

VULCAN INTERNATIONAL CORP  
Form 10-Q  
November 10, 2004

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

( X )

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

For the quarterly period ended September 30, 2004

( )

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 1-10219

**VULCAN INTERNATIONAL CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

31-0810265

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification Number)

**300 Delaware Avenue, Suite 1704, Wilmington, Delaware 19801**

(Address of principal executive offices, including Zip Code)

**(302) 427-5804**

(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the issuer's common stock, without par value, as of September 30, 2004 was 1,006,707 shares.

**VULCAN INTERNATIONAL CORPORATION**

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****VULCAN INTERNATIONAL CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS**

|  | September 30,<br>2004<br>(Unaudited) | December 31,<br>2003 |
|--|--------------------------------------|----------------------|
| <b>- ASSETS -</b>                              |                                      |                      |
| <b>CURRENT ASSETS:</b>                         |                                      |                      |
| Cash   | \$ 1,549,115                         | 1,503,349            |
| Marketable securities (at fair market value)   | 35,962,145                           | 37,734,263           |
| Accounts receivable                            | 904,903                              | 1,499,387            |
| Inventories                                    | 673,420                              | 650,910              |
| Prepaid expense and federal income tax         | 115,959                              | 641,752              |
| <b>TOTAL CURRENT ASSETS</b>                    | <b>39,205,542</b>                    | <b>42,029,661</b>    |
| <br>   |                                      |                      |
| <b>PROPERTY, PLANT AND EQUIPMENT - at cost</b> | <b>11,839,047</b>                    | <b>11,695,407</b>    |
| Less - Accumulated depreciation and depletion  | 10,084,771                           | 9,937,672            |
| <b>NET PROPERTY, PLANT AND EQUIPMENT</b>       | <b>1,754,276</b>                     | <b>1,757,735</b>     |
| <br>   |                                      |                      |
| <b>OTHER ASSETS:</b>                           |                                      |                      |
| Investment in joint venture                    | -                                    | 37,894               |
| Marketable securities (at fair market value)   | 35,656,769                           | 36,071,995           |
| Deferred charges and other assets              | 5,777,652                            | 5,642,651            |
| <b>TOTAL OTHER ASSETS</b>                      | <b>41,434,421</b>                    | <b>41,752,540</b>    |
| <br>   |                                      |                      |
| <b>TOTAL ASSETS</b>                            | <b>\$ 82,394,239</b>                 | <b>85,539,936</b>    |

**- LIABILITIES AND  
SHAREHOLDERS' EQUITY -**

**CURRENT LIABILITIES:**

|                                  |    |                   |                   |
|----------------------------------|----|-------------------|-------------------|
| Notes payable                    | \$ | -                 | 3,892,000         |
| Deferred income tax              |    | 10,352,666        | 10,948,957        |
| Other                            |    | 1,209,852         | 1,381,386         |
| <b>TOTAL CURRENT LIABILITIES</b> |    | <b>11,562,518</b> | <b>16,222,343</b> |

**OTHER LIABILITIES:**

|                                   |  |                   |                   |
|-----------------------------------|--|-------------------|-------------------|
| Deferred income tax               |  | 12,257,502        | 12,162,461        |
| Minority interest in partnerships |  | 13,086            | 10,799            |
| Other liabilities                 |  | 29,817            | 29,817            |
| <b>TOTAL OTHER LIABILITIES</b>    |  | <b>12,300,405</b> | <b>12,203,077</b> |

**COMMITMENTS AND  
CONTINGENCIES**

- -

**SHAREHOLDERS' EQUITY**

|  |               |            |
|--|---------------|------------|
| Capital stock                          | 249,939       | 249,939    |
| Additional paid-in capital             | 8,314,425     | 8,253,925  |
| Retained earnings                      | 32,978,609    | 30,222,940 |
| Accumulated other comprehensive income | 43,207,706    | 44,627,575 |
|  | 84,750,679    | 83,354,379 |
| Less-Common stock in treasury, at cost | 26,219,363    | 26,239,863 |
| <b>TOTAL SHAREHOLDERS EQUITY</b>       | 58,531,316    | 57,114,516 |
| <b>TOTAL LIABILITIES AND</b>           |               |            |
| <b>SHAREHOLDERS EQUITY</b>             | \$ 82,394,239 | 85,539,936 |

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.



**VULCAN INTERNATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

|   | Nine Months Ended<br>September 30, |                  | Three Months Ended<br>September 30, |                  |
|---|------------------------------------|------------------|-------------------------------------|------------------|
|   | <u>2004</u>                        | <u>2003</u>      | <u>2004</u>                         | <u>2003</u>      |
| <b>REVENUES:</b>  |                                    |                  |                                     |                  |
| Net sales   | \$ 6,287,237                       | 6,100,042        | 1,606,906                           | 2,167,055        |
| Dividends and interest  | 1,861,972                          | 1,737,609        | 624,094                             | 589,282          |
| <b>TOTAL REVENUES</b>   | <b>8,149,209</b>                   | <b>7,837,651</b> | <b>2,231,000</b>                    | <b>2,756,337</b> |
| <b>COST AND EXPENSES:</b>   |                                    |                  |                                     |                  |
| Cost of sales   | 4,902,968                          | 4,899,170        | 1,229,066                           | 1,740,653        |
| General and administrative  | 1,244,615                          | 1,229,073        | 272,005                             | 471,149          |
| Operating Expenses  | 948,359                            | 919,749          | 308,126                             | 286,306          |
| Interest expense  | 25,268                             | 35,702           | -                                   | (29,079)         |
| <b>TOTAL COST AND<br/>EXPENSES</b>  | <b>7,121,210</b>                   | <b>7,083,694</b> | <b>1,809,197</b>                    | <b>2,469,029</b> |
| Income related to Re-Solve<br>Settlement  | -                                  | 1,448,119        | -                                   | 1,448,119        |
| <b>MINORITY INTEREST</b>  | <b>(2,287)</b>                     | <b>(864)</b>     | <b>(1,727)</b>                      | <b>(215)</b>     |
| <b>INCOME FROM<br/>CONTINUING<br/>OPERATIONS BEFORE<br/>GAIN ON<br/>SALE OF ASSETS AND<br/>INCOME<br/>TAXES</b> |                                    |                  |                                     |                  |
|   | 1,025,712                          | 2,201,212        | 420,076                             | 1,735,212        |
| <b>NET GAIN ON SALE OF<br/>PROPERTY,</b>  |                                    |                  |                                     |                  |

|  |           |           |         |           |
|--|-----------|-----------|---------|-----------|
| <b>EQUIPMENT AND<br/>SECURITIES</b>                                  | 482,711   | 849,456   | 41,352  | 165,690   |
| <b>INCOME FROM CONTINUING<br/>OPERATIONS BEFORE<br/>INCOME TAXES</b> | 1,508,423 | 3,050,668 | 461,428 | 1,900,902 |
| <b>INCOME TAX PROVISION</b>  | 182,685   | 644,316   | 5,502   | 511,678   |
| <b>NET INCOME FROM<br/>CONTINUING<br/>OPERATIONS</b>                 | 1,325,738 | 2,406,352 | 455,926 | 1,389,224 |
| <b>DISCONTINUED<br/>OPERATIONS:</b>                                  |           |           |         |           |
| Income from discontinued<br>operations, net of<br>income taxes       | 38,086    | 37,642    | -       | 6,418     |

|  |                     |                  |                |                  |
|--|---------------------|------------------|----------------|------------------|
| Gain on sale of segment, net of income         |                     |                  |                |                  |
| taxes of \$630,200                             | 1,542,852           | -                | -              | -                |
| <b>NET INCOME FROM DISCONTINUED OPERATIONS</b> | 1,580,938           | 37,642           | -              | 6,418            |
| <b>NET INCOME</b>                              | <b>\$ 2,906,676</b> | <b>2,443,994</b> | <b>455,926</b> | <b>1,395,642</b> |
| <b>DIVIDENDS DECLARED PER COMMON SHARE</b>     | <b>\$ .15</b>       | <b>.15</b>       | <b>.05</b>     | <b>.05</b>       |
| <b>EARNINGS PER COMMON SHARE:</b>              |                     |                  |                |                  |
| Basic -  |                     |                  |                |                  |
| Continuing operations                          | \$ 1.31             | 2.39             | .45            | 1.38             |
| Discontinued operations                        | 1.57                | .04              | -              | .01              |
|  | \$ 2.88             | 2.43             | .45            | 1.39             |
| Diluted -                                      |                     |                  |                |                  |
| Continuing operations                          | \$ 1.29             | 2.39             | .43            | 1.38             |
| Discontinued operations                        | 1.57                | .04              | -              | .01              |
|  | \$ 2.86             | 2.43             | .43            | 1.39             |
| <b>AVERAGE SHARES OUTSTANDING:</b>             |                     |                  |                |                  |
| Basic -  | 1,006,678           | 1,004,670        | 1,006,707      | 1,004,707        |
| Diluted -                                      | 1,015,277           | 1,005,855        | 1,015,993      | 1,008,192        |

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.



**VULCAN INTERNATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

|  | September 30,<br><u>2004</u> | September 30,<br><u>2003</u> |
|--|------------------------------|------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>             |                              |                              |
| Cash received from customers                             | \$ 6,825,460                 | 7,033,877                    |
| Cash paid to suppliers and employees                     | (7,520,006)                  | (12,109,287)                 |
| Dividends and interest received                          | 1,861,972                    | 1,737,609                    |
| Interest paid  | (26,022)                     | (85,928)                     |
| Income tax paid  | (97,045)                     | (185,000)                    |
| NET CASH FLOWS FROM OPERATING ACTIVITIES                 | 1,044,359                    | (3,608,729)                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>              |                              |                              |
| Proceeds from sale of property, equipment and securities | 559,355                      | 837,680                      |
| Purchase of property and equipments                      | (322,576)                    | (42,752)                     |
| Collections on notes receivable and other                | 90,744                       | 89,094                       |
| Proceeds from sale of discontinued operations            | 2,716,890                    | -                            |
| NET CASH FLOWS FROM INVESTING ACTIVITIES                 | 3,044,413                    | 884,022                      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>             |                              |                              |
| Net (repayment) borrowings under credit agreement        | (3,892,000)                  | 2,696,831                    |
| Cash dividends paid                                      | (151,006)                    | (150,706)                    |
| NET CASH FLOWS FROM FINANCING ACTIVITIES                 | (4,043,006)                  | 2,546,125                    |
| <b>INCREASE (DECREASE) IN CASH AND CASH</b>              |                              |                              |
| <b>EQUIVALENTS</b>                                       | 45,766                       | (178,582)                    |

|   |    |             |             |
|---|----|-------------|-------------|
| <b>CASH AND CASH EQUIVALENTS AT<br/>BEGINNING<br/>OF PERIOD</b> |    | 1,503,349   | 1,682,049   |
| <b>CASH AND CASH EQUIVALENTS AT<br/>END OF<br/>PERIOD</b>       | \$ | 1,549,115   | 1,503,467   |
| <b>RECONCILIATION OF NET INCOME TO<br/>NET CASH</b>             |    |             |             |
| <b>FLOWS FROM OPERATING<br/>ACTIVITIES:</b>                     |    |             |             |
| Net income  | \$ | 2,906,676   | 2,443,994   |
| Adjustment:   |    |             |             |
| Depreciation and amortization                                   |    | 268,087     | 300,509     |
| Deferred income taxes   |    | 230,198     | 1,144,343   |
| Equity in joint venture and minority interest                   |    | 2,287       | (201,952)   |
| Net gain on sale of property, equipment and securities          |    | (2,655,763) | (849,456)   |
| (Increase) decrease in accounts receivable                      |    | 146,677     | (631,688)   |
| Increase in inventories   |    | (171,391)   | (74,772)    |
| Change in accounts payable, accrued expenses and other assets   |    | 317,588     | (5,739,707) |
| <b>NET CASH FLOWS FROM<br/>OPERATING<br/>ACTIVITIES</b>         | \$ | 1,044,359   | (3,608,729) |

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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**VULCAN INTERNATIONAL CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the nine months ended September 30, 2004 and 2003**

**UNAUDITED**

The accompanying condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to reflect a fair presentation of financial position, results of operations and cash flows for the interim periods. All such adjustments are of a normal recurring nature.

#### USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### RECLASSIFICATION

Certain prior period data has been reclassified to conform to the current year presentation.

#### MARKETABLE SECURITIES

The Company's investments in marketable securities have been classified as available-for-sale securities and reported at their fair value as determined by quoted market prices as follows:

|                    | <u>Cost</u>  | Gross<br>Unrealized<br><u>Gains</u> | Gross<br>Unrealized<br><u>Losses</u> | Fair<br><u>Value</u> |
|--------------------|--------------|-------------------------------------|--------------------------------------|----------------------|
| September 30, 2004 |              |                                     |                                      |                      |
| Current            | \$ 3,529,410 | 32,459,329                          | 26,594                               | 35,962,145           |
| Long-term          | 2,623,283    | 33,033,486                          | -                                    | 35,656,769           |
|                    | \$ 6,152,693 | 65,492,815                          | 26,594                               | 71,618,914           |
| December 31, 2003  |              |                                     |                                      |                      |
| Current            | \$ 3,565,437 | 34,183,094                          | 14,268                               | 37,734,263           |
| Long-term          | 2,623,283    | 33,448,712                          | -                                    | 36,071,995           |
|                    | \$ 6,188,720 | 67,631,806                          | 14,268                               | 73,806,258           |

INVENTORIES

|                           | September 30,<br>2004 | December 31,<br>2003 |
|---------------------------|-----------------------|----------------------|
| Inventories consisted of: |                       |                      |
| Finished goods            | \$ 98,319             | 449,619              |
| Work in process           | 138,165               | 26,478               |
| Raw materials             | 436,936               | 174,813              |
| Total inventories         | \$ 673,420            | 650,910              |

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**VULCAN INTERNATIONAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended September 30, 2004 and 2003**

**UNAUDITED**

**(Continued)**

**EARNINGS PER COMMON SHARE**

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is adjusted for the dilutive effects of stock options. The diluted average number of common shares outstanding has been increased for the assumed exercise of stock options with proceeds used to purchase treasury shares at the average market price for the period. The computations were as follows for the nine and three months ended

September 30:

|                              |    | For the nine months<br>ended September 30, |             | For the three months<br>ended September 30, |             |
|------------------------------|----|--|-------------|---|-------------|
|                              |    | <u>2004</u>                                | <u>2003</u> | <u>2004</u>                                 | <u>2003</u> |
| Net income from continuing   | \$ |  |             |   |             |
| operations                   |    | 1,325,738                                  | 2,406,352   | 455,926                                     | 1,389,224   |
| Net income from discontinued |    |  |             |   |             |
| operations net of income tax |    | 1,580,938                                  | 37,642      | -   | 6,418       |
| Net income                   | \$ | 2,906,676                                  | 2,443,994   | 455,926                                     | 1,395,642   |

Weighted average number of

shares outstanding used in the

calculation of basic earnings per

|                                |           |           |           |           |
|--------------------------------|-----------|-----------|-----------|-----------|
| common share                   | 1,006,678 | 1,004,670 | 1,006,707 | 1,004,707 |
| Add - dilutive effect of stock |           |           |           |           |

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|                                  |    |           |           |           |           |
|----------------------------------|----|-----------|-----------|-----------|-----------|
| options                          |    | 8,599     | 1,185     | 9,286     | 3,485     |
| Adjusted weighted average        |    |           |           |           |           |
| number of shares outstanding     |    |           |           |           |           |
| used in the calculation of       |    |           |           |           |           |
| diluted earnings per common      |    |           |           |           |           |
| share                            |    | 1,015,277 | 1,005,855 | 1,015,993 | 1,008,192 |
| Basic earnings per common share: |    |           |           |           |           |
| Continuing operations            | \$ | 1.31      | 2.39      | .45       | 1.38      |
| Discontinued operations          |    | 1.57      | .04       | -         | .01       |
|                                  | \$ | 2.88      | 2.43      | .45       | 1.39      |
| Diluted earnings per common      |    |           |           |           |           |
| share:                           |    |           |           |           |           |
| Continuing operations            | \$ | 1.29      | 2.39      | .43       | 1.38      |
| Discontinued operations          |    | 1.57      | .04       | -         | .01       |
|                                  | \$ | 2.86      | 2.43      | .43       | 1.39      |

**VULCAN INTERNATIONAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended September 30, 2004 and 2003**

**UNAUDITED**

**(Continued)**

**INCOME TAX**

In June, 2004, the Company completed all matters pertaining to the sale of its bowling pin operations, including the provision of services required of the Company pursuant to such sale. In September, 2004, in connection with the filing of the Company's federal income tax return, management was advised that the Company is now classified as a Personal Holding Company under Internal Revenue Service regulations due to the percentage of passive income received by the Company, together with the concentration of ownership of over 50% of the Company's common stock by five shareholders as the term "shareholders" is defined by IRS regulations. Management believes that such classification should not result in additional taxation under the Personal Holding Company regulations during the year 2004.

**LEGAL MATTERS**

The Company has an interest in a partnership, Cincinnati Club Building Associates ("CCBA"), that owns certain real estate. On August 13, 1999 a Complaint for money damages in excess of \$25,000, based upon breach of fiduciary duty was filed by the other partner in the Court of Common Pleas in Hamilton County, Ohio. Essentially, the plaintiff is seeking an adjustment of the capital account balances which would result in a higher distribution of cash flow to the plaintiff. The Court of Common Pleas in Hamilton County, Ohio, in 2003, granted summary judgment in the Company's favor. On January 6, 2004, the plaintiff appealed this decision. The Court of Appeals First Appellate District of Ohio, Hamilton County, Ohio upheld the decision of the Court of Common Pleas on October 8, 2004 in favor of the Company.

CCBA appealed a real estate tax assessment from 1999 that had increased the annual real estate tax and was granted a revision. CCBA received a \$96,000 refund of the additional tax paid in 1999. During 2001, the local school board appealed the revision. In 2003, the Ohio Board of Tax Appeals ruled in favor of CCBA. The school board appealed

that ruling to the Ohio Supreme Court. A settlement agreement and dismissal of the suit was reached in May, 2004. CCBA had recorded a liability of approximately \$135,500 related to this issue based on the revised value asserted by the local school board. The reversal of this liability has been recognized as income in 2004.

The Company is involved in other litigation matters and claims which are normal in the course of operations. Management believes that the resolution of these matters will not have a material effect on the Company's business or financial condition.

**VULCAN INTERNATIONAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the nine months ended September 30, 2004 and 2003**

**UNAUDITED**

**(Continued)**

**COMPREHENSIVE INCOME**

Total comprehensive income (loss) was as follows:

|                                   | For the nine months<br>ended September 30, |             | For the three months<br>ended September 30, |             |
|-----------------------------------|--|-------------|---|-------------|
|                                   | <u>2004</u>                                | <u>2003</u> | <u>2004</u>                                 | <u>2003</u> |
| Net income                        | \$ 2,906,676                               | 2,443,994   | 455,926                                     | 1,395,642   |
| Other comprehensive income        |  |             |   |             |
| (loss):                           |  |             |   |             |
| Net unrealized gain (loss) on     |  |             |   |             |
| marketable securities (net of     |  |             |   |             |
| tax (benefits) of \$(678,417) and |  |             |   |             |
| \$2,031,344 for the nine months   |  |             |   |             |
| ended September 30, 2004 and      |  |             |   |             |
| 2003; and \$587,386 and           |  |             |   |             |
| \$(726,034) for the three months  |  |             |   |             |
| ended September 30, 2004 and      |  |             |   |             |

|   |              |           |           |             |
|---|--------------|-----------|-----------|-------------|
| 2003)   | (1,316,928)  | 3,943,198 | 1,140,220 | (1,409,361) |
| Less: reclassification<br>adjustment for gains<br>included in net income (net<br>of taxes of \$53,030 and<br>\$146,903 for the nine months<br>ended September 30, 2004 and<br>2003; and net of taxes of<br>\$22,568 for the three months<br>ended September 30, 2003) | (102,941)    | (285,165) | -         | (43,808)    |
| Total comprehensive<br>income (loss)  | \$ 1,486,807 | 6,102,027 | 1,596,146 | (57,527)    |

Accumulated other comprehensive income consists of unrealized holding gains, net of tax, on securities available for sale of \$43,207,706 at September 30, 2004 and \$44,627,575 at December 31, 2003.

**VULCAN INTERNATIONAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the nine months ended September 30, 2004 and 2003**

**UNAUDITED**

**(Continued)**

**DISCONTINUED OPERATIONS**

In March, 2004, the Company completed the sale of its 50% interest in a Joint Venture, Vulcan Brunswick Bowling Pin Company ( VBBP ), to Brunswick Bowling and Billiards Company ( Brunswick ) for \$2,000,000. VBBP manufactures bowling pins in Antigo, Wisconsin. Pursuant to this sale, the Company does not have a right to any net profits from VBBP after December 31, 2002. In March, 2004, Brunswick also purchased the Company's bowling pin business for \$716,890. The prior period's financial statements have been restated to present the results of operations from bowling pin operations as discontinued operations. For business segment reporting purposes, the financial results from bowling pin operations were previously reported in the segment Bowling Pins .

Net sales and income (loss) from discontinued operations are as follows:

|                            | For the nine months<br>ended September 30, |             | For the three months<br>ended September 30, |             |
|----------------------------|--|-------------|---|-------------|
|                            | <u>2004</u>                                | <u>2003</u> | <u>2004</u>                                 | <u>2003</u> |
| Net sales                  | \$ 391,546                                 | 1,565,523   | -   | 763,191     |
| Income before income taxes | 53,686                                     | 47,721      | -   | 12,425      |
| Income tax expense         | 15,600                                     | 10,079      | -   | 6,007       |
| Net income                 | \$ 38,086                                  | 37,642      | -   | 6,418       |

STOCK OPTIONS

Options to purchase not more than 50,000 shares of treasury stock at \$37.24 per share, that were granted to the President of the Company in 2001 will expire in 2008. In 2003, the options were changed to decrease the option exercise price to \$33.20 per share. The closing price of the stock at September 30, 2004 was \$44.60. As a result, the Company accrued an additional compensation expense liability of \$42,500 related to these stock options in the nine month period ended September 30, 2004. No options were exercised under this grant in 2003 or 2004.

The Company applies APB No. 25 and related interpretations in accounting for stock options. Had compensation expense for the stock option been determined based on the fair value or modification dates in accordance with SFAS No. 123, the Company's net income and earnings per share would have been adjusted to the pro forma amounts as follows:

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**VULCAN INTERNATIONAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended September 30, 2004 and 2003**

**UNAUDITED**

**(Continued)**

STOCK OPTIONS (Continued)

|   | For the nine months<br>ended September 30, |             | For the three months<br>ended September 30, |             |
|---|--|-------------|---|-------------|
|   | <u>2004</u>                                | <u>2003</u> | <u>2004</u>                                 | <u>2003</u> |
| Net income, as reported   | \$ 2,906,676                               | 2,443,994   | 455,926                                     | 1,395,642   |
| Add: Stock-option-based employee<br>compensation expense included<br>in reported net income, net of<br>related tax effect                   | 28,050                                     | -           | (89,100)                                    | -           |
| Deduct: Total stock-option-based<br>employee compensation expense<br>determined under fair value based<br>method, net of related tax effect | -  | (162,096)   | -   | -           |
| Pro forma net income  | \$ 2,934,726                               | 2,281,898   | 366,826                                     | 1,395,642   |

Earnings per share:

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|                        |    |      |      |     |      |
|------------------------|----|------|------|-----|------|
| Basic as reported      | \$ | 2.88 | 2.43 | .45 | 1.39 |
| Diluted as reported    | \$ | 2.86 | 2.43 | .43 | 1.39 |
| Basic - as pro forma   | \$ | 2.92 | 2.27 | .37 | 1.39 |
| Diluted - as pro forma | \$ | 2.89 | 2.27 | .34 | 1.39 |

POSTRETIREMENT BENEFITS

The Company maintains a noncontributory defined benefit pension plan for certain eligible salaried and hourly employees. SFAS No. 132 (Revised), "Employees' Disclosure about Pension and Other Postretirement Benefits", requires the components of net periodic pension cost to be disclosed on an interim basis as follows:

Components of net periodic pension cost:

|                                      | For the nine months<br>ended September 30, |             | For the three months<br>Ended September 30, |             |
|--------------------------------------|--|-------------|---|-------------|
|                                      | <u>2004</u>                                | <u>2003</u> | <u>2004</u>                                 | <u>2003</u> |
| Service cost                         | \$ 33,486                                  | 30,426      | 11,162                                      | 10,142      |
| Interest cost                        | 374,817                                    | 385,872     | 124,939                                     | 128,624     |
| Expected return on plan assets       | (652,452)                                  | (586,554)   | (217,484)                                   | (195,518)   |
| Amortization of prior service cost   | -  | 15,447      | -   | 5,149       |
| Amortization of net actuarial loss   | 108,459                                    | 183,585     | 36,153                                      | 61,195      |
| Net period pension<br>cost (benefit) | \$ (135,690)                               | 28,776      | (45,230)                                    | 9,592       |

**VULCAN INTERNATIONAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended September 30, 2004 and 2003**

**UNAUDITED**

**(Continued)**

**POSTRETIREMENT BENEFITS** (Continued)

The Company previously disclosed in its financial statements for the year ended December 31, 2003 that it did not expect to make any contribution to its pension plan over the year ending December 31, 2004. As of September 30, 2004, no contributions have been made and the Company anticipates that no contributions will be made during the rest of 2004.

**BUSINESS SEGMENT INFORMATION**

Reportable segments are as follows:

|                              | For the nine months ended<br>September 30, |             | For the three months ended<br>ended September 30, |             |
|------------------------------|--|-------------|---|-------------|
|                              | <u>2004</u>                                | <u>2003</u> | <u>2004</u>                                       | <u>2003</u> |
| <b>NET SALES FROM</b>        |  |             |   |             |
| <b>CONTINUING OPERATIONS</b> |  |             |   |             |
| Rubber and Foam Products     | \$ 5,980,885                               | 5,791,689   | 1,507,056   | 2,060,748   |
| Real Estate Operations       | 634,173                                    | 619,509     | 195,681   | 176,258     |
| Intersegment net sales       | (8,093)                                    | (22,719)    | (2,620)   | -           |
|                              | 6,606,965                                  | 6,388,479   | 1,700,117   | 2,237,006   |

Timber sales included in real

|                                |              |           |           |           |
|--------------------------------|--------------|-----------|-----------|-----------|
| estate operations, reported in |              |           |           |           |
| gain on sale of property and   |              |           |           |           |
| equipment                      | (319,728)    | (288,437) | (93,211)  | (69,951)  |
| <b>TOTAL SALES FROM</b>        |              |           |           |           |
| <b>CONTINUING</b>              |              |           |           |           |
| <b>OPERATIONS</b>              | \$ 6,287,237 | 6,100,042 | 1,606,906 | 2,167,055 |
| OPERATING PROFIT (LOSS)        |              |           |           |           |
| FROM CONTINUING                |              |           |           |           |
| OPERATIONS:                    |              |           |           |           |
| Rubber and Foam Products       | \$ (291,639) | (320,156) | (235,990) | (60,595)  |
| Real Estate Operations         | 311,901      | 231,369   | 116,493   | 40,096    |
| <b>TOTAL OPERATING</b>         |              |           |           |           |
| <b>PROFIT (LOSS) FROM</b>      |              |           |           |           |
| <b>CONTINUING OPERATIONS</b>   | 20,262       | (88,787)  | (119,497) | (20,499)  |

**VULCAN INTERNATIONAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended September 30, 2004 and 2003**

**UNAUDITED**

**(Continued)**

**BUSINESS SEGMENT INFORMATION** (Continued)

|                                  | For the nine months ended<br>September 30, |             | For the three months ended<br>Ended September 30, |             |
|----------------------------------|--|-------------|---|-------------|
|                                  | <u>2004</u>                                | <u>2003</u> | <u>2004</u>                                       | <u>2003</u> |
| Interest expense - net           | (25,268)                                   | (35,702)    | -   | 29,079      |
| Income - Resolve settlement      | -  | 1,448,119   | -   | 1,448,119   |
| Other unallocated corporate      |  |             |   |             |
| income - net                     | 1,513,429                                  | 1,727,038   | 580,925   | 444,203     |
| Income tax provision             | (182,685)                                  | (644,316)   | (5,502)   | (511,678)   |
| <b>NET INCOME FROM</b>           |  |             |   |             |
| <b>CONTINUING</b>                |  |             |   |             |
| <b>OPERATIONS</b>                | 1,325,738                                  | 2,406,352   | 455,926   | 1,389,224   |
| <b>DISCONTINUED OPERATIONS:</b>  |  |             |   |             |
| Gain on sale of division assets, |  |             |   |             |
| net of income taxes              | 1,542,852                                  | -           | -   | -           |
| Income (loss) from operations,   |  |             |   |             |

|                     |                     |                  |                |                  |
|---------------------|---------------------|------------------|----------------|------------------|
| net of income taxes | 38,086              | 37,642           | -              | 6,418            |
| <b>NET INCOME</b>   | <b>\$ 2,906,676</b> | <b>2,443,994</b> | <b>455,926</b> | <b>1,395,642</b> |

REVIEW BY INDEPENDENT ACCOUNTANTS

The condensed consolidated financial statements at September 30, 2004, and for the three and nine month periods then ended have been reviewed, prior to filing, by the Registrant's independent accountants, J.D. Cloud & Co. L.L.P., whose report covering their review of the financial statements is included in this report.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors

Vulcan International Corporation

Wilmington, Delaware

We have reviewed the accompanying condensed consolidated balance sheet of Vulcan International Corporation and subsidiaries as of September 30, 2004, and the related condensed consolidated statements of income and cash flows for the nine month and three month periods ended September 30, 2004 and 2003. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying Interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Vulcan International Corporation and subsidiaries as of December 31, 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 27, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003, is fairly stated, in all material respects, in relation to the

consolidated balance sheet from which it has been derived.

J.D. CLOUD & CO. L.L.P.

Certified Public Accountants

Cincinnati, Ohio

October 25, 2004



## PART I - FINANCIAL INFORMATION

(Continued)

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Net sales revenue for the nine months ended September 30, 2004, increased \$187,195 or 3.1% over the corresponding period in 2003. Cost of sales increased \$3,798 or .1% during the nine months ended September 30, 2004 compared to the corresponding nine month period in 2003. Plant operating expenses increased \$28,610 or 3.1% over the corresponding period in 2003. Net sale revenue for the third quarter of 2004 decreased \$560,149 or 25.8% and cost of sales decreased \$511,587 or 29.4% compared to the corresponding quarter in 2003. Plant operating expenses increased \$21,820 or 7.6% compared to the corresponding quarter in 2003. The change for the three months ended September 30, 2004 is due to decreased sales and costs in the Company's Rubber and Foam segment, primarily related to lower sales to companies that provide footwear to the U.S. military.

General and administrative expenses increased \$15,542 or 1.2% in the nine months ended September 30, 2004, as compared to the corresponding nine month period in 2003. General and administrative expenses for the third quarter of 2004 decreased \$199,144 or 42.3% compared to the corresponding quarter in 2003. A decrease in compensation expense related to the Company's stock option plan accounted for most of the decrease in general and administrative expenses for the quarter ended September 30, 2004.

Interest expense for the nine months ended September 30, 2004 decreased \$10,434. There was no interest expense in the three months ended September 30, 2004 as compared to a decrease in interest expense of \$29,079 in the corresponding period in 2003. The decreases are due to decreased interest rates and elimination of short-term debt.

Gains on the sale of property, equipment and securities were \$482,711 for the nine months ended September 30, 2004, as compared to \$849,456 for the corresponding period in 2003. Gain on sale of property, equipment and securities for the third quarter of 2004 were \$43,352 as compared to \$165,690 for the same period in 2003. Gains in 2004 and 2003 were primarily the result of the sale of marketable securities and timber.

Total assets declined from December 31, 2003 and September 30, 2004 primarily due to a general decline in the market value of marketable securities.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's cash requirements during the third quarter of 2004 were funded in part through earnings as well as from the sale of timber, equipment and marketable securities. The cash from these transactions was primarily used in operations. The Company expects to continue, when necessary, to use short-term borrowings to meet cash requirements not fully provided by earnings. There were approximately \$20,200 of commitments for capital expenditures as of September 30, 2004.

During the nine months ended September 30, 2004, 2000 shares of treasury stock valued at \$81,000 were issued to the President as bonus compensation.

## **PART I - FINANCIAL INFORMATION**

**(Continued)**

### **Item 3. Quantitative and Qualitative Disclosures about Market Risks.**

#### **MARKETABLE SECURITIES**

The fair value of marketable securities has decreased \$2,872,914 from December 31, 2003 to October 25, 2004. At October 25, 2004 the fair value of marketable securities was \$68,746,000 as compared to \$71,618,914 at September 30, 2004.

The net unrealized holding gain at October 25 was approximately \$41,312,000 net of deferred taxes of approximately \$21,282,000. The Company is subject to the risk that fair value securities could decline further.

### **Item 4. Controls and Procedures**

a)

Disclosure controls and procedures. The Chief Executive Officer and the Principal Financial Officer have carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures that are designed to ensure that information relating to the Company required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based upon this evaluation, these officers have concluded, that as of September 30, 2004, the Company's disclosure controls and procedures were adequate.

b) Changes in internal control over financial reporting. During the period covered by this report, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings** Not applicable

**Item 2. Changes in Securities and Use of Proceeds** - Not Applicable

**Item 3. Defaults Upon Senior Securities** - Not Applicable

**Item 4. Submission of Matters to a Vote of Security Holders** - Not Applicable

**Item 5. Other Information** - Not Applicable

**Item 6. Exhibits and Reports on Form 8-K.**

a . Exhibits

Exhibit 11 - Statement regarding computation of per share earnings is included in Part 1,

Item 1 of this Form 10Q, page 5.

Exhibit 31.1 - Rule 13a-14(a)/15d-14(a) Certification of Benjamin Gettler.

Exhibit 31.2 - Rule 13a-14(a)/15d-14(a) Certification of Vernon E. Bachman.

Exhibit 32 - Section 1350 Certifications

b. Form 8-K was filed August 5, 2004 under Items 9 and 12 to announce the Company's earnings for the quarter ended June 30,2004.

**PART II - OTHER INFORMATION**

**(Continued)**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VULCAN INTERNATIONAL CORPORATION

Date: November 10, 2004

By: /s/Benjamin Gettler

Benjamin Gettler

Chairman of the Board, President

and Chief Executive Officer

Date: November 10, 2004

By: /s/Vernon E. Bachman

Vernon E. Bachman

Vice President, Secretary-Treasurer

and Principal Accounting Officer

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