | 7,676          |                  |
| Settlements                     | (12,981)                           | (12,981)       |                  |
| Benefits paid                   | (11,573)                           | (11,573)       |                  |
| Actuarial loss                  | 37,235                             |                |                  |
| Currency translation            | 14,978                             | 10,995         |                  |
| Fair Value at December 28, 2013 | \$ 651,857                         | \$ 497,460     | \$ (154,397)     |



Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(16) DEFINED BENEFIT RETIREMENT PLAN (Continued)**

Pre-tax amounts recognized in accumulated other comprehensive income (loss) as of December 28, 2013 and December 29, 2012 consisted of actuarial gains (losses):

|                           |    |          |
|---------------------------|----|----------|
| Balance December 31, 2011 | \$ | 60,014   |
| Actuarial loss            |    | (48,524) |
| Currency translation gain |    | 1,127    |
|                           |    |          |
| Balance December 29, 2012 |    | 12,617   |
| Actuarial loss            |    | (49,421) |
| Currency translation loss |    | (2,004)  |
|                           |    |          |
| Balance December 28, 2013 | \$ | (38,808) |

The estimated amount to be amortized from accumulated other comprehensive income into net periodic benefit cost in 2014 is \$0.

*Assumptions* The weighted-average actuarial assumptions used to determine the benefit obligation at December 28, 2013 and December 29, 2012 were as follows:

| <b>Percentages</b> | <b>2013</b> | <b>2012</b> |
|--------------------|-------------|-------------|
| Discount rate      | 4.45%       | 4.60%       |
| Salary increase    | N/A         | N/A         |
| CPI Inflation      | 2.70%       | 2.70%       |
| RPI Inflation      | 3.60%       | 3.20%       |

**Expense**

Pension expense is determined based upon the annual service cost of benefits (the actuarial cost of benefits earned during a period) and the interest cost on those liabilities, less the expected return on plan assets. The expected long-term rate of return on plan assets is applied to the fair value of plan assets. Differences in actual experience in relation to assumptions are not recognized in net earnings immediately, but are deferred and, if necessary, amortized as pension expense.

The components of the net periodic pension expense for the fiscal years ended December 28, 2013 and December 29, 2012 were as follows:

|                                | <b>2013</b> | <b>2012</b> |
|--------------------------------|-------------|-------------|
| Net Periodic Benefit Cost:     |             |             |
| Interest cost                  | 26,431      | 23,445      |
| Expected return on plan assets | (19,862)    | (19,168)    |
|                                |             |             |
| Net periodic benefit expense   | \$ 6,569    | \$ 4,277    |



Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(16) DEFINED BENEFIT RETIREMENT PLAN (Continued)**

*Assumptions* The weighted-average actuarial assumptions used to determine expense are as follows for fiscal 2013 and 2012:

| <b>Percentages</b>             | <b>2013</b> | <b>2012</b> |
|--------------------------------|-------------|-------------|
| Discount rate                  | 4.60%       | 4.80%       |
| Expected return on plan assets | 4.20%       | 4.40%       |
| RPI Inflation                  | 3.20%       | 3.20%       |
| CPI Inflation                  | 2.70%       | 2.30%       |

The discount rate is based on the yields of AA-rated corporate bonds with durational periods similar to that of the pension liabilities. The expected return on plan assets is based on our asset allocation mix and our historical return, taking into account current and expected market conditions. Inflation is based on expected changes in the consumer price index or the retail price index in the U.K. depending on the relevant plan provisions.

**Cash Contributions**

The Company completed negotiations with Plan trustees in 2013 regarding annual funding for the Plan. The annual contributions into the Plan are \$16,469 (£10,000) per annum as part of the Plan's recovery plan, along with a contribution to cover the administrative costs of the Plan of approximately \$1,812 (£1,100) per annum.

**Benefit Payments**

The following table details expected pension benefit payments for the years 2014 through 2022:

|                   |           |
|-------------------|-----------|
| 2014              | \$ 12,681 |
| 2015              | 13,175    |
| 2016              | 13,669    |
| 2017              | 14,163    |
| Years 2018 - 2022 | 76,087    |

**Asset Allocation Strategy**

The investment strategy for pension plan assets is to maintain a diversified portfolio consisting of

Long-term fixed-income securities that are investment grade or government-backed in nature;

Common stock mutual funds in U.K. and non-U.K. companies, and;

Diversified growth funds, which are invested in a number of investments, including common stock, fixed income funds, properties and commodities.

The plan, as required by U.K. law, has an independent trustee that sets investment policy. The general strategy is to invest approximately 50% of the assets of the plan in common stock mutual funds and diversified growth funds, with the remainder of the investments in long-term fixed income





Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(16) DEFINED BENEFIT RETIREMENT PLAN (Continued)**

securities, including corporate bonds and index-linked U.K. gilts. The trustees regularly consult with representatives of the plan sponsor and independent advisors on such matters.

The pension plan investments are held in a trust. The weighted-average maturity of the corporate bond portfolio was 13 years at December 28, 2013.

**Fair Value Measurements**

The pension plan assets are valued at fair value. The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

**Index-linked gilts** Index-linked gilts are U.K. government-backed securities consisting of bills, notes, bonds, and other fixed income securities issued directly by the U.K. Treasury or by government-sponsored enterprises.

**Corporate Bonds** Corporate bonds and debentures consist of fixed income securities issued by U.K. corporations.

**Corporate Stock** This investment category consists of common and preferred stock, including mutual funds, issued by U.K. and non-U.K. corporations.

**Diversified growth funds** This investment category consists of diversified investment funds, whose holdings include common stock, fixed income funds, properties and commodities of U.K. and non-U.K. securities.

These assets are pooled investment funds whereby the underlying investments can be valued using quoted market prices. As the fair values of the pooled investment funds themselves are not publicly quoted, they are classified as Level 2 investments.

At December 28, 2013 and December 29, 2012, the pension plan assets measured at fair value on a recurring basis were as follows:

| <b>December 28, 2013</b>                   | <b>Quoted Prices in<br/>Active Markets<br/>for Identical<br/>Inputs (Level 1)</b> | <b>Significant Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Total</b>      |
|--|---|--|--|-------------------|
| Plan net assets:                           |   |  |  |                   |
| Temporary cash investments                 | \$  | \$ 10,791  | \$   | \$ 10,791         |
| Index-linked gilts                         |   | 112,208  |  | 112,208           |
| Corporate bonds                            |   | 166,604  |  | 166,604           |
| Corporate stock                            |   | 141,029  |  | 141,029           |
| Diversified growth funds                   |   | 66,828   |  | 66,828            |
| <b>Total plan net assets at fair value</b> | <b>\$</b>   | <b>\$ 497,460</b>  | <b>\$</b>  | <b>\$ 497,460</b> |



Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (16) DEFINED BENEFIT RETIREMENT PLAN (Continued)

| December 29, 2012                          | Quoted Prices in<br>Active Markets<br>for Identical<br>Inputs (Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total             |
|--|---|--|--|-------------------|
| Plan net assets:                           |   |  |  |                   |
| Temporary cash investments                 | \$  | \$   | 12,091   | \$ 12,091         |
| Index-linked gilts                         |   | 107,366  |  | 107,366           |
| Corporate bonds                            |   | 347,083  |  | 347,083           |
| Corporate stock                            |   | 19,184   |  | 19,184            |
| Other investments                          |   |  |  |                   |
| <b>Total plan net assets at fair value</b> | <b>\$</b>   | <b>\$</b>  | <b>485,724</b>                                     | <b>\$ 485,724</b> |

## (17) BUSINESS SEGMENTS

The Company has four reportable segments based on its management structure. Each segment is global in nature with a manager responsible for segment operational performance and the allocation of capital within the segment. Net corporate expense is net of certain service related expenses that are allocated to business units generally on the basis of employee headcounts and sales dollars.

Reportable segments are as follows:

**ENGINEERED INFRASTRUCTURE PRODUCTS:** This segment consists of the manufacture of engineered metal structures and components for the global lighting and traffic, wireless communication, roadway safety and access systems applications;

**UTILITY SUPPORT STRUCTURES:** This segment consists of the manufacture of engineered steel and concrete structures for the global utility industry;

**COATINGS:** This segment consists of galvanizing, anodizing and powder coating services on a global basis; and

**IRRIGATION:** This segment consists of the manufacture of agricultural irrigation equipment and related parts and services for the global agricultural industry.

In addition to these four reportable segments, the Company has other businesses and activities that individually are not more than 10% of consolidated sales. These include the manufacture of forged steel grinding media for the mining industry, tubular products for industrial customers, and the distribution of industrial fasteners and are reported in the "Other" category.

The accounting policies of the reportable segments are the same as those described in Note 1. The Company evaluates the performance of its business segments based upon operating income and invested capital. The Company does not allocate interest expense, non-operating income and deductions, or income taxes to its business segments.



Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (17) BUSINESS SEGMENTS (Continued)

In 2013, the Company changed its presentation of certain intersegment utility structure sales to align with management's current reporting structure. Fiscal 2012 and 2011 reporting was reclassified to conform with the 2013 presentation. Accordingly, fiscal 2012 and 2011 EIP segment sales (and the associated intersegment sales elimination) for 2012 increased by \$49,427 and \$21,657, respectively. Fiscal 2012 and 2011 segment sales (after intersegment sales eliminations) and operating income were unchanged from amounts previously reported.

## Summary by Business Segments

|   | 2013       | 2012       | 2011       |
|---|------------|------------|------------|
| <b>SALES:</b>                               |            |            |            |
| Engineered Infrastructure Products segment: |            |            |            |
| Lighting, Traffic, and Roadway Products     | \$ 660,423 | \$ 637,082 | \$ 595,048 |
| Communication Products                      | 139,888    | 134,711    | 109,131    |
| Access Systems                              | 201,498    | 159,740    | 135,341    |
| Engineered Infrastructure Products segment  | 1,001,809  | 931,533    | 839,520    |
| Utility Support Structures segment:         |            |            |            |
| Steel                                       | 853,459    | 752,621    | 546,926    |
| Concrete                                    | 108,579    | 120,899    | 77,944     |
| Utility Support Structures segment          | 962,038    | 873,520    | 624,870    |
| Coatings segment                            | 357,635    | 334,552    | 327,322    |
| Irrigation segment                          | 882,179    | 750,641    | 666,007    |
| Other                                       | 303,595    | 328,737    | 331,986    |
| Total                                       | 3,507,256  | 3,218,983  | 2,789,705  |
| <b>INTERSEGMENT SALES:</b>                  |            |            |            |
| Engineered Infrastructure Products segment  | 104,306    | 98,220     | 46,923     |
| Utility Support Structures segment          | 2,343      | 3,857      | 4,105      |
| Coatings segment                            | 56,649     | 52,478     | 46,534     |
| Irrigation segment                          | 5          | 49         | 111        |
| Other                                       | 39,742     | 34,838     | 30,552     |
| Total                                       | 203,045    | 189,442    | 128,225    |
| <b>NET SALES:</b>                           |            |            |            |
| Engineered Infrastructure Products segment  | 897,503    | 833,313    | 792,597    |
| Utility Support Structures segment          | 959,695    | 869,663    | 620,765    |
| Coatings segment                            | 300,986    | 282,074    | 280,788    |
| Irrigation segment                          | 882,174    | 750,592    | 665,896    |
| Other                                       | 263,853    | 293,899    | 301,434    |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

Total \$ 3,304,211 \$ 3,029,541 \$ 2,661,480

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (17) BUSINESS SEGMENTS (Continued)

|   | 2013         | 2012         | 2011         |
|---|--------------|--------------|--------------|
| <b>OPERATING INCOME (LOSS):</b>   |              |              |              |
| Engineered Infrastructure Products  | \$ 87,647    | \$ 54,013    | \$ 40,753    |
| Utility Support Structures  | 174,740      | 129,025      | 70,643       |
| Coatings  | 74,917       | 71,641       | 58,656       |
| Irrigation  | 181,498      | 143,605      | 107,759      |
| Other   | 30,984       | 46,575       | 45,670       |
| Corporate   | (76,717)     | (62,563)     | (60,171)     |
| <br>  |              |              |              |
| Total   | 473,069      | 382,296      | 263,310      |
| Interest expense, net   | (26,025)     | (23,353)     | (26,910)     |
| Other   | 2,373        | 347          | (2,643)      |
| <br>  |              |              |              |
| Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries | \$ 449,417   | \$ 359,290   | \$ 233,757   |
| <br>  |              |              |              |
| <b>TOTAL ASSETS:</b>  |              |              |              |
| Engineered Infrastructure Products  | \$ 873,757   | \$ 784,659   | \$ 750,992   |
| Utility Support Structures  | 524,113      | 510,943      | 432,657      |
| Coatings  | 315,663      | 334,841      | 283,588      |
| Irrigation  | 323,435      | 287,354      | 267,615      |
| Other   | 126,337      | 202,289      | 203,185      |
| Corporate   | 613,189      | 448,465      | 368,039      |
| <br>  |              |              |              |
| Total   | \$ 2,776,494 | \$ 2,568,551 | \$ 2,306,076 |
| <br>  |              |              |              |
| <b>CAPITAL EXPENDITURES:</b>  |              |              |              |
| Engineered Infrastructure Products  | \$ 15,878    | \$ 20,244    | \$ 13,328    |
| Utility Support Structures  | 39,347       | 41,081       | 31,501       |
| Coatings  | 12,206       | 13,280       | 22,881       |
| Irrigation  | 21,416       | 12,618       | 8,766        |
| Other   | 6,270        | 4,428        | 4,501        |
| Corporate   | 11,636       | 5,423        | 2,092        |
| <br>  |              |              |              |
| Total   | \$ 106,753   | \$ 97,074    | \$ 83,069    |

**DEPRECIATION AND AMORTIZATION:**

|                                    |           |               |           |               |           |               |
|------------------------------------|-----------|---------------|-----------|---------------|-----------|---------------|
| Engineered Infrastructure Products | \$        | 31,057        | \$        | 27,164        | \$        | 30,637        |
| Utility Support Structures         |           | 14,375        |           | 13,284        |           | 12,548        |
| Coatings                           |           | 14,656        |           | 12,015        |           | 12,175        |
| Irrigation                         |           | 6,679         |           | 6,209         |           | 6,006         |
| Other                              |           | 7,663         |           | 8,168         |           | 8,539         |
| Corporate                          |           | 3,006         |           | 3,378         |           | 4,655         |
| <b>Total</b>                       | <b>\$</b> | <b>77,436</b> | <b>\$</b> | <b>70,218</b> | <b>\$</b> | <b>74,560</b> |



Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(17) BUSINESS SEGMENTS (Continued)****Summary by Geographical Area by Location of Valmont Facilities:**

|                   | 2013         | 2012         | 2011         |
|-------------------|--------------|--------------|--------------|
| <b>NET SALES:</b> |              |              |              |
| United States     | \$ 2,077,812 | \$ 1,870,703 | \$ 1,473,819 |
| Australia         | 492,698      | 499,025      | 491,395      |
| China             | 97,788       | 135,398      | 148,219      |
| Other             | 635,913      | 524,415      | 548,047      |
| <br>              |              |              |              |
| Total             | \$ 3,304,211 | \$ 3,029,541 | \$ 2,661,480 |

|                           |              |              |              |
|---------------------------|--------------|--------------|--------------|
| <b>LONG-LIVED ASSETS:</b> |              |              |              |
| United States             | \$ 530,042   | \$ 470,154   | \$ 439,147   |
| Australia                 | 342,320      | 321,456      | 329,453      |
| Canada                    | 71,512       | 77,945       | 36,979       |
| Other                     | 234,780      | 273,056      | 247,554      |
| <br>                      |              |              |              |
| Total                     | \$ 1,178,654 | \$ 1,142,611 | \$ 1,053,133 |

No single customer accounted for more than 10% of net sales in 2013, 2012, or 2011. Net sales by geographical area are based on the location of the facility producing the sales and do not include sales to other operating units of the company. While Australia accounted for approximately 15% of the Company's net sales in 2013, no other foreign country accounted for more than 4% of the Company's net sales.

Operating income by business segment and geographical areas are based on net sales less identifiable operating expenses and allocations and includes profits recorded on sales to other operating units of the company.

Long-lived assets consist of property, plant and equipment, net of depreciation, goodwill, other intangible assets and other assets. Long-lived assets by geographical area are based on location of facilities.

**(18) COMMITMENTS & CONTINGENCIES**

Various claims and lawsuits are pending against Company and certain of its subsidiaries. The Company cannot fully determine the effect of all asserted and unasserted claims on its consolidated results of operations, financial condition, or liquidity. Where asserted and unasserted claims are considered probable and reasonably estimable, a liability has been recorded. We do not expect that any known lawsuits, claims, environmental costs, commitments, or contingent liabilities will have a material adverse effect on our consolidated results of operations, financial condition, or liquidity.



Table of Contents

**Valmont Industries, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Three-year period ended December 28, 2013**

**(Dollars in thousands, except per share amounts)**

**(19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION**

On April 8, 2010, the Company issued \$300,000 of senior unsecured notes at a coupon interest rate of 6.625% per annum. In June 2011, the Company issued an additional \$150,000 principal amount of these notes to redeem senior subordinated notes. The notes are guaranteed, jointly, severally, fully and unconditionally by certain of the Company's current and future direct and indirect domestic and foreign subsidiaries (collectively the "Guarantors"), excluding its other current domestic and foreign subsidiaries which do not guarantee the debt (collectively referred to as the "Non-Guarantors"). All Guarantors are 100% owned by the parent company.

In 2013, the Company classified "Equity in earnings of nonconsolidated subsidiaries" as an adjustment to reconcile net earnings to operating cash flows, as part of "Net cash flows from operating activities" in the Consolidating Statement of Cash Flows. In the 2012 and 2011 Consolidating Statements of Cash Flows, these amounts were classified within "Other, net", as part of "Net cash flows from investing activities". The Company revised its presentation for 2012 and 2011 with respect to the supplemental information included in this footnote in order to achieve comparability in the Consolidating Statements of Cash Flows.

The revisions consisted of recording the amounts previously reported in "Other, net" in cash flows from investing activities that were related to earnings from subsidiaries to 'Equity in earnings of nonconsolidated subsidiaries' in cash flows from operating activities. Accordingly, the eliminations to reconcile consolidated net earnings are contained in the "Net cash flows from operating activities".

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

The "Non-Guarantor" and "Total" columns were not affected by any of these revisions. There was also no effect on the consolidated (total) net cash flows or any other statements in this footnote. The following is a reconciliation of the columns affected for 2011 and 2012:

|  | Parent<br>As<br>previously<br>reported | Parent<br>As revised | Guarantor<br>As<br>previously<br>reported | Guarantor<br>As revised | Eliminations<br>As<br>previously<br>reported | Eliminations<br>As revised |
|--|--|----------------------|---|-------------------------|--|----------------------------|
| 2011   |  |                      |   |                         |  |                            |
| Cash flows from operating activities:              |  |                      |   |                         |  |                            |
| Equity in earnings of nonconsolidated subsidiaries | \$ (1,241)                             | \$ (173,305)         | \$  | \$ (125,269)            | \$   | \$ 297,333                 |
| Net cash flows from operating activities           | 233,161                                | 61,097               | 121,137                                   | (4,132)                 | (298,404)                                    | (1,071)                    |
| Cash flows from investing activities:              |  |                      |   |                         |  |                            |
| Other, net   | (190,242)                              | (18,178)             | (109,457)                                 | 15,812                  | 298,404                                      | 1,071                      |
| Net cash flows from investing activities           | (209,376)                              | (37,312)             | (121,229)                                 | 4,040                   | 298,404                                      | 1,071                      |
| 2012   |  |                      |   |                         |  |                            |
| Cash flows from operating activities:              |  |                      |   |                         |  |                            |
| Equity in earnings of nonconsolidated subsidiaries | \$ (978)                               | \$ (129,655)         | \$  | \$ (86,170)             | \$   | \$ 214,847                 |
| Net cash flows from operating activities           | 213,129                                | 84,452               | 84,262                                    | (1,908)                 | (216,171)                                    | (1,324)                    |
| Cash flows from investing activities:              |  |                      |   |                         |  |                            |
| Other, net   | (138,869)                              | (10,192)             | (63,791)                                  | 22,379                  | 216,171                                      | 1,324                      |
| Net cash flows from investing activities           | (182,346)                              | (53,669)             | (85,949)                                  | 221                     | 216,171                                      | 1,324                      |

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

Consolidated financial information for the Company ("Parent"), the Guarantor subsidiaries and the Non-Guarantor subsidiaries is as follows:

**CONSOLIDATED STATEMENTS OF EARNINGS**  
For the Year ended December 28, 2013

|   | Parent       | Guarantors | Non-Guarantors | Eliminations | Total        |
|---|--------------|------------|----------------|--------------|--------------|
| Net sales   | \$ 1,540,266 | \$ 689,230 | \$ 1,402,191   | \$ (327,476) | \$ 3,304,211 |
| Cost of sales   | 1,107,020    | 503,431    | 1,078,695      | (330,163)    | 2,358,983    |
| Gross profit  | 433,246      | 185,799    | 323,496        | 2,687        | 945,228      |
| Selling, general and administrative expenses  | 209,350      | 59,370     | 203,439        |              | 472,159      |
| Operating income  | 223,896      | 126,429    | 120,057        | 2,687        | 473,069      |
| Other income (expense):   |              |            |                |              |              |
| Interest expense  | (30,801)     | (46,999)   | (1,699)        | 46,997       | (32,502)     |
| Interest income   | 55           | 1,032      | 52,387         | (46,997)     | 6,477        |
| Other   | 4,791        | 9          | (2,427)        |              | 2,373        |
|   | (25,955)     | (45,958)   | 48,261         |              | (23,652)     |
| Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries | 197,941      | 80,471     | 168,318        | 2,687        | 449,417      |
| Income tax expense (benefit):   |              |            |                |              |              |
| Current   | 78,912       | 35,772     | 52,558         | 680          | 167,922      |
| Deferred  | (8,948)      | (19)       | (1,174)        |              | (10,141)     |
|   | 69,964       | 35,753     | 51,384         | 680          | 157,781      |
| Earnings before equity in earnings of nonconsolidated subsidiaries                  | 127,977      | 44,718     | 116,934        | 2,007        | 291,636      |
| Equity in earnings of nonconsolidated subsidiaries                                  | 150,512      | 53,236     | 494            | (203,407)    | 835          |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|   |            |           |            |              |            |
|---|------------|-----------|------------|--------------|------------|
| Loss from deconsolidation of subsidiary                 |            |           | (12,011)   |              | (12,011)   |
| Net earnings  | 278,489    | 97,954    | 105,417    | (201,400)    | 280,460    |
| Less: Earnings attributable to noncontrolling interests |            |           | (1,971)    |              | (1,971)    |
| Net earnings attributable to Valmont Industries, Inc    | \$ 278,489 | \$ 97,954 | \$ 103,446 | \$ (201,400) | \$ 278,489 |

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF EARNINGS  
For the Year ended December 29, 2012

|   | Parent       | Guarantors | Non-Guarantors | Eliminations | Total        |
|---|--------------|------------|----------------|--------------|--------------|
| Net sales   | \$ 1,375,238 | \$ 620,338 | \$ 1,331,827   | \$ (297,862) | \$ 3,029,541 |
| Cost of sales   | 1,008,087    | 489,560    | 1,026,037      | (296,599)    | 2,227,085    |
| Gross profit  | 367,151      | 130,778    | 305,790        | (1,263)      | 802,456      |
| Selling, general and administrative expenses  | 178,669      | 55,488     | 186,003        |              | 420,160      |
| Operating income  | 188,482      | 75,290     | 119,787        | (1,263)      | 382,296      |
| Other income (expense):   |              |            |                |              |              |
| Interest expense  | (31,121)     | (49,762)   | (504)          | 49,762       | (31,625)     |
| Interest income   | 45           | 1,131      | 56,858         | (49,762)     | 8,272        |
| Other   | 1,938        | 55         | (1,646)        |              | 347          |
|   | (29,138)     | (48,576)   | 54,708         |              | (23,006)     |
| Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries | 159,344      | 26,714     | 174,495        | (1,263)      | 359,290      |
| Income tax expense (benefit):   |              |            |                |              |              |
| Current   | 59,648       | 16,398     | 47,375         | (639)        | 122,782      |
| Deferred  | (4,721)      | (496)      | 8,937          |              | 3,720        |
|   | 54,927       | 15,902     | 56,312         | (639)        | 126,502      |
| Earnings before equity in earnings of nonconsolidated subsidiaries                  | 104,417      | 10,812     | 118,183        | (624)        | 232,788      |
| Equity in earnings of nonconsolidated subsidiaries                                  | 129,655      | 86,170     | 5,150          | (214,847)    | 6,128        |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|   |         |        |         |           |         |
|---|---------|--------|---------|-----------|---------|
| Net earnings  | 234,072 | 96,982 | 123,333 | (215,471) | 238,916 |
| Less: Earnings attributable to noncontrolling interests |         |        | (4,844) |           | (4,844) |

Net earnings attributable to Valmont Industries, Inc                   \$   234,072   \$   96,982   \$   118,489   \$   (215,471)   \$   234,072



Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF EARNINGS  
For the Year ended December 31, 2011

|   | Parent       | Guarantors | Non-Guarantors | Eliminations | Total        |
|---|--------------|------------|----------------|--------------|--------------|
| Net sales   | \$ 1,164,400 | \$ 401,443 | \$ 1,305,424   | \$ (209,787) | \$ 2,661,480 |
| Cost of sales   | 863,269      | 323,812    | 1,016,305      | (208,716)    | 1,994,670    |
| Gross profit  | 301,131      | 77,631     | 289,119        | (1,071)      | 666,810      |
| Selling, general and administrative expenses  | 166,964      | 50,783     | 185,753        |              | 403,500      |
| Operating income  | 134,167      | 26,848     | 103,366        | (1,071)      | 263,310      |
| Other income (expense):   |              |            |                |              |              |
| Interest expense  | (35,456)     |            | (719)          |              | (36,175)     |
| Interest income   | 59           | 331        | 8,875          |              | 9,265        |
| Other   | (311)        | 59         | (2,391)        |              | (2,643)      |
|   | (35,708)     | 390        | 5,765          |              | (29,553)     |
| Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries | 98,459       | 27,238     | 109,131        | (1,071)      | 233,757      |
| Income tax expense (benefit):   |              |            |                |              |              |
| Current   | 48,243       | 10,571     | 30,738         |              | 89,552       |
| Deferred  | (4,787)      | (964)      | (79,211)       |              | (84,962)     |
|   | 43,456       | 9,607      | (48,473)       |              | 4,590        |
| Earnings before equity in earnings of nonconsolidated subsidiaries                  | 55,003       | 17,631     | 157,604        | (1,071)      | 229,167      |
| Equity in earnings of nonconsolidated subsidiaries                                  | 173,305      | 125,269    | 6,818          | (297,333)    | 8,059        |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|   |         |         |         |           |         |
|---|---------|---------|---------|-----------|---------|
| Net earnings  | 228,308 | 142,900 | 164,422 | (298,404) | 237,226 |
| Less: Earnings attributable to noncontrolling interests |         |         | (8,918) |           | (8,918) |

Net earnings attributable to Valmont Industries, Inc                   \$   228,308   \$   142,900   \$   155,504   \$   (298,404)   \$   228,308

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the Year ended December 28, 2013**

|  | Parent     | Guarantors | Non-Guarantors | Eliminations | Total      |
|--|------------|------------|----------------|--------------|------------|
| Net earnings   | \$ 278,489 | \$ 97,954  | \$ 105,417     | \$ (201,400) | \$ 280,460 |
| Other comprehensive income (loss), net of tax:                               |            |            |                |              |            |
| Foreign currency translation adjustments:                                    |            |            |                |              |            |
| Unrealized gains (losses) arising during the period                          |            | 81,824     | (153,522)      |              | (71,698)   |
| Realized loss on sale of foreign entity investment included in other expense |            |            | 5,194          |              | 5,194      |
| Realized loss on deconsolidation of subsidiary                               |            |            | 8,559          |              | 8,559      |
|  |            | 81,824     | (139,769)      |              | (57,945)   |
| Unrealized loss on cash flow hedge:  |            |            |                |              |            |
| Amortization cost included in interest expense                               | 400        |            |                |              | 400        |
|  | 400        |            |                |              | 400        |
| Actuarial gain (loss) in defined benefit pension plan liability              |            |            | (41,282)       |              | (41,282)   |
| Equity in other comprehensive income   | (106,430)  |            |                | 106,430      |            |
| Other comprehensive income (loss)  | (106,030)  | 81,824     | (181,051)      | 106,430      | (98,827)   |
| Comprehensive income   | 172,459    | 179,778    | (75,634)       | (94,970)     | 181,633    |
| Comprehensive income attributable to noncontrolling interests                |            |            | (9,174)        |              | (9,174)    |
| Comprehensive income attributable to Valmont Industries, Inc.                | \$ 172,459 | \$ 179,778 | \$ (84,808)    | \$ (94,970)  | \$ 172,459 |



Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the Year ended December 29, 2012**

|   | Parent     | Guarantors | Non-Guarantors | Eliminations | Total      |
|---|------------|------------|----------------|--------------|------------|
| Net earnings  | \$ 234,072 | \$ 96,982  | \$ 123,333     | \$ (215,471) | \$ 238,916 |
| Other comprehensive income (loss), net of tax:                  |            |            |                |              |            |
| Foreign currency translation adjustments:                       |            |            |                |              |            |
| Unrealized gains (losses) arising during the period             |            | (14,422)   | 30,163         |              | 15,741     |
|   |            | (14,422)   | 30,163         |              | 15,741     |
| Unrealized loss on cash flow hedge:                             |            |            |                |              |            |
| Amortization cost included in interest expense                  | 400        |            |                |              | 400        |
|   | 400        |            |                |              | 400        |
| Actuarial gain (loss) in defined benefit pension plan liability |            |            | (35,020)       |              | (35,020)   |
| Equity in other comprehensive income                            | (20,514)   |            |                | 20,514       |            |
| Other comprehensive income (loss)                               | (20,114)   | (14,422)   | (4,857)        | 20,514       | (18,879)   |
| Comprehensive income  | 213,958    | 82,560     | 118,476        | (194,957)    | 220,037    |
| Comprehensive income attributable to noncontrolling interests   |            |            | (6,079)        |              | (6,079)    |
| Comprehensive income attributable to Valmont Industries, Inc.   | \$ 213,958 | \$ 82,560  | \$ 112,397     | \$ (194,957) | \$ 213,958 |



Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the Year ended December 31, 2011**

|  | Parent     | Guarantors | Non-Guarantors | Eliminations | Total      |
|--|------------|------------|----------------|--------------|------------|
| Net earnings   | \$ 228,308 | \$ 142,900 | \$ 164,422     | \$ (298,404) | \$ 237,226 |
| Other comprehensive income (loss), net of tax:                               |            |            |                |              |            |
| Foreign currency translation adjustments:                                    |            |            |                |              |            |
| Unrealized gains (losses) arising during the period                          |            | (958)      | (21,018)       |              | (21,976)   |
| Realized loss on sale of foreign entity investment included in other expense |            |            | 1,446          |              | 1,446      |
|  |            | (958)      | (19,572)       |              | (20,530)   |
| Unrealized loss on cash flow hedge:  |            |            |                |              |            |
| Loss arising during the period   | (3,568)    |            |                |              | (3,568)    |
| Amortization cost included in interest expense                               | 233        |            |                |              | 233        |
|  | (3,335)    |            |                |              | (3,335)    |
| Actuarial gain (loss) in defined benefit pension plan liability              |            |            | 22,365         |              | 22,365     |
| Equity in other comprehensive income   | 3,742      |            |                | (3,742)      |            |
| Other comprehensive income (loss)  | 407        | (958)      | 2,793          | (3,742)      | (1,500)    |
| Comprehensive income   | 228,715    | 141,942    | 167,215        | (302,146)    | 235,726    |
| Comprehensive income attributable to noncontrolling interests                |            |            | (7,011)        |              | (7,011)    |
| Comprehensive income attributable to Valmont Industries, Inc.                | \$ 228,715 | \$ 141,942 | \$ 160,204     | \$ (302,146) | \$ 228,715 |





Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

## CONSOLIDATED BALANCE SHEETS

December 28, 2013

|  | Parent       | Guarantors   | Non-Guarantors | Eliminations   | Total        |
|--|--------------|--------------|----------------|----------------|--------------|
| <b>ASSETS</b>  |              |              |                |                |              |
| Current assets:                                      |              |              |                |                |              |
| Cash and cash equivalents                            | \$ 215,576   | \$ 49,053    | \$ 349,077     | \$             | \$ 613,706   |
| Receivables, net                                     | 139,179      | 108,646      | 267,615        |                | 515,440      |
| Inventories  | 132,953      | 70,231       | 176,816        |                | 380,000      |
| Prepaid expenses                                     | 4,735        | 932          | 17,330         |                | 22,997       |
| Refundable and deferred income taxes                 | 41,167       | 8,351        | 16,179         |                | 65,697       |
| <br>   |              |              |                |                |              |
| Total current assets                                 | 533,610      | 237,213      | 827,017        |                | 1,597,840    |
| <br>   |              |              |                |                |              |
| Property, plant and equipment, at cost               | 522,734      | 125,764      | 368,628        |                | 1,017,126    |
| Less accumulated depreciation and amortization       | 300,066      | 61,520       | 121,330        |                | 482,916      |
| <br>   |              |              |                |                |              |
| Net property, plant and equipment                    | 222,668      | 64,244       | 247,298        |                | 534,210      |
| <br>   |              |              |                |                |              |
| Goodwill   | 20,108       | 107,542      | 221,982        |                | 349,632      |
| Other intangible assets                              | 346          | 48,461       | 122,110        |                | 170,917      |
| Investment in subsidiaries and intercompany accounts | 1,417,425    | 1,367,308    | 518,059        | (3,302,792)    |              |
| Other assets   | 30,759       |              | 93,136         |                | 123,895      |
| <br>   |              |              |                |                |              |
| Total assets   | \$ 2,224,916 | \$ 1,824,768 | \$ 2,029,602   | \$ (3,302,792) | \$ 2,776,494 |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|  |        |        |         |    |         |
|--|--------|--------|---------|----|---------|
| Current liabilities:                       |        |        |         |    |         |
| Current installments of long-term debt     | \$ 188 | \$     | \$ 14   | \$ | \$ 202  |
| Notes payable to banks                     |        |        | 19,024  |    | 19,024  |
| Accounts payable                           | 62,153 | 20,365 | 133,603 |    | 216,121 |
| Accrued employee compensation and benefits | 76,370 | 13,713 | 32,884  |    | 122,967 |
| Accrued expenses                           | 28,362 | 7,315  | 35,883  |    | 71,560  |
| Dividends payable                          | 6,706  |        |         |    | 6,706   |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|  |              |              |              |                |              |
|--|--------------|--------------|--------------|----------------|--------------|
| Total current liabilities                            | 173,779      | 41,393       | 221,408      |                | 436,580      |
| Deferred income taxes                                | 18,983       | 29,279       | 30,662       |                | 78,924       |
| Long-term debt, excluding current installments       | 470,175      | 514,223      | 732          | (514,223)      | 470,907      |
| Defined benefit pension liability                    |              |              | 154,397      |                | 154,397      |
| Deferred compensation                                | 32,339       |              | 6,770        |                | 39,109       |
| Other noncurrent liabilities                         | 7,615        |              | 44,116       |                | 51,731       |
| Commitments and contingencies                        |              |              |              |                |              |
| Shareholders' equity:                                |              |              |              |                |              |
| Common stock of \$1 par value                        | 27,900       | 457,950      | 254,982      | (712,932)      | 27,900       |
| Additional paid-in capital                           |              | 150,286      | 891,236      | (1,041,522)    |              |
| Retained earnings                                    | 1,562,670    | 565,193      | 517,703      | (1,082,896)    | 1,562,670    |
| Accumulated other comprehensive income               | (47,685)     | 66,444       | (115,225)    | 48,781         | (47,685)     |
| Treasury stock                                       | (20,860)     |              |              |                | (20,860)     |
| Total Valmont Industries, Inc. shareholders' equity  | 1,522,025    | 1,239,873    | 1,548,696    | (2,788,569)    | 1,522,025    |
| Noncontrolling interest in consolidated subsidiaries |              |              | 22,821       |                | 22,821       |
| Total shareholders' equity                           | 1,522,025    | 1,239,873    | 1,571,517    | (2,788,569)    | 1,544,846    |
| Total liabilities and shareholders' equity           | \$ 2,224,916 | \$ 1,824,768 | \$ 2,029,602 | \$ (3,302,792) | \$ 2,776,494 |

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONSOLIDATED BALANCE SHEETS  
December 29, 2012

|  | Parent       | Guarantors   | Non-Guarantors | Eliminations   | Total        |
|--|--------------|--------------|----------------|----------------|--------------|
| <b>ASSETS</b>  |              |              |                |                |              |
| Current assets:                                      |              |              |                |                |              |
| Cash and cash equivalents                            | \$ 40,926    | \$ 83,203    | \$ 290,000     | \$             | \$ 414,129   |
| Receivables, net                                     | 144,161      | 86,403       | 285,338        |                | 515,902      |
| Inventories  | 146,619      | 71,988       | 193,777        |                | 412,384      |
| Prepaid expenses                                     | 7,153        | 1,029        | 16,962         |                | 25,144       |
| Refundable and deferred income taxes                 | 29,359       | 6,904        | 22,118         |                | 58,381       |
| Total current assets                                 | 368,218      | 249,527      | 808,195        |                | 1,425,940    |
| Property, plant and equipment, at cost               | 456,497      | 122,937      | 415,340        |                | 994,774      |
| Less accumulated depreciation and amortization       | 288,226      | 55,239       | 138,697        |                | 482,162      |
| Net property, plant and equipment                    | 168,271      | 67,698       | 276,643        |                | 512,612      |
| Goodwill   | 20,108       | 107,542      | 203,141        |                | 330,791      |
| Other intangible assets                              | 499          | 53,517       | 118,254        |                | 172,270      |
| Investment in subsidiaries and intercompany accounts | 1,456,159    | 1,246,777    | 615,152        | (3,318,088)    |              |
| Other assets   | 32,511       |              | 94,427         |                | 126,938      |
| Total assets   | \$ 2,045,766 | \$ 1,725,061 | \$ 2,115,812   | \$ (3,318,088) | \$ 2,568,551 |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|  |        |        |         |       |         |
|--|--------|--------|---------|-------|---------|
| Current liabilities:                       |        |        |         |       |         |
| Current installments of long-term debt     | \$ 189 | \$     | \$ 35   | \$    | \$ 224  |
| Notes payable to banks                     |        |        | 13,375  |       | 13,375  |
| Accounts payable                           | 72,610 | 22,006 | 117,808 |       | 212,424 |
| Accrued employee compensation and benefits | 61,572 | 10,530 | 29,803  |       | 101,905 |
| Accrued expenses                           | 30,641 | 4,674  | 43,188  |       | 78,503  |
| Income Tax payable                         |        | 31     | 669     | (700) |         |
| Dividends payable                          | 6,002  |        |         |       | 6,002   |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|  |                     |                     |                     |                       |                     |
|--|---------------------|---------------------|---------------------|-----------------------|---------------------|
| Total current liabilities                                  | 171,014             | 37,241              | 204,878             | (700)                 | 412,433             |
| Deferred income taxes                                      | 23,305              | 27,851              | 37,144              |                       | 88,300              |
| Long-term debt, excluding current installments             | 471,828             | 599,873             | 765                 | (599,873)             | 472,593             |
| Defined benefit pension liability                          |                     |                     | 112,043             |                       | 112,043             |
| Deferred compensation                                      | 25,200              |                     | 6,720               |                       | 31,920              |
| Other noncurrent liabilities                               | 4,507               |                     | 39,745              |                       | 44,252              |
| Commitments and contingencies                              |                     |                     |                     |                       |                     |
| Shareholders' equity:                                      |                     |                     |                     |                       |                     |
| Common stock of \$1 par value                              | 27,900              | 457,950             | 254,982             | (712,932)             | 27,900              |
| Additional paid-in capital                                 |                     | 150,286             | 893,274             | (1,043,560)           |                     |
| Retained earnings  | 1,300,529           | 467,240             | 443,337             | (910,577)             | 1,300,529           |
| Accumulated other comprehensive income                     | 43,938              | (15,380)            | 65,826              | (50,446)              | 43,938              |
| Treasury stock   | (22,455)            |                     |                     |                       | (22,455)            |
| <b>Total Valmont Industries, Inc. shareholders' equity</b> | <b>1,349,912</b>    | <b>1,060,096</b>    | <b>1,657,419</b>    | <b>(2,717,515)</b>    | <b>1,349,912</b>    |
| Noncontrolling interest in consolidated subsidiaries       |                     |                     | 57,098              |                       | 57,098              |
| <b>Total shareholders' equity</b>                          | <b>1,349,912</b>    | <b>1,060,096</b>    | <b>1,714,517</b>    | <b>(2,717,515)</b>    | <b>1,407,010</b>    |
| <b>Total liabilities and shareholders' equity</b>          | <b>\$ 2,045,766</b> | <b>\$ 1,725,061</b> | <b>\$ 2,115,812</b> | <b>\$ (3,318,088)</b> | <b>\$ 2,568,551</b> |

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended December 28, 2013

|  | Parent     | Guarantors | Non-Guarantors | Eliminations | Total      |
|--|------------|------------|----------------|--------------|------------|
| Cash flows from operating activities:                                    |            |            |                |              |            |
| Net earnings   | \$ 278,489 | \$ 97,954  | \$ 105,417     | \$ (201,400) | \$ 280,460 |
| Adjustments to reconcile net earnings to net cash flows from operations: |            |            |                |              |            |
| Depreciation and amortization  | 21,270     | 12,862     | 43,304         |              | 77,436     |
| Deconsolidation of subsidiary  |            |            | 12,011         |              | 12,011     |
| Impairment of property, plant and equipment                              |            |            | 12,161         |              | 12,161     |
| Stock-based compensation   | 6,513      |            |                |              | 6,513      |
| Defined benefit pension plan expense                                     |            |            | 6,569          |              | 6,569      |
| Contribution to defined benefit pension plan                             |            |            | (17,619)       |              | (17,619)   |
| (Gain) loss on sale of property, plant and equipment                     | 885        | 42         | (5,245)        |              | (4,318)    |
| Equity in earnings in nonconsolidated subsidiaries                       | (150,512)  | (53,236)   | (494)          | 203,407      | (835)      |
| Deferred income taxes  | (8,948)    | (19)       | (1,174)        |              | (10,141)   |
| Changes in assets and liabilities (net of the effect from acquisitions): |            |            |                |              |            |
| Receivables  | 6,181      | (22,259)   | 3,370          |              | (12,708)   |
| Inventories  | 12,966     | 1,757      | (1,292)        |              | 13,431     |
| Prepaid expenses   | 2,417      | 98         | 1,600          |              | 4,115      |
| Accounts payable   | (10,458)   | (1,643)    | 24,549         |              | 12,448     |
| Accrued expenses   | 19,191     | 5,824      | (3,317)        |              | 21,698     |
| Other noncurrent liabilities   | 3,201      |            | (4,675)        |              | (1,474)    |
| Income taxes payable   | (5,908)    | (3,251)    | 5,029          | 825          | (3,305)    |
| Net cash flows from operating activities                                 | 175,287    | 38,129     | 180,194        | 2,832        | 396,442    |
| Cash flows from investing activities:                                    |            |            |                |              |            |
| Purchase of property, plant and equipment                                | (76,582)   | (4,439)    | (25,732)       |              | (106,753)  |
| Acquisitions, net of cash acquired                                       |            |            | (63,152)       |              | (63,152)   |
| Proceeds from sale of assets   | 794        | 35         | 36,753         |              | 37,582     |
| Other, net   | 86,258     | (34,024)   | (48,800)       | (2,832)      | 602        |
| Net cash flows from investing activities                                 | 10,470     | (38,428)   | (100,931)      | (2,832)      | (131,721)  |
| Cash flows from financing activities:                                    |            |            |                |              |            |
| Net borrowings under short-term agreements                               |            |            | 5,510          |              | 5,510      |
| Proceeds from long-term borrowings                                       |            |            | 274            |              | 274        |
| Principal payments on long-term obligations                              | (187)      |            | (404)          |              | (591)      |
| Cash decrease due to deconsolidation of subsidiary                       |            |            | (11,615)       |              | (11,615)   |
| Dividends paid   | (25,414)   |            |                |              | (25,414)   |
| Intercompany dividends   | 8,947      | 20,133     | (29,080)       |              |            |
| Intercompany interest on long-term note                                  |            | (46,057)   | 46,057         |              |            |
| Dividends to noncontrolling interest                                     |            |            | (1,767)        |              | (1,767)    |
| Purchase of noncontrolling interest                                      |            |            | (9,324)        |              | (9,324)    |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|  |            |           |            |            |
|--|------------|-----------|------------|------------|
| Proceeds from exercises under stock plans                    | 16,348     |           |            | 16,348     |
| Excess tax benefits from stock option exercises              | 5,306      |           |            | 5,306      |
| Purchase of common treasury shares stock plan exercises      | (16,107)   |           |            | (16,107)   |
| Net cash flows from financing activities                     | (11,107)   | (25,924)  | (349)      | (37,380)   |
| Effect of exchange rate changes on cash and cash equivalents |            | (7,927)   | (19,837)   | (27,764)   |
| Net change in cash and cash equivalents                      | 174,650    | (34,150)  | 59,077     | 199,577    |
| Cash and cash equivalents beginning of year                  | 40,926     | 83,203    | 290,000    | 414,129    |
| Cash and cash equivalents end of year                        | \$ 215,576 | \$ 49,053 | \$ 349,077 | \$ 613,706 |

Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Year Ended December 29, 2012**

|  | Parent     | Guarantors | Non-Guarantors | Eliminations | Total      |
|--|------------|------------|----------------|--------------|------------|
| <b>Cash flows from operating activities:</b>                             |            |            |                |              |            |
| Net earnings   | \$ 234,072 | \$ 96,982  | \$ 123,333     | \$ (215,471) | \$ 238,916 |
| Adjustments to reconcile net earnings to net cash flows from operations: |            |            |                |              |            |
| Depreciation and amortization  | 19,121     | 12,923     | 38,174         |              | 70,218     |
| Stock-based compensation   | 5,829      |            |                |              | 5,829      |
| Defined benefit pension plan expense                                     |            |            | 4,281          |              | 4,281      |
| Contribution to defined benefit pension plan                             |            |            | (11,591)       |              | (11,591)   |
| (Gain) loss on sale of property, plant and equipment                     | 89         | (17)       | 249            |              | 321        |
| Equity in earnings in nonconsolidated subsidiaries                       | (129,655)  | (86,170)   | (5,150)        | 214,847      | (6,128)    |
| Deferred income taxes  | (4,721)    | (496)      | 8,937          |              | 3,720      |
| Other  |            |            |                |              |            |
| Changes in assets and liabilities (net of the effect from acquisitions): |            |            |                |              |            |
| Receivables  | (21,751)   | (32,833)   | (30,306)       |              | (84,890)   |
| Inventories  | (20,756)   | 5,850      | 1,293          |              | (13,613)   |
| Prepaid expenses   | (3,705)    | (20)       | 4,968          |              | 1,243      |
| Accounts payable   | 4,446      | 578        | (11,273)       |              | (6,249)    |
| Accrued expenses   | 20,339     | 945        | (644)          |              | 20,640     |
| Other noncurrent liabilities   | 123        |            | (4,473)        |              | (4,350)    |
| Income taxes payable   | (18,979)   | 350        | (1,921)        | (700)        | (21,250)   |
| <br>   |            |            |                |              |            |
| Net cash flows from operating activities                                 | 84,452     | (1,908)    | 115,877        | (1,324)      | 197,097    |
| <br>   |            |            |                |              |            |
| <b>Cash flows from investing activities:</b>                             |            |            |                |              |            |
| Purchase of property, plant and equipment                                | (43,590)   | (22,197)   | (31,287)       |              | (97,074)   |
| Acquisitions, net of cash acquired                                       |            |            | (45,687)       |              | (45,687)   |
| Proceeds from sale of assets   | 113        | 39         | 5,873          |              | 6,025      |
| Other, net   | (10,192)   | 22,379     | (13,467)       | 1,324        | 44         |
| <br>   |            |            |                |              |            |
| Net cash flows from investing activities                                 | (53,669)   | 221        | (84,568)       | 1,324        | (136,692)  |
| <br>   |            |            |                |              |            |
| <b>Cash flows from financing activities:</b>                             |            |            |                |              |            |
| Net borrowings under short-term agreements                               |            |            | 1,828          |              | 1,828      |
| Proceeds from long-term borrowings                                       | 39,000     |            | 126            |              | 39,126     |
| Principal payments on long-term obligations                              | (39,197)   |            | (367)          |              | (39,564)   |
| Dividends paid   | (21,520)   |            |                |              | (21,520)   |
| Intercompany dividends   |            | 64,348     | (64,348)       |              |            |
| Proceeds from sale of partial ownership interest                         |            |            | 1,404          |              | 1,404      |
| Dividends to noncontrolling interest                                     |            |            | (1,944)        |              | (1,944)    |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|  |           |           |            |            |
|--|-----------|-----------|------------|------------|
| Debt issuance fees   | (1,747)   |           |            | (1,747)    |
| Proceeds from exercises under stock plans                    | 21,827    |           |            | 21,827     |
| Excess tax benefits from stock option exercises              | 5,494     |           |            | 5,494      |
| Purchase of common treasury shares stock plan exercises      | (21,259)  |           |            | (21,259)   |
| Net cash flows from financing activities                     | (17,402)  | 64,348    | (63,301)   | (16,355)   |
| Effect of exchange rate changes on cash and cash equivalents |           | 2,285     | 4,900      | 7,185      |
| Net change in cash and cash equivalents                      | 13,381    | 64,946    | (27,092)   | 51,235     |
| Cash and cash equivalents beginning of year                  | 27,545    | 18,257    | 317,092    | 362,894    |
| Cash and cash equivalents end of year                        | \$ 40,926 | \$ 83,203 | \$ 290,000 | \$ 414,129 |



Table of Contents

## Valmont Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 28, 2013

(Dollars in thousands, except per share amounts)

## (19) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Year Ended December 31, 2011**

|  | Parent     | Guarantors | Non-<br>Guarantors | Eliminations | Total      |
|--|------------|------------|--------------------|--------------|------------|
| <b>Cash flows from operations:</b>                                       |            |            |                    |              |            |
| Net earnings   | \$ 228,308 | \$ 142,900 | \$ 164,422         | \$ (298,404) | \$ 237,226 |
| Adjustments to reconcile net earnings to net cash flows from operations: |            |            |                    |              |            |
| Depreciation and amortization  | 20,570     | 15,593     | 38,397             |              | 74,560     |
| Stock-based compensation   | 5,931      |            |                    |              | 5,931      |
| Defined benefit pension plan expense                                     |            |            | 5,449              |              | 5,449      |
| Contribution to defined benefit pension plan                             |            |            | (11,860)           |              | (11,860)   |
| Loss on sale of property, plant and equipment                            | 18         | 123        | 552                |              | 693        |
| Equity in earnings in nonconsolidated subsidiaries                       | (173,305)  | (125,269)  | (6,818)            | 297,333      | (8,059)    |
| Deferred income taxes  | (4,787)    | (964)      | (79,211)           |              | (84,962)   |
| Other  |            |            |                    |              |            |
| Changes in assets and liabilities, before acquisitions:                  |            |            |                    |              |            |
| Receivables  | (16,228)   | (2,904)    | 1,702              |              | (17,430)   |
| Inventories  | (61,976)   | (45,808)   | (11,082)           |              | (118,866)  |
| Prepaid expenses   | 30         | (89)       | (3,983)            |              | (4,042)    |
| Accounts payable   | 22,311     | 6,174      | 14,152             |              | 42,637     |
| Accrued expenses   | 18,298     | 6,112      | (12,565)           |              | 11,845     |
| Other noncurrent liabilities   | 598        |            | (6,479)            |              | (5,881)    |
| Income taxes payable (refundable)  | 21,329     |            | 1,101              |              | 22,430     |
| <br>   |            |            |                    |              |            |
| Net cash flows from operations   | 61,097     | (4,132)    | 93,777             | (1,071)      | 149,671    |
| <br>   |            |            |                    |              |            |
| <b>Cash flows from investing activities:</b>                             |            |            |                    |              |            |
| Purchase of property, plant and equipment                                | (19,185)   | (12,180)   | (51,704)           |              | (83,069)   |
| Acquisitions, net of cash acquired                                       |            |            | (1,539)            |              | (1,539)    |
| Proceeds from sale of assets   | 51         | 408        | 3,247              |              | 3,706      |
| Other, net   | (18,178)   | 15,812     | (1,866)            | 1,071        | (3,161)    |
| <br>   |            |            |                    |              |            |
| Net cash flows from investing activities                                 | (37,312)   | 4,040      | (51,862)           | 1,071        | (84,063)   |
| <br>   |            |            |                    |              |            |
| <b>Cash flows from financing activities:</b>                             |            |            |                    |              |            |
| Net borrowings under short-term agreements                               |            |            | 2,698              |              | 2,698      |
| Proceeds from long-term borrowings                                       | 277,832    |            |                    |              | 277,832    |
| Principal payments on long-term obligations                              | (271,192)  |            | (53)               |              | (271,245)  |
| Dividends paid   | (18,227)   |            |                    |              | (18,227)   |
| Intercompany dividends   | 14,090     | 17,730     | (31,820)           |              |            |
| Dividends to noncontrolling interest                                     |            |            | (4,958)            |              | (4,958)    |
| Purchase of noncontrolling interest                                      |            |            | (25,253)           |              | (25,253)   |

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

|  |                  |                  |                   |                   |
|--|------------------|------------------|-------------------|-------------------|
| Settlement of financial derivative                           | (3,568)          |                  |                   | (3,568)           |
| Debt issuance fees   | (1,339)          |                  |                   | (1,339)           |
| Proceeds from exercises under stock plans                    | 20,008           |                  |                   | 20,008            |
| Excess tax benefits from stock option exercises              | 3,033            |                  |                   | 3,033             |
| Purchase of treasury shares                                  | (4,802)          |                  |                   | (4,802)           |
| Purchase of common treasury shares stock plan exercises      | (20,090)         |                  |                   | (20,090)          |
| <b>Net cash flows from financing activities</b>              | <b>(4,255)</b>   | <b>17,730</b>    | <b>(59,386)</b>   | <b>(45,911)</b>   |
| Effect of exchange rate changes on cash and cash equivalents |                  |                  | (3,707)           | (3,707)           |
| <b>Net change in cash and cash equivalents</b>               | <b>19,530</b>    | <b>17,638</b>    | <b>(21,178)</b>   | <b>15,990</b>     |
| Cash and cash equivalents beginning of year                  | 8,015            | 619              | 338,270           | 346,904           |
| <b>Cash and cash equivalents end of year</b>                 | <b>\$ 27,545</b> | <b>\$ 18,257</b> | <b>\$ 317,092</b> | <b>\$ 362,894</b> |

Table of Contents**Valmont Industries, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Three-year period ended December 28, 2013****(Dollars in thousands, except per share amounts)****(20) QUARTERLY FINANCIAL DATA (Unaudited)**

|             | Net Sales    | Gross Profit | Amount     | Per Share |          | Stock Price |           | Dividends Declared |
|-------------|--------------|--------------|------------|-----------|----------|-------------|-----------|--------------------|
|             |              |              |            | Basic     | Diluted  | High        | Low       |                    |
| <b>2013</b> |              |              |            |           |          |             |           |                    |
| First       | \$ 819,630   | \$ 235,369   | \$ 77,569  | \$ 2.92   | \$ 2.89  | \$ 164.93   | \$ 133.40 | \$ 0.225           |
| Second      | 878,659      | 261,471      | 89,563     | 3.36      | 3.33     | 157.99      | 132.16    | 0.250              |
| Third       | 778,032      | 225,564      | 56,489     | 2.12      | 2.10     | 153.16      | 133.38    | 0.250              |
| Fourth(1)   | 827,890      | 222,824      | 54,868     | 2.06      | 2.04     | 150.58      | 129.00    | 0.250              |
| Year        | \$ 3,304,211 | \$ 945,228   | \$ 278,489 | \$ 10.45  | \$ 10.35 | \$ 164.93   | \$ 129.00 | \$ 0.975           |
| <b>2012</b> |              |              |            |           |          |             |           |                    |
| First       | \$ 717,350   | \$ 186,314   | \$ 52,325  | \$ 1.98   | \$ 1.96  | \$ 118.99   | \$ 90.21  | \$ 0.180           |
| Second      | 767,315      | 199,395      | 59,980     | 2.27      | 2.24     | 128.40      | 106.52    | 0.225              |
| Third       | 729,839      | 192,402      | 56,731     | 2.14      | 2.12     | 136.11      | 119.23    | 0.225              |
| Fourth      | 815,037      | 224,345      | 65,036     | 2.45      | 2.43     | 141.18      | 125.00    | 0.225              |
| Year        | \$ 3,029,541 | \$ 802,456   | \$ 234,072 | \$ 8.84   | \$ 8.75  | \$ 141.18   | \$ 90.21  | \$ 0.855           |

Earnings per share are computed independently for each of the quarters. Therefore, the sum of the quarterly earnings per share may not equal the total for the year.

(1)

The fourth quarter of 2013 included a non-cash after-tax loss of \$12,011 (\$.45 per share) associated with the deconsolidation of Delta EMD Pty. Ltd. and an after-tax loss of \$4,569 (\$0.17 per share) related to a fixed asset impairment loss.

Table of Contents

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**ITEM 9A. CONTROLS AND PROCEDURES.**

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports the Company files or submits under the Securities Exchange Act of 1934 is (1) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

Table of Contents

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Securities Exchange Act Rule 13a-15(f). The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's internal control over financial reporting. The Company's management used the framework in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations (COSO) to perform this evaluation. Based on that evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 28, 2013.

The effectiveness of the Company's internal control over financial reporting as of December 28, 2013 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, a copy of which is included in this Annual Report on Form 10-K.

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Valmont Industries, Inc.  
Omaha, Nebraska

We have audited the internal control over financial reporting of Valmont Industries, Inc. and subsidiaries (the "Company") as of December 28, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2013, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 28, 2013, of the Company and our report dated February 25, 2014 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP  
Omaha, Nebraska  
February 25, 2014

Table of Contents

**ITEM 9B. OTHER INFORMATION.**

**Shareholder Return Performance Graphs**

The graphs below compare the yearly change in the cumulative total shareholder return on the Company's common stock with the cumulative total returns of the S&P Mid Cap 400 Index and the S&P Mid Cap 400 Industrial Machinery Index for the five and ten-year periods ended December 28, 2013. The Company was added to these indexes in 2009 by Standard & Poor's. The graphs assume that the beginning value of the investment in Valmont Common Stock and each index was \$100 and that all dividends were reinvested.

**TEN YEAR COMPARISON**

**FIVE YEAR COMPARISON**

Table of Contents

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

Except for the information relating to the executive officers of the Company set forth in Part I of this 10-K Report, the information called for by items 10, 11, and 13 is incorporated by reference to the sections entitled "Certain Shareholders", "Corporate Governance", "Board of Directors and Election of Directors", "Compensation Discussion and Analysis", "Compensation Committee Report", "Summary Compensation Table", "Grants of Plan-Based Awards for Fiscal Year 2013", "Outstanding Equity Awards at Fiscal Year-End", "Options Exercised and Stock Vested", "Nonqualified Deferred Compensation", "Director Compensation", "Potential Payments Upon Termination or Change-in-Control" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

The Company has adopted a Code of Ethics for Senior Officers that applies to the Company's Chief Executive Officer, Chief Financial Officer and Controller and has posted the code on its website at [www.valmont.com](http://www.valmont.com) through the "Investors Relations" link. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers from any provision of the Code of Ethics for Senior Officers applicable to the Company's Chief Executive Officer, Chief Financial Officer or Controller by posting that information on the Company's Web site at [www.valmont.com](http://www.valmont.com) through the "Investors Relations" link.

**ITEM 11. EXECUTIVE COMPENSATION.**

See Item 10.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

Incorporated herein by reference to "Certain Shareholders" and "Equity Compensation Plan Information" in the Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

See Item 10.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The information called for by Item 14 is incorporated by reference to the sections titled "Ratification of Appointment of Independent Auditors" in the Proxy Statement.



Table of Contents

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

- (a)  
     (1)(2) *Financial Statements and Schedules.*

The following consolidated financial statements of the Company and its subsidiaries are included herein as listed below:

|  |           |
|--|-----------|
| <u>Consolidated Financial Statements</u>   |           |
| <u>Report of Independent Registered Public Accounting Firm</u>                                   | <u>45</u> |
| <u>Consolidated Statements of Earnings Three-Year Period Ended December 28, 2013</u>             | <u>46</u> |
| <u>Consolidated Statements of Comprehensive Income Three-Year Period Ended December 28, 2013</u> | <u>47</u> |
| <u>Consolidated Balance Sheets December 28, 2013 and December 29, 2012</u>                       | <u>48</u> |
| <u>Consolidated Statements of Cash Flows Three-Year Period Ended December 28, 2013</u>           | <u>49</u> |
| <u>Consolidated Statements of Shareholders' Equity Three-Year Period Ended December 28, 2013</u> | <u>50</u> |
| <u>Notes to Consolidated Financial Statements Three-Year Period Ended December 28, 2013</u>      | <u>51</u> |

The following financial statement schedule of the Company is included herein:

|  |            |
|--|------------|
| <u>SCHEDULE II Valuation and Qualifying Accounts</u> | <u>103</u> |
|--|------------|

All other schedules have been omitted as the required information is inapplicable or the information is included in the consolidated financial statements or related notes. Separate financial statements of the registrant have been omitted because the registrant meets the requirements which permit omission.

- (a)  
     (3) *Exhibits.*

Index to Exhibits, Page 105

**VALMONT INDUSTRIES, INC. AND SUBSIDIARIES**  
**Valuation and Qualifying Accounts**  
(Dollars in thousands)

|  | Balance at<br>beginning of<br>period | Charged to<br>profit and<br>loss | Deductions<br>from<br>reserves* | Balance at<br>close of<br>period |
|--|--------------------------------------|----------------------------------|---------------------------------|----------------------------------|
| <b>Fifty-two weeks ended December 28, 2013</b>                       |                                      |                                  |                                 |                                  |
| Reserve deducted in balance sheet from the asset to which it applies |                                      |                                  |                                 |                                  |
| Allowance for doubtful receivables                                   | \$ 7,898                             | 4,674                            | (2,203)                         | \$ 10,369                        |
| Allowance for deferred income tax asset valuation                    | 120,979                              | (13,212)                         |                                 | 107,767                          |
| <b>Fifty-two weeks ended December 29, 2012</b>                       |                                      |                                  |                                 |                                  |
| Reserve deducted in balance sheet from the asset to which it applies |                                      |                                  |                                 |                                  |
| Allowance for doubtful receivables                                   | \$ 7,555                             | 1,336                            | (993)                           | \$ 7,898                         |
| Allowance for deferred income tax asset valuation                    | 123,522                              | (2,543)                          |                                 | 120,979                          |
| <b>Fifty-three weeks ended December 31, 2011</b>                     |                                      |                                  |                                 |                                  |
| Reserve deducted in balance sheet from the asset to which it applies |                                      |                                  |                                 |                                  |
| Allowance for doubtful receivables                                   | \$ 8,406                             | 1,627                            | (2,478)                         | \$ 7,555                         |
| Allowance for deferred income tax asset valuation                    | 208,130                              | (84,608)                         |                                 | 123,522                          |

\*

The deductions from reserves are net of recoveries.



Table of Contents

**INDEX TO EXHIBITS**

- Exhibit 3.1 The Company's Restated Certificate of Incorporation, as amended. This document was filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 28, 2009 and is incorporated herein by this reference.
- Exhibit 3.2 The Company's By-Laws, as amended. This document was filed as Exhibit 3.2 to the Company's Annual Report on form 10-K for the year ended December 29, 2012 and is incorporated herein by reference.
- Exhibit 4.1 Credit Agreement, dated as of August 15, 2012, among the Company, Valmont Industries Holland B.V. and Valmont Group Pty. Ltd., as Borrowers, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other lenders party thereto. This document was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 15, 2012 and is incorporated herein by reference.
- Exhibit 4.2 Indenture relating to senior subordinated debt dated as of May 4, 2004 between Valmont, the subsidiary guarantors named therein, and Wells Fargo Bank, National Association as Trustee. This document was filed as Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 26, 2009 and is incorporated herein by this reference.
- Exhibit 4.3 Supplemental Indenture dated as of March 3, 2010 to Indenture dated as of May 4, 2004 between Valmont, the subsidiary guarantors named therein, and Wells Fargo Bank, National Association as Trustee. This document was filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 27, 2009 and is incorporated herein by this reference.
- Exhibit 4.4 Indenture relating to senior debt, dated as of April 12, 2010, among Valmont Industries, Inc., the Subsidiary Guarantors party thereto and Wells Fargo Bank, National Association., as Trustee. This document was filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated April 12, 2010 and is incorporated herein by this reference.
- Exhibit 4.5 First Supplemental Indenture, dated as of April 12, 2010, among Valmont Industries, Inc., the Subsidiary Guarantors party thereto and Wells Fargo Bank, National Association, as Trustee. This document was filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated April 12, 2010 and is incorporated herein by this reference.
- Exhibit 10.1 The Company's 1996 Stock Plan. This document was filed as Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 26, 2009 and is incorporated herein by this reference.
- Exhibit 10.2 The Company's 1999 Stock Plan, as amended. This document was filed as Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 26, 2009 and is incorporated herein by this reference.
- Exhibit 10.3 The Company's 2002 Stock Plan. This document was filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and is incorporated herein by reference.
- Exhibit 10.4 Amendment No. 1 to Valmont 2002 Stock Plan. This document was filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 26, 2009 and is incorporated herein by this reference.

## Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

### Table of Contents

|                |   |
|----------------|---|
| Exhibit 10.5*  | The Company's 2008 Stock Plan.  |
| Exhibit 10.6   | The Company's 2013 Stock Plan. This document was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 30, 2013 and is incorporated herein by reference.  |
| Exhibit 10.7   | Form of Stock Option Agreement. This document was filed as Exhibit 10.3 to the Company's Current Report on Form 8-K dated April 30, 2013 and is incorporated herein by reference.   |
| Exhibit 10.8   | Form of Restricted Stock Agreement. This document was filed as Exhibit 10.4 to the Company's Current Report on Form 8-K dated April 30, 2013 and is incorporated herein by reference.   |
| Exhibit 10.9   | Form of Restricted Stock Unit Agreement (Director). This document was filed as Exhibit 10.5 to the Company's Current Report on Form 8-K dated April 30, 2013 and is incorporated herein by reference.   |
| Exhibit 10.10  | Form of Restricted Stock Unit Agreement (Foreign Employee). This document was filed as Exhibit 10.6 to the Company's Current Report on Form 8-K dated April 30, 2013 and is incorporated herein by this reference.  |
| Exhibit 10.11  | Form of Director Stock Option Agreement. This document was filed as Exhibit 10.9 to the Company's Annual Report on form 10-K for the year ended December 29, 2012 and is incorporated herein by reference.  |
| Exhibit 10.12* | The 2008 Valmont Executive Incentive Plan.  |
| Exhibit 10.13  | The 2013 Valmont Executive Incentive Plan. This document was filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated April 30, 2013 and is incorporated herein by reference.  |
| Exhibit 10.14  | Director and Named Executive Officers Compensation, is incorporated by reference to the sections entitled "Compensation Discussion and Analysis", "Compensation Committee Report", "Summary Compensation Table", "Grants of Plan-Based Awards for Fiscal Year 2013", "Outstanding Equity Awards at Fiscal Year-End", "Options Exercised and Stock Vested", "Nonqualified Deferred Compensation", and "Director Compensation" in the Company's Proxy Statement for the Annual Meeting of Stockholders on April 29, 2014. |
| Exhibit 10.15* | The Amended Unfunded Deferred Compensation Plan for Nonemployee Directors.  |
| Exhibit 10.16* | VERSP Deferred Compensation Plan.   |
| Exhibit 10.17  | Separation Agreement and Release dated August 13, 2013 between Richard P. Heyse and the Company. This document was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 13, 2013 and is incorporated by reference.  |
| Exhibit 21*    | Subsidiaries of the Company.  |
| Exhibit 23*    | Consent of Deloitte & Touche LLP.   |
| Exhibit 24*    | Power of Attorney.  |
| Exhibit 31.1*  | Section 302 Certification of Chief Executive Officer.   |
| Exhibit 31.2*  | Section 302 Certification of Chief Financial Officer.   |

## Edgar Filing: VALMONT INDUSTRIES INC - Form 10-K

### Table of Contents

|               |   |
|---------------|---|
| Exhibit 32.1* | Section 906 Certifications.   |
| Exhibit 101   | The following financial information from the Company's Annual Report on Form 10-K for the year ended December 28, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Earnings, (ii) the Consolidated Statements of Comprehensive Income,(iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Shareholders' Equity, (vi) Notes to Consolidated Financial Statements, and (vii) document and entity information. |

---

\*

Filed herewith

Pursuant to Item 601(b)(4) of Regulation S-K, certain instruments with respect to the registrant's long-term debt are not filed with this Form 10-K. Valmont will furnish a copy of such long-term debt agreements to the Securities and Exchange Commission upon request.

Management contracts and compensatory plans are set forth as exhibits 10.1 through 10.17.