VALMONT INDUSTRIES INC
Form 10-Q
November 03, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

ý **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 27, 2008

Or

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission file number 1-31429

Valmont Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**47-0351813** (I.R.S. Employer Identification No.)
One Valmont Plaza, Omaha, Nebraska (Address of principal executive offices)	**68154-5215** (Zip Code)

402-963-1000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 ý No o

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

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

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

26,151,080
Outstanding shares of common stock as of October 20, 2008

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Net sales	$494,801	$372,033	$1,414,216	$1,114,972
Cost of sales	359,802	274,461	1,026,206	819,719
Gross profit	134,999	97,572	388,010	295,253
Selling, general and administrative expenses	73,103	59,858	212,278	179,573
Operating income	61,896	37,714	175,732	115,680
Other income (expense):				
Interest expense	(4,264)	(4,470)	(13,446)	(13,159)
Interest income	382	666	1,880	1,796
Miscellaneous	(376)	(319)	(2,234)	(342)
	(4,258)	(4,123)	(13,800)	(11,705)
Earnings before income taxes, minority interest and equity in earnings of nonconsolidated subsidiaries	57,638	33,591	161,932	103,975
Income tax expense (benefit):				
Current	24,089	8,506	65,625	30,857
Deferred	(4,501)	(1,070)	(10,435)	553
	19,588	7,436	55,190	31,410
Earnings before minority interest and equity in earnings of nonconsolidated subsidiaries	38,050	26,155	106,742	72,565
Minority interest	(1,478)	(700)	(3,164)	(1,355)
Equity in earnings of nonconsolidated subsidiaries	412	438	369	372
Net earnings	$ 36,984	$ 25,893	$ 103,947	$ 71,582
Earnings per share Basic	$ 1.43	$ 1.01	$ 4.03	$ 2.81
Earnings per share Diluted	$ 1.40	$ 0.99	$ 3.95	$ 2.74
Cash dividends per share	$ 0.130	$ 0.105	$ 0.365	$ 0.305
Weighted average number of shares of common stock outstanding (000 omitted)	25,864	25,570	25,793	25,500
Weighted average number of shares of common stock outstanding plus dilutive potential common shares (000 omitted)	26,362	26,207	26,321	26,096

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

	September 27, 2008	December 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 68,095	$ 106,532
Receivables, net	318,723	254,472
Inventories	313,600	219,993
Prepaid expenses	19,612	17,734
Refundable and deferred income taxes	32,223	22,866
Total current assets	752,253	621,597
Property, plant and equipment, at cost	631,730	582,015
Less accumulated depreciation and amortization	366,520	349,331
Net property, plant and equipment	265,210	232,684
Goodwill	168,587	116,132
Other intangible assets, net	94,325	58,343
Other assets	22,518	23,857
Total assets	$ 1,302,893	$ 1,052,613
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	$ 2,341	$ 22,510
Notes payable to banks	28,234	15,005
Accounts payable	177,102	128,599
Accrued expenses	60,299	37,957
Accrued employee compensation and benefits	70,200	64,241
Dividends payable	3,399	2,724
Total current liabilities	341,575	271,036
Deferred income taxes	37,879	35,547
Long-term debt, excluding current installments	265,086	200,738
Other noncurrent liabilities	24,147	24,306
Minority interest in consolidated subsidiaries	19,710	10,373
Shareholders' equity:		
Preferred stock of $1 par value		
Authorized 500,000 shares; none issued		
Common stock of $1 par value		
Authorized 75,000,000 shares; issued 27,900,000 shares	27,900	27,900
Retained earnings	597,674	496,388
Accumulated other comprehensive income	16,340	16,996
Treasury stock	(27,418)	(30,671)
Total shareholders' equity	614,496	510,613
Total liabilities and shareholders' equity	$ 1,302,893	$ 1,052,613

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Thirty-nine Weeks Ended	
	Sept. 27, 2008	Sept. 29, 2007
Cash flows from operating activities:		
Net earnings	$ 103,947	$ 71,582
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	29,081	25,736
Stock-based compensation	3,869	2,694
Loss/(gain) on sale of assets	(377)	819
Equity in earnings of nonconsolidated subsidiaries	(369)	(372)
Minority interest	3,164	1,355
Deferred income taxes	(10,435)	553
Other adjustments	(840)	694
Payment of deferred compensation	(589)	(9,186)
Changes in assets and liabilities, net of business acquisitions:		
Receivables	(49,109)	(44,662)
Inventories	(78,663)	(11,147)
Prepaid expenses	(28)	(1,650)
Accounts payable	34,510	7,582
Accrued expenses	24,152	16,715
Other noncurrent liabilities	(1,430)	(879)
Income taxes payable/refundable	10,111	(4,600)
Net cash flows from operating activities	66,994	55,234
Cash flows from investing activities:		
Purchase of property, plant & equipment	(38,924)	(42,901)
Proceeds from sale of assets	3,133	9,371
Acquisitions, net of cash acquired	(119,044)	(16,163)
Dividends to minority interests	(184)	(715)
Other, net	(598)	(1,417)
Net cash flows from investing activities	(155,617)	(51,825)
Cash flows from financing activities:		
Net borrowings under short-term agreements	10,395	1,624
Proceeds from long-term borrowings	80,895	12,463
Principal payments on long-term obligations	(38,787)	(12,147)
Dividends paid	(8,852)	(7,588)
Proceeds from exercises under stock plans	6,689	6,287
Excess tax benefits from stock option exercises	7,117	5,541
Purchase of common treasury shares stock plan exercises	(7,895)	(6,244)
Net cash flows from financing activities	49,562	(64)
Effect of exchange rate changes on cash and cash equivalents	625	2,488
Net change in cash and cash equivalents	(38,437)	5,833
Cash and cash equivalents beginning of year	106,532	63,504

Cash and cash equivalents end of period	$ 68,095	$ 69,337

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

1. Summary of Significant Accounting Policies

Condensed Consolidated Financial Statements

The Condensed Consolidated Balance Sheet as of September 27, 2008 and the Condensed Consolidated Statements of Operations for the thirteen and thirty-nine week periods ended September 27, 2008 and September 29, 2007 and the Condensed Consolidated Statements of Cash Flows for the thirty-nine week periods then ended have been prepared by the Company, without audit. In the opinion of management, all necessary adjustments (which include normal recurring adjustments) have been made to present fairly the financial statements as of September 27, 2008 and for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2007. The accounting policies and methods of computation followed in these interim financial statements are the same as those followed in the financial statements for the year ended December 29, 2007. The results of operations for the periods ended September 27, 2008 are not necessarily indicative of the operating results for the full year.

Inventories

At September 27, 2008, approximately 50.1% of inventory is valued at the lower of cost, determined on the last-in, first-out (LIFO) method, or market. All other inventory is valued at the lower of cost, determined on the first-in, first-out (FIFO) method or market. Finished goods and manufactured goods inventories include the costs of acquired raw materials and related factory labor and overhead charges required to convert raw materials to manufactured finished goods. The excess of replacement cost of inventories over the LIFO value was approximately $66,500 and $35,800 at September 27, 2008 and December 29, 2007, respectively.

Inventories consisted of the following:

	September 27, 2008	December 29, 2007
Raw materials and purchased parts	$ 217,715	$ 139,557
Work-in-process	26,707	21,481
Finished goods and manufactured goods	135,718	94,747
Subtotal	380,140	255,785
LIFO reserve	66,540	35,792
Inventory	$ 313,600	$ 219,993

Stock Plans

The Company maintains stock-based compensation plans approved by the shareholders, which provide that the Compensation Committee of the Board of Directors may grant incentive stock options, nonqualified stock options, stock appreciation rights, non-vested stock awards and bonuses of common

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

1. Summary of Significant Accounting Policies (Continued)

stock. At September 27, 2008, 1,698,000 shares of common stock remained available for issuance under the plans. Shares and options issued and available for issuance are subject to changes in capitalization.

Under the plans, the exercise price of each option equals the market price at the time of the grant. Options vest beginning on the first anniversary of the grant in equal amounts over three to six years or on the fifth anniversary of the grant. Expiration of grants is from six to ten years from the date of grant. The Company's compensation expense related to stock options (included in selling, general and administrative expenses) and associated tax benefits in fiscal 2008 and 2007 were as follows:

	Thirteen Weeks Ended		**Thirty-nine Weeks Ended**	
	Sept. 27, 2008	**Sept. 29, 2007**	**Sept. 27, 2008**	**Sept. 29, 2007**
Compensation expense	$ 760	$ 367	$ 2,248	$ 1,264
Related tax benefits	289	141	854	487

Fair Value

On December 30, 2007, the Company adopted SFAS No. 157, Fair Value Measurements ("SFAS 157") which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 apply to other accounting pronouncements that require or permit fair value measurements. As defined in SFAS 157, fair value is 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. In February 2008, the FASB issued FASB Staff Position No. 157-2 (FSP 157-2), "Effective Date of FASB Statement 157." FSP 157-2 delayed for one year the applicability of SFAS 157's fair-value measurements to certain nonfinancial assets and liabilities. The Company adopted SFAS 157 in 2008, except as it applies to those nonfinancial assets and liabilities affected by the one-year delay.

SFAS 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Inputs refers broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

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

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

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

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

1. Summary of Significant Accounting Policies (Continued)

Trading Securities: The assets and liabilities recorded for the investments held in the Valmont Deferred Compensation Plan represent mutual funds, invested in debt and equity securities, classified as trading securities in accordance with Financial Accounting Standard No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, considering the employee's ability to change investment allocation of their deferred compensation at any time. Quoted market prices are available for these securities in an active market and therefore categorized as a Level 1 input.

	Carrying Value September 27, 2008	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Trading Securities	$ 12,399	$ 12,399	$	$
Liabilities:				
Trading Securities	$ 12,399	$ 12,399	$	$

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued Statement 141R ("SFAS No. 141R"), *Business Combinations*. This Statement amends accounting and reporting standards associated with business combinations. This Statement requires the acquiring entity to recognize the assets acquired, liabilities assumed and noncontrolling interests in the acquired entity at the date of acquisition at their fair values, including noncontrolling interests. In addition, SFAS No. 141R requires that direct costs associated with an acquisition be expensed as incurred and sets forth various other changes in accounting and reporting related to business combinations. This Statement is effective for business combinations completed by the Company after December 27, 2008. The effect of this Statement on the Company's consolidated financial statements is expected to result in lower net income in years when it has acquisitions, since acquisition costs are expensed as incurred and higher values of intangible assets will be recorded in cases where the Company acquires less than 100% of a company.

In December 2007, the FASB issued Statement 160 ("SFAS No. 160"), *Noncontrolling Interests in Consolidated Financial Statements*. This Statement amended the accounting and reporting for noncontrolling interests in a consolidated subsidiary and for the deconsolidation of a subsidiary. Included in this statement is the requirement that noncontrolling interests be reported in the equity section of the balance sheet. This Statement is effective at the beginning of the Company's 2009 fiscal year. The Company expects that the effect of this Statement on its consolidated financial statements will increase shareholders' equity in that minority interest will be classified as part of shareholders' equity under this Statement.

Subsequent Event

In October 2008, the Company replaced its revolving credit agreement and the term loan with a new five-year $280 million revolving credit agreement described below. The Company repaid the

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

1. Summary of Significant Accounting Policies (Continued)

outstanding balances of its revolving credit agreement and the term loan with borrowings from the new revolving credit agreement.

On October 16, 2008, the Company entered into a new five-year $280 million revolving credit agreement with a group of banks. The Company may increase the credit agreement by up to an additional $100 million at any time, subject to the participating banks increasing the amount of their lending commitments. The interest rate on outstanding borrowings will be, at the Company's option, either:

(i) LIBOR (based on a 1, 2, 3 or 6 month interest period, as selected by the Company) plus 125 to 200 basis points (inclusive of facility fees), depending on the Company's ratio of debt to earnings before taxes, interest, depreciation and amortization (EBITDA), or;

(ii) the higher of

- The higher of (a) the prime lending rate and (b) the Federal Funds rate plus 50 basis points plus, in each case, 25 to 100 basis points (inclusive of facility fees), depending on the Company's ratio of debt to EBITDA, or

- LIBOR (based on a 1 week interest period) plus 125 to 200 basis points (inclusive of facility fees), depending on the Company's ratio of debt to EBITDA

The new revolving credit agreement has maintenance covenants that may limit the Company's additional borrowing capability under the agreement, similar to the covenants in the prior revolving credit agreement.

2. Acquisitions

In January 2008, the Company acquired substantially all of the assets of Penn Summit LLC (Penn Summit), a manufacturer of steel utility and wireless communication poles located in Hazelton, Pennsylvania, for approximately $57,904, including transaction costs. In addition, the Company assumed $96 of interest-bearing debt as part of the acquisition. The Company recorded $31,440 of goodwill as part of the purchase price allocation and assigned the goodwill to the Utility Support Structures segment. The Company financed the acquisition with cash balances and approximately $7,500 of borrowings through its revolving credit agreement. The Company acquired Penn Summit to expand its geographic presence in the United States for steel utility support structures.

In February 2008, the Company acquired 70% of the outstanding shares of West Coast Engineering Group, Ltd. (West Coast), a Canadian and U.S. manufacturer of steel and aluminum structures for the lighting, transportation and wireless communication industries headquartered in Delta, British Columbia, for $31,431 Canadian dollars ($31,472 U.S. dollars). In addition, $6,304 of interest-bearing debt was assumed as part of the acquisition. The purchase price was financed through the Company's revolving credit agreement. The Company recorded $19,438 of goodwill as part of the preliminary purchase price allocation and assigned the goodwill to the Engineered Support Structures (ESS) segment. The Company acquired West Coast to expand its geographic presence in Canada and the United States for lighting and transportation structures.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

2. Acquisitions (Continued)

In July 2008, the Company acquired the assets of Site Pro 1, Inc. (Site Pro), a company that distributes wireless communication components for the U.S. market for $22,460 in cash. Site Pro is reported as part of the ESS segment. The acquisition was financed through the Company's revolving credit agreement. The Company recorded $703 of goodwill as part of the purchase price allocation and assigned the goodwill to the ESS segment. The Site Pro acquisition was completed to expand the Company's geographic distribution and service levels in wireless communication components.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed as of the date of acquisition.

	Penn Summit	West Coast	Site Pro
Current Assets	$ 12,167	$ 12,794	$ 6,119
Property, plant and equipment and other long-term assets	5,177	10,112	172
Intangible assets	13,322	9,786	16,931
Goodwill	31,440	19,438	703
Total assets acquired	$ 62,106	$ 52,130	$ 23,925
Current liabilities	4,106	7,765	1,465
Deferred income taxes		3,364	
Long-term debt	96	6,304	
Minority Interest		3,225	
Total liabilities assumed	4,202	20,658	1,465
Net assets acquired	$ 57,904	$ 31,472	$ 22,460

The purchase price allocation on the West Coast acquisition was not finalized in the third quarter of 2008, as the fair value determinations on the real estate and other intangible assets acquired was not complete. The Company expects to finalize the purchase price allocations in the fourth quarter of 2008.

In the third quarter of 2008, the Company acquired the assets of Matco, Inc. (Matco), a company that provides consulting services related to corrosion protection, for $3,700 in cash. Matco is reported as part of the Utility Support Structures segment. The fair values of the assets and liabilities recorded as part of the Matco acquisition included: current assets, $693; current liabilities, $154; property, plant and equipment, $914; intangible assets, $914; and goodwill, $1,333. In addition, the Company formed a 51% owned joint venture in Turkey with a Turkish company to manufacture and sell pole structures. The Company's contribution for its 50% ownership was $4,472 in cash. This joint venture is reported as part of the ESS segment. The Company acquired Matco to expand its expertise in corrosion protection technologies. The Turkish joint venture was established to build its manufacturing base and distribution of pole structures in the Middle East and Central Asia.

On April 26, 2007, the Company acquired 70% of the outstanding shares of Tehomet Oy (Tehomet), a Finnish manufacturer of lighting poles. Tehomet's operations are included in the Company's condensed consolidated financial statement since the acquisition date. In June 2008, the

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

2. Acquisitions (Continued)

Company acquired the remaining 30% of the outstanding shares of a North American Irrigation dealership from its minority shareholder for $848.

The Company's proforma results of operations for the thirteen and thirty-nine weeks ended September 29, 2007, assuming that the transaction occurred at the beginning of the periods presented are as follows:

	Thirteen Weeks Ended September 29, 2007	Thirty-nine Weeks Ended September 29, 2007
Net sales	$ 398,935	$ 1,195,027
Net income	25,588	70,843
Earnings per share diluted	$ 0.98	$ 2.71

3. Goodwill and Intangible Assets

The Company's annual impairment testing of goodwill and intangible assets was performed during the third quarter of 2008. As a result of that testing, it was determined the goodwill and other intangible assets on the Company's Consolidated Balance Sheet were not impaired. The Company continues to monitor changes in the global economy that could impact future operating results of its reporting units and related components.

Amortized Intangible Assets

The components of amortized intangible assets at September 27, 2008 and December 29, 2007 were as follows:

	As of September 27, 2008		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Life
Customer Relationships	$86,446	$ 17,683	16 years
Proprietary Software & Database	2,609	2,260	6 years
Patents & Proprietary Technology	2,887	865	14 years
Non-compete Agreements	1,709	468	6 years
	$93,651	$ 21,276	

	As of December 29, 2007		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Life
Customer Relationships	$51,459	$ 13,819	16 years
Proprietary Software & Database	2,609	2,158	6 years
Patents & Proprietary Technology	2,839	715	14 years
Non-compete Agreements	1,007	285	7 years

	$57,914	$ 16,977

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

3. Goodwill and Intangible Assets (Continued)

Amortization expense for intangible assets for the thirteen weeks ended September 27, 2008 and September 29, 2007 was $1,768 and $919, respectively. Amortization expense for intangible assets for the thirty-nine weeks ended September 27, 2008, and September 29, 2007 was $4,600 and $2,602, respectively. Estimated amortization expense related to amortized intangible assets is as follows:

	Estimated Amortization Expense
2008	$ 6,180
2009	7,104
2010	7,104
2011	7,104
2012	7,060

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

Non-amortized intangible assets

Intangible assets with indefinite lives are not amortized. The carrying values of trade names at September 27, 2008 and December 29, 2007 were as follows:

	September 28, 2008	December 29, 2007	Year Acquired
PiRod	$ 4,750	$ 4,750	2001
Newmark	11,111	11,111	2004
Tehomet	1,369	1,373	2007
Feralux	172	172	2007
West Coast	2,255		2008
Site Pro	2,177		2008
Matco	116		2008
	$ 21,950	$ 17,406	

The PiRod, Newmark, Tehomet and Feralux trade names were tested for impairment separately from goodwill in the third quarter of 2008. The values of the trade names were determined using the relief-from-royalty method. Based on this evaluation, the Company determined that its trade names were not impaired as of September 27, 2008.

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

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

3. Goodwill and Intangible Assets (Continued)

Goodwill

The carrying amount of goodwill as of September 27, 2008 was as follows:

	Engineered Support Structures Segment	Utility Support Structures Segment	Coatings Segment	Irrigation Segment	Total
Balance December 29, 2007	$ 28,570	$ 43,517	$ 42,192	$ 1,853	$ 116,132
Acquisitions	20,141	32,773		202	53,116
Foreign currency translation	(661)				(661)
Balance September 27, 2008	$ 48,050	$ 76,290	$ 42,192	$ 2,055	$ 168,587

In January 2008, the Company acquired substantially all of the net operating assets of a steel utility pole manufacturer in Hazelton, Pennsylvania. This acquisition increased the goodwill in the Utility Support Structures segment by $31,440. In February 2008, the Company acquired 70% of the outstanding shares of a Canadian and U.S. manufacturer of steel and aluminum structures for the lighting, transportation and wireless communication industries headquartered in Delta, British Columbia. This acquisition increased the goodwill in the ESS segment by $19,438. In June 2008, the Company acquired the minority owner's shares in a North American irrigation dealership, resulting in a $202 increase of goodwill in the Irrigation segment. In the third quarter 2008, the Company acquired the assets of Site Pro and Matco that increased the goodwill of the ESS segment and the Utility Support Structures segment by $703 and $1,333, respectively.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

4. Cash Flows

The Company considers all highly liquid temporary cash investments purchased with a maturity of three months or less to be cash equivalents. Cash payments for interest and income taxes (net of refunds) for the thirty-nine weeks ended were as follows:

	Sept. 27, 2008	Sept. 29, 2007
Interest	$11,216	$10,852
Income taxes	57,076	31,985

5. Earnings Per Share

The following table reconciles Basic and Diluted earnings per share (EPS):

	Basic EPS	Dilutive Effect of Stock Options	Diluted EPS
Thirteen weeks ended September 27, 2008:			
Net earnings	$ 36,984		$ 36,984
Shares outstanding	25,864	498	26,362
Per share amount	$ 1.43	(.03)	$ 1.40
Thirteen weeks ended September 29, 2007:			
Net earnings	$ 25,893		$ 25,893
Shares outstanding	25,570	637	26,207
Per share amount	$ 1.01	(.02)	$ 0.99
Thirty-nine weeks ended September 27, 2008:			
Net earnings	$103,947		$103,947
Shares outstanding	25,793	528	26,321
Per share amount	$ 4.03	(.08)	$ 3.95
Thirty-nine weeks ended September 29, 2007:			
Net earnings	$ 71,582		$ 71,582
Shares outstanding	25,500	596	26,096
Per share amount	$ 2.81	(.07)	$ 2.74

At September 27, 2008 and September 29, 2007 there were no outstanding options with exercise prices exceeding the market prices of common stock. Accordingly, no option shares were excluded from the computations of diluted earnings per share for the periods presented.

6. Comprehensive Income

Results of operations for foreign subsidiaries are translated using the average exchange rates during the period. Assets and liabilities are translated at the exchange rates in effect on the balance sheet dates. Currency translation adjustment is the Company's only component of accumulated other

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

6. Comprehensive Income (Continued)

comprehensive income. The Company's total comprehensive income for the thirteen and thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively, were as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Net earnings	$ 36,984	$ 25,893	$ 103,947	$ 71,582
Currency translation adjustment	(11,139)	4,712	(657)	9,369
Total comprehensive income	$ 25,845	$ 30,605	$ 103,290	$ 80,951

7. Business Segments

The Company aggregates its operating segments into four reportable segments. Aggregation is based on similarity of operating segments as to economic characteristics, products, production processes, types or classes of customer and the methods of distribution. Net corporate expense is net of certain service-related expenses that are allocated to business units generally based on employee headcounts and sales dollars.

Reportable segments are as follows:

ENGINEERED SUPPORT STRUCTURES: This segment consists of the manufacture of engineered metal structures and components for the lighting and traffic and wireless communication industries, certain international utility industries and for other specialty applications;

UTILITY SUPPORT STRUCTURES: This segment consists of the manufacture of engineered steel and concrete structures primarily for the North American utility industry;

COATINGS: This segment consists of galvanizing, anodizing and powder coating services; and

IRRIGATION: This segment consists of the manufacture of agricultural irrigation equipment and related parts and services

In addition to these four reportable segments, the Company has other businesses that individually are not more than 10% of consolidated sales. These businesses, which include the manufacture of tubular products and the distribution of industrial fasteners, are reported in the "Other" category.

In 2007, the Company determined that its Tubing business did not meet the quantitative thresholds as a reportable segment. Accordingly, the Tubing business and its financial results are included in "Other". The Company reclassified information related to the Tubing business for 2007 to conform to the 2008 presentation.

The accounting policies of the reportable segments are the same as those described in Note 1. The Company evaluates the performance of its business segments based upon operating income and

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

7. Business Segments (Continued)

invested capital. The Company does not allocate interest expense, non-operating income and deductions, or income taxes to its business segments.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Sales:				
Engineered Support Structures segment				
Lighting & Traffic	$132,466	$123,393	$ 395,215	$ 342,259
Specialty	37,174	33,771	96,742	91,202
Utility	17,429	7,604	35,509	17,137
	187,069	164,768	527,466	450,598
Utility Support Structures segment				
Steel	92,888	60,780	252,580	189,314
Concrete	20,098	18,282	62,878	59,878
	112,986	79,062	315,458	249,192
Coatings segment	35,889	34,321	108,217	103,351
Irrigation segment	150,445	84,822	440,890	285,301
Other	33,564	29,359	89,815	93,312
	519,953	392,332	1,481,846	1,181,754
Intersegment Sales:				
Engineered Support Structures	7,880	7,124	20,680	24,897
Utility Support Structures	1,973	69	4,087	705
Coatings	6,961	7,523	21,823	23,115
Irrigation	5	7	18	54
Other	8,333	5,576	21,022	18,011
	25,152	20,299	67,630	66,782
Net Sales				
Engineered Support Structures	179,189	157,644	506.786	425,701
Utility Support Structures	111,013	78,993	311,371	248,487
Coatings	28,928	26,798	86,394	80,236
Irrigation	150,440	84,815	440,872	285,247
Other	25,231	23,783	68,793	75,301
Consolidated Net Sales	$494,801	$372,033	$1,414,216	$1,114,972
Operating Income				
Engineered Support Structures	$ 16,247	$ 16,679	$ 44,402	$ 42,102
Utility Support Structures	14,620	10,045	43,025	31,640
Coatings	9,284	6,117	24,915	17,217
Irrigation	25,249	8,859	75,663	37,761

Other	5,821	4,707	15,521	14,936
Net corporate expense	(9,325)	(8,693)	(27,794)	(27,976)
Total Operating Income	$ 61,896	$ 37,714	$ 175,732	$ 115,680

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

8. Guarantor/Non-Guarantor Financial Information

On May 4, 2004, the Company completed a $150,000,000 offering of $6^7/_8$% Senior Subordinated Notes. The Notes are guaranteed, jointly, severally, fully and unconditionally, on a senior subordinated basis by certain of the Company's current and future direct and indirect domestic subsidiaries (collectively the "Guarantors"), excluding its other current domestic and foreign subsidiaries which do not guarantee the debt (collectively referred to as the "Non-Guarantors"). All Guarantors are 100% owned by the parent company.

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Thirteen Weeks Ended September 27, 2008

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	$286,461	$ 93,062	$ 160,629	$ (45,351)	$494,801
Cost of sales	216,297	71,132	118,724	(46,351)	359,802
Gross profit	70,164	21,930	41,905	1,000	134,999
Selling, general and administrative expenses	39,703	12,966	20,434		73,103
Operating income	30,461	8,964	21,471	1,000	61,896
Other income (deductions):					
Interest expense	(3,778)	(3)	(483)		(4,264)
Interest income	17	9	356		382
Miscellaneous	(758)	59	323		(376)
	(4,519)	65	196		(4,258)
Earnings before income taxes, minority interest, and equity in earnings of nonconsolidated subsidiaries	25,942	9,029	21,667	1,000	57,638
Income tax expense:					
Current	13,108	3,578	7,403		24,089
Deferred	(3,406)	(77)	(1,018)		(4,501)
	9,702	3,501	6,385		19,588
Earnings before minority interest, and equity in earnings of nonconsolidated subsidiaries	16,240	5,528	15,282	1,000	38,050
Minority interest			(1,478)		(1,478)
Equity in earnings of nonconsolidated subsidiaries	19,744			(19,332)	412

Net earnings	$ 35,984	$ 5,528	$ 13,804	$ (18,332)	$ 36,984

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

8. Guarantor/Non-Guarantor Financial Information (Continued)

For the Thirty-nine Weeks Ended September 27, 2008

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	$834,881	$ 255,982	$ 430,455	$ (107,102)	$1,414,216
Cost of sales	620,442	196,743	317,372	(108,351)	1,026,206
Gross profit	214,439	59,239	113,083	1,249	388,010
Selling, general and administrative expenses	115,476	36,031	60,771		212,278
Operating income	98,963	23,208	52,312	1,249	175,732
Other income (deductions):					
Interest expense	(11,457)	(14)	(1,975)		(13,446)
Interest income	170	28	1,682		1,880
Miscellaneous	(1,779)	161	(616)		(2,234)
	(13,066)	175	(909)		(13,800)
Earnings before income taxes, minority interest, and equity in earnings of nonconsolidated subsidiaries	85,897	23,383	51,403	1,249	161,932
Income tax expense:					
Current	40,679	8,362	16,584		65,625
Deferred	(8,699)	398	(2,134)		(10,435)
	31,980	8,760	14,450		55,190
Earnings before minority interest, and equity in earnings of nonconsolidated subsidiaries	53,917	14,623	36,953	1,249	106,742
Minority interest			(3,164)		(3,164)
Equity in earnings of nonconsolidated subsidiaries	48,781		39	(48,451)	369
Net earnings	$102,698	$ 14,623	$ 33,828	$ (47,202)	$ 103,947

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

8. Guarantor/Non-Guarantor Financial Information (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Thirteen Weeks Ended September 29, 2007

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	$ 223,203	$ 61,195	$ 116,654	$ (29,019)	$ 372,033
Cost of sales	166,532	47,719	88,998	(28,788)	274,461
Gross profit	56,671	13,476	27,656	(231)	97,572
Selling, general and administrative expenses	34,235	8,385	17,238		59,858
Operating income	22,436	5,091	10,418	(231)	37,714
Other income (deductions):					
Interest expense	(3,966)	(1)	(590)	87	(4,470)
Interest income	142	155	456	(87)	666
Miscellaneous	11	21	(351)		(319)
	(3,813)	175	(485)		(4,123)
Earnings before income taxes, minority interest, and equity in earnings of nonconsolidated subsidiaries	18,623	5,266	9,933	(231)	33,591
Income tax expense:					
Current	3,740	2,034	2,732		8,506
Deferred	323	(193)	(1,200)		(1,070)
	4,063	1,841	1,532		7,436
Earnings before minority interest, and equity in earnings of nonconsolidated subsidiaries	14,560	3,425	8,401	(231)	26,155
Minority interest			(700)		(700)
Equity in earnings of nonconsolidated subsidiaries	11,563		173	(11,298)	438
Net earnings	$ 26,123	$ 3,425	$ 7,874	$ (11,529)	$ 25,893

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

8. Guarantor/Non-Guarantor Financial Information (Continued)

For the Thirty-nine Weeks Ended September 29, 2007

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	$ 692,121	$ 182,173	$ 323,225	$ (82,547)	$ 1,114,972
Cost of sales	511,058	145,226	245,365	(81,930)	819,719
Gross profit	181,063	36,947	77,860	(617)	295,253
Selling, general and administrative expenses	103,638	25,774	50,161		179,573
Operating income	77,425	11,173	27,699	(617)	115,680
Other income (deductions):					
Interest expense	(11,975)	(5)	(1,602)	423	(13,159)
Interest income	423	500	1,296	(423)	1,796
Miscellaneous	21	57	(420)		(342)
	(11,531)	552	(726)		(11,705)
Earnings before income taxes, minority interest, and equity in earnings of nonconsolidated subsidiaries	65,894	11,725	26,973	(617)	103,975
Income tax expense:					
Current	19,087	4,554	7,216		30,857
Deferred	2,026	(542)	(931)		553
	21,113	4,012	6,285		31,410
Earnings before minority interest, and equity in earnings of nonconsolidated subsidiaries	44,781	7,713	20,688	(617)	72,565
Minority interest			(1,355)		(1,355)
Equity in earnings of nonconsolidated subsidiaries	27,417		198	(27,243)	372
Net earnings	$ 72,198	$ 7,713	$ 19,531	$ (27,860)	$ 71,582

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

8. Guarantor/Non-Guarantor Financial Information (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS
September 27, 2008

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 14,312	$ 1,467	$ 52,316	$	$ 68,095
Receivables, net	123,027	49,471	146,225		318,723
Inventories	125,427	62,802	125,371		313,600
Prepaid expenses	4,730	865	14,017		19,612
Refundable and deferred income taxes	20,890	3,777	7,556		32,223
Total current assets	288,386	118,382	345,485		752,253
Property, plant and equipment, at cost	382,230	86,703	162,798		631,731
Less accumulated depreciation and amortization	242,241	37,617	86,663		366,521
Net property, plant and equipment	139,989	49,086	76,135		265,210
Goodwill	20,108	105,518	42,961		168,587
Other intangible assets	630	77,290	16,405		94,325
Investment in subsidiaries and intercompany accounts	590,497	20,410	(39,648)	(571,259)	
Other assets	17,840		4,678		22,518
Total assets	$ 1,057,450	$ 370,686	$ 446,016	$ (571,259)	$ 1,302,893
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current installments of long-term debt	$ 830	$ 24	$ 1,487	$	$ 2,341
Notes payable to banks	16,000		12,234		28,234
Accounts payable	86,205	18,217	72,680		177,102
Accrued expenses	72,338	11,506	46,655		130,499
Dividends payable	3,399				3,399
Total current liabilities	178,772	29,747	133,056		341,575
Deferred income taxes	9,349	21,602	6,928		37,879
Long-term debt, excluding current installments	251,572	13	13,501		265,086
Other noncurrent liabilities	21,138		3,009		24,147
Minority interest in consolidated subsidiaries			19,710		19,710
Shareholders' equity:					
Common stock of $1 par value	27,900	14,249	3,492	(17,741)	27,900

Additional paid-in capital		181,542	113,739	(295,281)	
Retained earnings	596,137	123,533	136,241	(258,237)	597,674
Accumulated other comprehensive loss			16,340		16,340
Treasury stock	(27,418)				(27,418)
Total shareholders' equity	596,619	319,324	269,812	(571,259)	614,496
Total liabilities and shareholders' equity	$ 1,057,450	$ 370,686	$ 446,016	$ (571,259)	$ 1,302,893

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

8. Guarantor/Non-Guarantor Financial Information

CONDENSED CONSOLIDATED BALANCE SHEETS

December 29, 2007

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 58,344	$ 464	$ 47,724	$	$ 106,532
Receivables, net	101,637	34,141	118,694		254,472
Inventories	87,887	50,248	81,858		219,993
Prepaid expenses	4,636	474	12,624		17,734
Refundable and deferred income taxes	13,407	3,351	6,108		22,866
Total current assets	265,911	88,678	267,008		621,597
Property, plant and equipment, at cost	359,003	79,631	143,381		582,015
Less accumulated depreciation and amortization	231,838	34,535	82,958		349,331
Net property, plant and equipment	127,165	45,096	60,423		232,684
Goodwill	20,108	73,375	22,649		116,132
Other intangible assets	670	50,533	7,140		58,343
Investment in subsidiaries and intercompany accounts	409,892	66,674	(18,986)	(457,580)	
Other assets	19,137		4,720		23,857
Total assets	$ 842,883	$ 324,356	$ 342,954	$ (457,580)	$ 1,052,613
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current installments of long-term debt	$ 20,183	$ 32	$ 2,295	$	$ 22,510
Notes payable to banks			15,005		15,005
Accounts payable	47,570	13,307	67,722		128,599
Accrued expenses	60,066	7,991	34,141		102,198
Dividends payable	2,724				2,724
Total current liabilities	130,543	21,330	119,163		271,036
Deferred income taxes	10,566	20,778	4,203		35,547
Long-term debt, excluding current installments	185,274	6	15,458		200,738
Other noncurrent liabilities	20,504		3,802		24,306
Minority interest in consolidated subsidiaries			10,373		10,373
Shareholders' equity:					

Common stock of $1 par value	27,900	14,249	3,492	(17,741)	27,900
Additional paid-in capital		159,082	67,055	(226,137)	
Retained earnings	498,767	108,911	102,412	(213,702)	496,388
Accumulated other comprehensive income			16,996		16,996
Treasury stock	(30,671)				(30,671)
Total shareholders' equity	495,996	282,242	189,955	(457,580)	510,613
Total liabilities and shareholders' equity	$ 842,883	$ 324,356	$ 342,954	$ (457,580)	$ 1,052,613

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

8. Guarantor/Non-Guarantor Financial Information (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Thirty-nine Weeks Ended September 27, 2008

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Cash flows from operating activities:					
Net earnings	$ 102,698	$ 14,623	$ 33,828	$ (47,202)	$ 103,947
Adjustments to reconcile net earnings to net cash flows from operations:					
Depreciation and amortization	12,556	8,116	8,409		29,081
Stock based compensation	3,869				3,869
(Gain)/ Loss on sale of property, plant and equipment	29	42	(448)		(377)
Equity in (earnings)/losses of nonconsolidated subsidiaries	(330)		(39)		(369)
Minority interest	328		2,836		3,164
Deferred income taxes	(8,698)	398	(2,135)		(10,435)
Other adjustments	(4)		(836)		(840)
Payment of deferred compensation	(589)				(589)
Changes in assets and liabilities:					
Receivables	(21,390)	(4,568)	(23,151)		(49,109)
Inventories	(37,540)	(4,631)	(36,492)		(78,663)
Prepaid expenses	(94)	(96)	162		(28)
Accounts payable	29,130	1,502	3,878		34,510
Accrued expenses	12,645	1,199	10,308		24,152
Other noncurrent liabilities	(1,502)		72		(1,430)
Income taxes payable	11,209		(1,098)		10,111
Net cash flows from operating activities	102,317	16,585	(4,706)	(47,202)	66,994
Cash flows from investing activities:					
Purchase of property, plant and equipment	(24,910)	(2,626)	(11,388)		(38,924)
Proceeds from sale of assets	726	65	2,342		3,133
Acquisitions, net of cash acquired	(849)	(84,065)	(34,130)		(119,044)
Dividends to minority interests			(184)		(184)
Other, net	(181,320)	71,141	62,378	47,202	(599)
Net cash flows from investing activities	(206,353)	(15,485)	19,018	47,202	(155,618)
Cash flows from financing activities:					
Net borrowings under short-term agreements	16,000		(5,605)		10,395
Proceeds from long-term borrowings	80,000		895		80,895
Principal payments on long-term obligations	(33,055)	(97)	(5,635)		(38,787)
Dividends paid	(8,852)				(8,852)
Proceeds from exercises under stock plans	6,689				6,689

Excess tax benefits from stock option exercises	7,117			7,117
Purchase of common treasury shares stock plan exercises	(7,895)			(7,895)
Net cash flows from financing activities	60,004	(97)	(10,345)	49,562
Effect of exchange rate changes on cash and cash equivalents			625	625
Net change in cash and cash equivalents	(44,032)	1,003	4,592	(38,437)
Cash and cash equivalents beginning of year	58,344	464	47,724	106,532