Vulcan Materials CO
Form 10-Q
November 05, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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

For the transition period from to

Commission File Number 001-33841

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

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

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

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

Yes No

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

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

Class	Shares outstanding at September 30, 2014
Common Stock, $1 Par Value	131,703,076

VULCAN MATERIALS COMPANY

FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2014

Contents

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

part I financial information

ITEM 1

FINANCIAL STATEMENTS

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited, except for December 31 in thousands, except per share data	September 30 2014	December 31 2013	September 30 2013
Assets			
Cash and cash equivalents	$ 91,868	$ 193,738	$ 245,813
Accounts and notes receivable			
Accounts and notes receivable, gross	485,176	344,475	450,642
Less: Allowance for doubtful accounts	(5,428)	(4,854)	(5,412)
Accounts and notes receivable, net	479,748	339,621	445,230
Inventories			
Finished products	254,931	270,603	255,047
Raw materials	22,987	29,996	29,480
Products in process	1,331	6,613	6,385
Operating supplies and other	27,335	37,394	37,267
Inventories	306,584	344,606	328,179
Current deferred income taxes	41,745	40,423	39,326
Prepaid expenses	34,673	22,549	31,854
Assets held for sale	0	10,559	10,559
Total current assets	954,618	951,496	1,100,961
Investments and long-term receivables	42,117	42,387	43,275
Property, plant & equipment			
Property, plant & equipment, cost	6,608,342	6,933,602	6,792,470
Reserve for depreciation, depletion & amortization	(3,539,772)	(3,621,585)	(3,578,010)
Property, plant & equipment, net	3,068,570	3,312,017	3,214,460
Goodwill	3,095,317	3,081,521	3,081,521
Other intangible assets, net	758,863	697,578	697,655
Other noncurrent assets	172,053	174,144	172,184
Total assets	$ 8,091,538	$ 8,259,143	$ 8,310,056
Liabilities			
Current maturities of long-term debt	$ 145	$ 170	$ 163

Trade payables and accruals	167,837	139,345	154,451
Other current liabilities	196,830	159,620	204,029
Total current liabilities	364,812	299,135	358,643
Long-term debt	2,005,968	2,522,243	2,523,389
Noncurrent deferred income taxes	733,613	701,075	673,135
Deferred revenue	216,205	219,743	225,863
Other noncurrent liabilities	569,841	578,841	666,115
Total liabilities	3,890,439	4,321,037	4,447,145
Other commitments and contingencies (Note 8)			
Equity			
Common stock, $1 par value, Authorized 480,000 shares, Issued 131,703, 130,200 and 129,989 shares, respectively	131,703	130,200	129,989
Capital in excess of par value	2,719,169	2,611,703	2,598,744
Retained earnings	1,441,742	1,295,834	1,288,054
Accumulated other comprehensive loss	(91,515)	(99,631)	(153,876)
Total equity	4,201,099	3,938,106	3,862,911
Total liabilities and equity	$ 8,091,538	$ 8,259,143	$ 8,310,056

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

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Nine Months Ended	
Unaudited		September 30		September 30
in thousands, except per share data	2014	2013	2014	2013
Total revenues	$ 873,579	$ 813,568	$ 2,239,142	$ 2,090,463
Cost of revenues	664,537	654,585	1,821,220	1,780,930
Gross profit	209,042	158,983	417,922	309,533
Selling, administrative and general expenses	66,074	65,854	199,808	195,411
Gain on sale of property, plant & equipment and businesses, net	1,002	9,350	238,527	36,869
Restructuring charges	(750)	0	(750)	(1,509)
Other operating expense, net	(2,889)	(2,712)	(17,645)	(12,907)
Operating earnings	140,331	99,767	438,246	136,575
Other nonoperating income (expense), net	(593)	2,310	4,030	4,968
Interest expense, net	40,891	49,134	201,531	152,757
Earnings (loss) from continuing operations before income taxes	98,847	52,943	240,745	(11,214)
Provision for (benefit from) income taxes	31,066	10,793	71,947	(21,874)
Earnings from continuing operations	67,781	42,150	168,798	10,660
Earnings (loss) on discontinued operations, net of tax	(842)	(787)	(1,896)	4,640
Net earnings	$ 66,939	$ 41,363	$ 166,902	$ 15,300
Other comprehensive income, net of tax				
Reclassification adjustment for cash flow hedges	598	679	4,167	2,368
Adjustment for funded status of benefit plans	0	0	2,943	60,299
Amortization of actuarial loss and prior service cost for benefit plans	1,114	2,111	1,006	8,974
Other comprehensive income	1,712	2,790	8,116	71,641
Comprehensive income	$ 68,651	$ 44,153	$ 175,018	$ 86,941
Basic earnings (loss) per share				
Continuing operations	$ 0.51	$ 0.32	$ 1.29	$ 0.08
Discontinued operations	0.00	0.00	(0.02)	0.04
Net earnings	$ 0.51	$ 0.32	$ 1.27	$ 0.12
Diluted earnings (loss) per share				
Continuing operations	$ 0.51	$ 0.32	$ 1.27	$ 0.08
Discontinued operations	(0.01)	(0.01)	(0.01)	0.04
Net earnings	$ 0.50	$ 0.31	$ 1.26	$ 0.12
Weighted-average common shares outstanding				

Basic	131,797	130,266	131,256	130,234
Assuming dilution	133,369	131,320	132,759	131,368
Cash dividends per share of common stock	$ 0.06	$ 0.01	$ 0.16	$ 0.03
Depreciation, depletion, accretion and amortization	$ 71,157	$ 78,320	$ 208,858	$ 230,877
Effective tax rate from continuing operations	31.4%	20.4%	29.9%	195.1%

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

3

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
Unaudited		September 30
in thousands	2014	2013
Operating Activities		
Net earnings	$ 166,902	$ 15,300
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation, depletion, accretion and amortization	208,858	230,877
Net gain on sale of property, plant & equipment and businesses	(238,527)	(48,597)
Proceeds from sale of future production, net of transactions costs (Note 16)	0	153,095
Contributions to pension plans	(4,115)	(3,535)
Share-based compensation	18,425	16,789
Excess tax benefits from share-based compensation	(3,375)	(896)
Deferred tax provision (benefit)	13,158	(25,862)
Cost of debt purchase	72,949	0
Changes in assets and liabilities before initial effects of business acquisitions and dispositions	(89,888)	(78,947)
Other, net	5,339	1,788
Net cash provided by operating activities	$ 149,726	$ 260,012
Investing Activities		
Purchases of property, plant & equipment	(169,220)	(117,310)
Proceeds from sale of property, plant & equipment	21,320	14,974
Proceeds from sale of businesses, net of transaction costs	719,089	51,604
Payment for businesses acquired, net of acquired cash	(268,604)	(89,951)
Other, net	0	2
Net cash provided by (used for) investing activities	$ 302,585	$ (140,681)
Financing Activities		
Proceeds from line of credit	70,000	156,000
Payment of current maturities, long-term debt and line of credit	(649,711)	(306,493)
Proceeds from issuance of common stock	30,620	0
Dividends paid	(20,973)	(3,890)
Proceeds from exercise of stock options	12,513	4,491
Excess tax benefits from share-based compensation	3,375	896
Other, net	(5)	0
Net cash used for financing activities	$ (554,181)	$ (148,996)
Net decrease in cash and cash equivalents	(101,870)	(29,665)
Cash and cash equivalents at beginning of year	193,738	275,478
Cash and cash equivalents at end of period	$ 91,868	$ 245,813

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

4

notes to condensed consolidated financial statements

Note 1: summary of significant accounting policies

NATURE OF OPERATIONS

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

BASIS OF PRESENTATION

Our accompanying unaudited condensed consolidated financial statements were prepared in compliance with the instructions to Form 10-Q and Article 10 of Regulation S-X and thus do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Our Condensed Consolidated Balance Sheet as of December 31, 2013 was derived from the audited financial statement at that date. In the opinion of our management, the statements reflect all adjustments, including those of a normal recurring nature, necessary to present fairly the results of the reported interim periods. Operating results for the three and nine month periods ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014. For further information, refer to the consolidated financial statements and footnotes included in our most recent Annual Report on Form 10-K.

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

RECLASSIFICATIONS

Certain items previously reported in specific financial statement captions have been reclassified to conform with the 2014 presentation.

REVENUE

Total revenues include sales of products to customers, net of any discounts and taxes, and freight and delivery revenues billed to customers. Related freight and delivery costs are included in cost of revenues. Freight and delivery revenues included in total revenues are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2014	2013	2014	2013
Product sales	$ 795,096	$ 746,392	$ 2,034,521	$ 1,915,032
Freight and delivery revenues	78,483	67,176	204,621	175,431
Total revenues	$ 873,579	$ 813,568	$ 2,239,142	$ 2,090,463

RESTRUCTURING CHARGES

In 2014, we announced changes to our executive management team, and a new divisional organization structure that will be effective January 1, 2015. This new structure enables us to pursue growth and profitability while further leveraging the actions we undertook in 2012 as noted below. During the three and nine months ended September 30, 2014, we incurred $750,000 of severance costs related to these initiatives. We are currently unable to estimate the amount of future related charges.

In 2012, our Board approved a Profit Enhancement Plan that further leveraged our streamlined management structure and substantially completed ERP and Shared Services platforms to achieve cost reductions and other earnings enhancements. During the first nine months of 2013, we incurred $1,509,000 of costs (primarily project design, outside advisory and severance) related to the implementation of this plan. We did not incur any additional charges in 2014 and do not anticipate any future material charges related to this Profit Enhancement Plan.

EARNINGS PER SHARE (EPS)

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

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2014	2013	2014	2013
Weighted-average common shares outstanding	131,797	130,266	131,256	130,234
Dilutive effect of				
Stock options/SOSARs	661	405	671	449
Other stock compensation plans	911	649	832	685
Weighted-average common shares outstanding, assuming dilution	133,369	131,320	132,759	131,368

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

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2014	2013	2014	2013
Antidilutive common stock equivalents	2,355	2,899	2,355	2,899

Note 2: Discontinued Operations

In 2005, we sold substantially all the assets of our Chemicals business to Basic Chemicals, a subsidiary of Occidental Chemical Corporation. In addition to the initial cash proceeds, Basic Chemicals was required to make payments under two earn-out agreements. In March 2013, we received the final earn-out payment in the amount of $13,031,000. We were liable for a cash transaction bonus payable annually to certain former key Chemicals employees based on the prior years' earn-out results. During the first nine months of 2013, the transaction bonus payment totaled $1,303,000.

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

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2014	2013	2014	2013
Discontinued Operations				
Pretax loss	$ (1,393)	$ (1,302)	$ (3,132)	$ (4,063)
Gain on disposal, net of transaction bonus	0	0	0	11,728
Income tax (provision) benefit	551	515	1,236	(3,025)
Earnings (loss) on discontinued operations, net of income taxes	$ (842)	$ (787)	$ (1,896)	$ 4,640

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

Note 3: Income Taxes

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

When expected pretax book earnings for the full year are at or near breakeven, the EAETR can distort the income tax provision for an interim period due to the size and nature of our permanent differences. In these circumstances, we calculate the interim income tax provision using the year-to-date effective tax rate. This method results in an income tax provision based solely on the year-to-date pretax book earnings as adjusted for permanent differences on a pro rata basis. In the third quarter of 2014, income taxes were calculated based on the EAETR. In the third quarter of 2013, income taxes were calculated based on the year-to-date effective tax rate.

We recorded an income tax provision from continuing operations of $31,066,000 in the third quarter of 2014 compared to $10,793,000 in the third quarter of 2013. The change in our income tax provision for the year resulted largely from applying the statutory rate to the increase in our pretax book earnings.

We recorded an income tax provision from continuing operations of $71,947,000 for the first nine months of 2014 compared to an income tax benefit from continuing operations of $21,874,000 for the first nine months of 2013. The change in our income tax provision for the year resulted largely from applying the statutory rate to the increase in our pretax book earnings.

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

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

Each quarter we analyze the likelihood that our deferred tax assets will be realized. A valuation allowance is recorded if, based on the weight of all available positive and negative evidence, it is more likely than not (a likelihood of more than 50%) that some portion, or all, of a deferred tax asset will not be realized. A summary of our deferred tax assets is included in Note 9 “Income Taxes” in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

Based on our third quarter 2014 analysis, we believe it is more likely than not that we will realize the benefit of all our deferred tax assets with the exception of the state net operating loss carryforwards for which a valuation allowance has been recorded. For 2014, we project a valuation allowance of $55,051,000 against our state net operating loss deferred tax asset carryforwards; an increase of $8,771,000 from the prior year-end. Of the $55,051,000 valuation allowance, $53,680,000 relates to our Alabama net operating loss carryforward. This change in the valuation allowance is reflected as a component of our income tax provision.

Note 4: deferred revenue

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

The common key terms of both VPP transactions are:

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

The key terms specific to the 2013 VPP transaction are:

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

The key terms specific to the 2012 VPP transaction are:

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

The impact to our total revenues and gross profit related to the VPPs is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2014	2013	2014	2013
Amortization of deferred revenue	$ 1,384	$ 300	$ 3,725	$ 876
Purchaser's proceeds from sale of production	(4,322)	(1,014)	(11,404)	(2,911)
Decrease to total revenues and gross profit	$ (2,938)	$ (714)	$ (7,679)	$ (2,035)

The balance of deferred revenue related to these VPP transactions is $221,205,000 at September 30, 2014. Based on expected aggregates sales from the specified quarries, we anticipate recognizing a range of $5,100,000 to $6,100,000 of deferred revenue during the 12-month period ending September 30, 2015.

Note 5: Fair Value Measurements

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

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

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

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

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

	Level 1		
in thousands	September 30 2014	December 31 2013	September 30 2013
Fair Value Recurring			
Rabbi Trust			
Mutual funds	$ 14,986	$ 15,255	$ 14,371
Equities	12,838	12,828	11,688
Total	$ 27,824	$ 28,083	$ 26,059

	Level 2		
in thousands	September 30 2014	December 31 2013	September 30 2013
Fair Value Recurring			
Rabbi Trust			
Common/collective trust funds	$ 1,367	$ 1,244	$ 1,365
Total	$ 1,367	$ 1,244	$ 1,365

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

Net gains of the Rabbi Trust investments were $2,571,000 and $2,620,000 for the nine months ended September 30, 2014 and 2013, respectively. The portions of the net gains related to investments still held by the Rabbi Trusts at September 30, 2014 and 2013 were $369,000 and $2,468,000, respectively.

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

There were no assets or liabilities subject to fair value measurement on a nonrecurring basis in 2013. Assets that were subject to fair value measurement on a nonrecurring basis in 2014 are summarized below:

	As of September 30, 2014	
in thousands	Level 2	Impairment Charges
Fair Value Nonrecurring		
Property, plant & equipment	$ 2,280	$ 2,987
Total	$ 2,280	$ 2,987

We recorded a $2,987,000 loss on impairment of long-lived assets in the first quarter of 2014 reducing the carrying value of these assets to their estimated fair value of $2,280,000. Fair value was estimated using a market approach (observed transactions involving comparable assets in similar locations).

Note 6: Derivative Instruments

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

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

CASH FLOW HEDGES

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

		Three Months Ended September 30		Nine Months Ended September 30	
in thousands	Location on Statement	2014	2013	2014	2013
Cash Flow Hedges					
Loss reclassified from AOCI (effective portion)	Interest expense	$ (989)	$ (1,127)	$ (6,892)	$ (3,928)

The loss reclassified from AOCI for the nine months ended September 30, 2014 includes the acceleration of a proportional amount of the deferred loss in the amount of $3,762,000 referable to the debt purchase as disclosed in Note 7.

For the 12-month period ending September 30, 2015, we estimate that $4,153,000 of the pretax loss in AOCI will be reclassified to earnings.

FAIR VALUE HEDGES

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

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2014	2013	2014	2013
Deferred Gain on Settlement Amortized to earnings as a reduction to interest expense	$ 493	$ 1,093	$ 10,171	$ 3,223

10

The amortized deferred gain for the nine months ended September 30, 2014 includes the acceleration of a proportional amount of the deferred gain in the amount of $8,032,000 referable to the debt purchase as disclosed in Note 7.

Note 7: Debt

Debt is summarized as follows:

in thousands	September 30 2014	December 31 2013	September 30 2013
Long-term Debt			
10.125% notes due 2015 1	$ 151,212	$ 151,897	$ 152,110
6.50% notes due 2016 2	127,209	511,627	512,505
6.40% notes due 2017 3	218,585	349,907	349,902
7.00% notes due 2018 4	399,805	399,772	399,761
10.375% notes due 2018 5	248,981	248,843	248,799
7.50% notes due 2021 6	600,000	600,000	600,000
7.15% notes due 2037 7	239,568	239,561	239,559
Medium-term note 8	6,000	6,000	6,000
Industrial revenue bond 9	14,000	14,000	14,000
Other notes	753	806	916
Total long-term debt including	$ 2,006,113	$ 2,522,413	$ 2,523,552

current maturities			
Less current maturities	145	170	163
Total long-term debt	$ 2,005,968	$ 2,522,243	$ 2,523,389
Estimated fair value of long-term debt	$ 2,259,218	$ 2,820,399	$ 2,795,661

1 Includes an increase for the unamortized deferred gain realized upon the August 2011 settlement of interest rate swaps, as follows: September 30, 2014 — $1,330 thousand, December 31, 2013 — $2,082 thousand and September 30, 2013 — $2,315 thousand. Additionally, includes decreases for unamortized discounts, as follows: September 30, 2014 — $118 thousand, December 31, 2013 — $185 thousand and September 30, 2013 — $206 thousand. The effective interest rate for these notes is 9.58%.
2 Includes an increase for the unamortized deferred gain realized upon the August 2011 settlement of interest rate swaps, as follows: September 30, 2014 — $2,208 thousand, December 31, 2013 — $11,627 thousand and September 30, 2013 — $12,505 thousand. The effective interest rate for these notes is 6.00%.
3 Includes decreases for unamortized discounts, as follows: September 30, 2014 — $48 thousand, December 31, 2013 — $93 thousand and September 30, 2013 — $98 thousand. The effective interest rate for these notes is 7.41%.
4 Includes decreases for unamortized discounts, as follows: September 30, 2014 — $195 thousand, December 31, 2013 — $228 thousand and September 30, 2013 — $239 thousand. The effective interest rate for these notes is 7.87%.
5 Includes decreases for unamortized discounts, as follows: September 30, 2014 — $1,019 thousand, December 31, 2013 — $1,157 thousand and September 30, 2013 — $1,201 thousand. The effective interest rate for these notes is 10.625%.
6 The effective interest rate for these notes is 7.75%.
7 Includes decreases for unamortized discounts, as follows: September 30, 2014 — $620 thousand, December 31, 2013 — $627 thousand and September 30, 2013 — $629 thousand. The effective interest rate for these notes is 8.05%.
8 This note matures in 2021, has a stated interest rate of 8.85% and an effective interest rate of 8.88%.
9 This variable-rate tax-exempt bond matures in November 2022 and is backed by a standby letter of credit.

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

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

11

Our long-term debt is unsecured and essentially all such debt agreements contain customary investment-grade type covenants that primarily limit the amount of secured debt we may incur without ratably securing the outstanding debt. Our debt may be redeemed prior to maturity at the greater of par value and the make-whole value plus accrued and unpaid interest.

There were no material scheduled debt payments during the first nine months of 2014. However, as described below, we purchased $506,366,000 principal amount of outstanding debt through a tender offer in the first quarter of 2014. Scheduled debt payments during 2013 included $10,000,000 in January to retire the 8.70% medium-term note and $140,444,000 in June to retire the 6.30% notes.

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

Additionally, in March 2014, we amended our $500,000,000 line of credit to, among other items, extend the term from March 12, 2018 to March 25, 2019. The line of credit is secured by accounts receivable and inventory, but will become unsecured upon the achievement of certain credit metrics and/or credit ratings. The line of credit also contains customary negative and financial covenants for a secured facility.

The negative covenants primarily limit our ability to: (1) incur secured debt, (2) make investments, (3) execute acquisitions and divestitures, and (4) make restricted payments, including dividends. Such limitations currently do not impact our ability to execute our strategic, operating and financial plans, and become less restrictive when the line of credit becomes unsecured as described above.

The line of credit contains two financial covenants: (1) a maximum ratio of debt to EBITDA that declines over time to 3.5:1 and (2) a minimum ratio of EBITDA to net cash interest expense that increases over time to 3.0:1.

As of September 30, 2014, we were in compliance with all of our long-term debt and line of credit covenants.

Borrowings on our line of credit are classified as short-term due to our intent to repay any borrowings within twelve months. As of September 30, 2014, our available borrowing capacity was $446,732,000. Borrowings under the line of credit bear interest at a rate determined at the time of borrowing equal to LIBOR plus a margin ranging from 1.50% to 2.25%, or an alternative rate derived from the lender's prime rate, based on our ratio of debt to EBITDA. As of September 30, 2014, the applicable margin for LIBOR based borrowing was 1.75%.

Standby letters of credit issued under the line of credit reduce availability and are charged a fee equal to the margin for LIBOR based borrowings plus 0.175%. We also pay a commitment fee on the daily average unused amount of the line of credit. This commitment fee ranges from 0.25% to 0.40% based on our ratio of debt to EBITDA. Once the line of credit becomes unsecured, both the LIBOR margin range for borrowings and the commitment fee range will decline.

Note 8: Commitments and Contingencies

STANDBY LETTERS OF CREDIT

We provide, in the normal course of business, certain third party beneficiaries standby letters of credit to support our obligations to pay or perform according to the requirements of an underlying agreement. Such letters of credit typically have an initial term of one year, typically renew automatically, and can only be modified or cancelled with the approval of the beneficiary. All of our standby letters of credit are issued by banks that participate in our $500,000,000 line of credit, and reduce the borrowing capacity thereunder. Our standby letters of credit as of September 30, 2014 are summarized by purpose in the table below:

in thousands	
Standby Letters of Credit	
Risk management insurance	$ 32,839
Industrial revenue bond	14,230
Reclamation/restoration requirements	6,199
Total	$ 53,268

LITIGATION AND ENVIRONMENTAL MATTERS

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

In addition to these lawsuits in which we are involved in the ordinary course of business, certain other material legal proceedings are more specifically described below.

lower passaic river matter

§ Lower Passaic River Study Area (Superfund Site) — The Lower Passaic River Study Area is part of the Diamond Shamrock Superfund Site in New Jersey. Vulcan and approximately 70 other companies are parties to a May 2007 Administrative Order on Consent (AOC) with the U.S. Environmental Protection Agency (EPA) to perform a

Remedial Investigation/Feasibility Study (RI/FS) of the lower 17 miles of the Passaic River (River). On April 11, 2014, the EPA issued a proposed Focused Feasibility Study (FFS) that calls for a bank-to-bank dredging remedy for the lower 8 miles of the River. The EPA estimates that the cost of implementing this proposal is approximately $950 million to $1.73 billion. The period for public comment on the proposed FFS is closed. It is anticipated that the EPA will issue its final record of decision sometime in 2015.

At this time, we cannot reasonably estimate our ultimate liability related to this matter because the RI/FS and FFS are not final. Furthermore, the AOC does not obligate us to fund or perform the remedial action contemplated by either the RI/FS or the FFS. Vulcan formerly owned a chemicals operation near River Mile 0.1, which was sold in 1974. The Company has found no evidence that its former chemicals operation contributed any of the primary contaminants of concern to the River. Therefore, neither the ultimate remedial approach and associated costs (or range of costs), nor the parties who will participate in funding the remediation and their respective allocations, have been determined.

Based on the facts available at this time, we believe our liability related to any remedial actions will be immaterial.

OTHER LITIGATION

§ TEXAS BRINE MATTER — During the operation of its former Chemicals Division, Vulcan was the lessee under a salt lease from 1976 – 2005 in an underground salt dome formation in Assumption Parish, Louisiana. The Texas Brine Company operated this salt mine for the account of Vulcan. Vulcan sold its Chemicals Division in 2005 and assigned the lease to the purchaser, and Vulcan has had no association with the leased premises or Texas Brine Company since that time. In August 2012, a sinkhole developed near the salt dome and numerous lawsuits were filed in state court in Assumption Parish, Louisiana. Other lawsuits, including class action litigation, were also filed in August 2012 in federal court in the Eastern District of Louisiana in New Orleans. Certain of the plaintiffs and Texas Brine settled the Federal Court class action for approximately $48.1 million. This settlement has been approved by the court, and the settlement process is now subject to the terms of the court's order and settlement agreement. Vulcan is named as a released party in the settlement agreement along with the other released parties, including Texas Brine, and its insurers. Texas Brine and its insurers did not, however, release Vulcan from any alleged claims, including claims for contribution and indemnity.

There are numerous defendants to the litigation in state and federal court. Vulcan was first brought into the litigation as a third-party defendant in August 2013 by the Texas Brine Company. Vulcan has since been added as a direct and third-party defendant by other parties, including a direct claim by the State of Louisiana. The damages alleged in the litigation range from individual plaintiffs' claims for property damage, to the State of Louisiana's claim for response costs, to claims for alleged physical damages to oil pipelines, to various alleged business interruption claims, and to claims for indemnity and contribution from Texas Brine. It is alleged that the sinkhole was caused, in whole or in part, by Vulcan's negligent actions or failure to act. It is also alleged that Vulcan breached the salt lease, as well as an operating agreement with Texas Brine. Vulcan denies any liability in this matter and will vigorously defend the litigation. We cannot reasonably estimate any liability related to this matter.

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

Note 9: Asset Retirement Obligations

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

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2014	2013	2014	2013
ARO Operating Costs				
Accretion	$ 2,892	$ 2,908	$ 8,745	$ 7,731
Depreciation	1,080	886	3,060	2,495
Total	$ 3,972	$ 3,794	$ 11,805	$ 10,226

ARO operating costs are reported in cost of revenues. AROs are reported within Other noncurrent liabilities in our accompanying Condensed Consolidated Balance Sheets.

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

	Three Months Ended September 30	Nine Months Ended September 30

in thousands	2014	2013	2014	2013
Asset Retirement Obligations				
Balance at beginning of period	$ 225,117	$ 222,851	$ 228,234	$ 150,072
Liabilities incurred	3,604	3,524	3,604	69,111
Liabilities settled	(7,684)	(2,328)	(20,527)	(8,839)
Accretion expense	2,892	2,908	8,745	7,731
Revisions up (down), net	4,539	6,606	8,412	15,486
Balance at end of period	$ 228,468	$ 233,561	$ 228,468	$ 233,561

The liabilities incurred during the first nine months of 2013 relate primarily to reclamation activities required under a development agreement and a conditional use permit at an aggregates facility on owned property in Southern California.

Note 10: Benefit Plans

We sponsor three funded, noncontributory defined benefit pension plans. These plans cover substantially all employees hired prior to July 15, 2007, other than those covered by union-administered plans. Normal retirement age is 65, but the plans contain provisions for earlier retirement. Benefits for the Salaried Plan and the Chemicals Hourly Plan are generally based on salaries or wages and years of service; the Construction Materials Hourly Plan provides benefits equal to a flat dollar amount for each year of service. In addition to these qualified plans, we sponsor three unfunded, nonqualified pension plans.

Effective July 15, 2007, we amended our defined benefit pension plans to no longer accept new participants. In December 2013, we amended our defined benefit pension plans so that future service accruals for salaried pension participants ceased effective December 31, 2013. This change included a special transition provision which will allow covered compensation through December 31, 2015 to be considered in the participants' benefit calculations. The amendment resulted in a curtailment and remeasurement of the salaried and nonqualified pension plans as of May 31, 2013 that reduced our 2013 pension expense by approximately $7,600,000 (net of the one-time curtailment loss) of which $800,000 was related to discontinued operations.

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

PENSION BENEFITS	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2014	2013	2014	2013
Components of Net Periodic Benefit Cost				
Service cost	$ 1,039	$ 4,958	$ 3,118	$ 16,852
Interest cost	11,098	10,179	33,294	30,816
Expected return on plan assets	(12,701)	(11,926)	(38,102)	(35,500)
Curtailment loss	0	0	0	855
Amortization of prior service cost	47	79	141	259
Amortization of actuarial loss	2,806	4,264	8,416	16,259
Net periodic pension benefit cost	$ 2,289	$ 7,554	$ 6,867	$ 29,541
Pretax reclassification from AOCI included in net periodic pension benefit cost	$ 2,853	$ 4,343	$ 8,557	$ 17,373

Prior contributions, along with the existing funding credits, are sufficient to cover required contributions to the qualified plans through 2015.

In addition to pension benefits, we provide certain healthcare and life insurance benefits for retired employees. In 2012, we amended our postretirement healthcare plan to cap our portion of the medical coverage cost at the 2015 level. Substantially all our salaried employees and where applicable, hourly employees may become eligible for these benefits if they reach a qualifying age and meet certain service requirements. Generally, company-provided healthcare benefits terminate when covered individuals become eligible for Medicare benefits, become eligible for other group insurance coverage or reach age 65, whichever occurs first.

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

OTHER POSTRETIREMENT BENEFITS	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2014	2013	2014	2013
Components of Net Periodic Benefit Cost				
Service cost	$ 536	$ 708	$ 1,609	$ 2,123
Interest cost	824	815	2,473	2,445
Curtailment gain	0	0	(3,832)	0
Amortization of prior service credit	(1,081)	(1,215)	(3,245)	(3,647)

Amortization of actuarial loss	57		343		170		1,029	
Net periodic postretirement benefit cost	$	336	$	651	$	(2,825)	$	1,950
Pretax reclassification from AOCI included in net periodic postretirement benefit cost	$	(1,024)	$	(872)	$	(6,907)	$	(2,618)

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

The March 2014 sale of our cement and concrete businesses in the Florida area (see Note 16) significantly reduced total expected future service of our postret