

VALMONT INDUSTRIES INC
Form 10-Q
July 30, 2014

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 28, 2014

or

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

For the transition period from _____ to _____

Commission file number 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)

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(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 Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting company)

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

26,193,724

Outstanding shares of common stock as of July 22, 2014

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VALMONT INDUSTRIES, INC.

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Dollars in thousands, except per share amounts)

(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Product sales	\$ 766,844	\$ 794,341	\$ 1,447,887	\$ 1,534,788
Services sales	75,755	84,318	146,452	163,501
Net sales	842,599	878,659	1,594,339	1,698,289
Product cost of sales	573,067	563,306	1,070,910	1,092,467
Services cost of sales	49,055	53,882	95,970	108,982
Total cost of sales	622,122	617,188	1,166,880	1,201,449
Gross profit	220,477	261,471	427,459	496,840
Selling, general and administrative expenses	115,701	117,206	223,835	234,385
Operating income	104,776	144,265	203,624	262,455
Other income (expenses):				
Interest expense	(8,304)	(8,025)	(16,501)	(16,215)
Interest income	1,577	1,852	3,316	3,205
Other	1,903	123	(3,909)	1,679
	(4,824)	(6,050)	(17,094)	(11,331)
Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries	99,952	138,215	186,530	251,124
Income tax expense (benefit):				
Current	26,117	48,210	59,055	86,870
Deferred	7,953	(1,042)	5,030	(4,729)
	34,070	47,168	64,085	82,141

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Earnings before equity in earnings of nonconsolidated subsidiaries	65,882	91,047	122,445	168,983
Equity in earnings of nonconsolidated subsidiaries	(30)	269	(30)	473

Net earnings	65,852	91,316	122,415	169,456
Less: Earnings attributable to noncontrolling interests	(1,876)	(1,753)	(2,459)	(2,324)

Net earnings attributable to Valmont Industries, Inc.	\$ 63,976	\$ 89,563	\$ 119,956	\$ 167,132
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Earnings per share:				
Basic	\$ 2.40	\$ 3.36	\$ 4.50	\$ 6.28

Diluted	\$ 2.38	\$ 3.33	\$ 4.46	\$ 6.22
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Cash dividends declared per share	\$ 0.375	\$ 0.250	\$ 0.625	\$ 0.475
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Weighted average number of shares of common stock outstanding Basic (000 omitted)	26,623	26,648	26,669	26,615
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Weighted average number of shares of common stock outstanding Diluted (000 omitted)	26,856	26,910	26,903	26,884
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See accompanying notes to condensed consolidated financial statements.

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net earnings	\$ 65,852	\$ 91,316	\$ 122,415	\$ 169,456
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments:				
Unrealized translation gain (loss)	13,869	(52,962)	25,506	(62,582)
Realized loss included in net earnings during the period				(5,194)
Unrealized loss on cash flow hedge:				
Amortization cost included in interest expense	(33)	100	67	200
Actuarial gain (loss) in defined benefit pension plan	(614)	42	(847)	(894)
Other comprehensive income (loss)	13,222	(52,820)	24,726	(68,470)
Comprehensive income	79,074	38,496	147,141	100,986
Comprehensive loss (income) attributable to noncontrolling interests	(1,792)	1,549	(1,704)	3,189
Comprehensive income attributable to Valmont Industries, Inc.	\$ 77,282	\$ 40,045	\$ 145,437	\$ 104,175

See accompanying notes to condensed consolidated financial statements.

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	June 28, 2014	December 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 455,927	\$ 613,706
Receivables, net	543,608	515,440
Inventories	381,943	380,000
Prepaid expenses	66,916	22,997
Refundable and deferred income taxes	71,334	65,697
Total current assets	1,519,728	1,597,840
Property, plant and equipment, at cost	1,160,142	1,017,126
Less accumulated depreciation and amortization	521,288	482,916
Net property, plant and equipment	638,854	534,210
Goodwill	368,405	349,632
Other intangible assets, net	195,359	170,917
Other assets	136,258	123,895
Total assets	\$ 2,858,604	\$ 2,776,494

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current installments of long-term debt	\$ 188	\$ 202
Notes payable to banks	17,485	19,024
Accounts payable	208,834	216,121
Accrued employee compensation and benefits	95,365	122,967
Accrued expenses	91,631	71,560
Dividends payable	9,930	6,706
Total current liabilities	423,433	436,580
Deferred income taxes	95,674	78,924

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Long-term debt, excluding current installments	478,498	470,907
Defined benefit pension liability	143,114	154,397
Deferred compensation	48,292	39,109
Other noncurrent liabilities	54,503	51,731
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; 27,900,000 issued	27,900	27,900
Retained earnings	1,672,287	1,562,670
Accumulated other comprehensive income (loss)	(22,204)	(47,685)
Treasury stock	(95,714)	(20,860)
Total Valmont Industries, Inc. shareholders' equity	1,582,269	1,522,025
Noncontrolling interest in consolidated subsidiaries	32,821	22,821
Total shareholders' equity	1,615,090	1,544,846
Total liabilities and shareholders' equity	\$ 2,858,604	\$ 2,776,494

See accompanying notes to condensed consolidated financial statements.

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Twenty-six Weeks Ended	
	June 28, 2014	June 29, 2013
Cash flows from operating activities:		
Net earnings	\$ 122,415	\$ 169,456
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization	43,368	38,186
Loss on investment	3,501	
Stock-based compensation	3,686	3,342
Defined benefit pension plan expense	1,334	3,245
Contribution to defined benefit pension plan	(17,484)	(10,346)
Gain on sale of property, plant and equipment	(102)	(5,071)
Equity in earnings in nonconsolidated subsidiaries	30	(473)
Deferred income taxes	5,030	(4,729)
Changes in assets and liabilities (net of acquisitions):		
Receivables	21,083	(3,331)
Inventories	6,624	(2,491)
Prepaid expenses	(18,289)	(5,910)
Accounts payable	(28,633)	736
Accrued expenses	(30,415)	2,916
Other noncurrent liabilities	1,766	1,873
Income taxes refundable	(22,063)	(11,810)
Net cash flows from operating activities	91,851	175,593
Cash flows from investing activities:		
Purchase of property, plant and equipment	(46,991)	(54,258)
Proceeds from sale of assets	1,151	39,054
Acquisitions, net of cash acquired	(120,483)	(53,152)
Other, net	(2,940)	(133)
Net cash flows from investing activities	(169,263)	(68,489)
Cash flows from financing activities:		
Net borrowings under short-term agreements	(1,861)	2,620
Proceeds from long-term borrowings		68
Principal payments on long-term borrowings	(259)	(303)
Dividends paid	(13,427)	(12,021)
Dividends to noncontrolling interest	(1,340)	(1,767)
Proceeds from exercises under stock plans	11,996	14,098
Excess tax benefits from stock option exercises	3,576	305
Purchase of treasury shares	(77,084)	
Purchase of common treasury shares stock plan exercises	(11,984)	(13,602)

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Net cash flows from financing activities	(90,383)	(10,602)
Effect of exchange rate changes on cash and cash equivalents	10,016	(20,154)
Net change in cash and cash equivalents	(157,779)	76,348
Cash and cash equivalents beginning of year	613,706	414,129
Cash and cash equivalents end of period	\$ 455,927	\$ 490,477

See accompanying notes to condensed consolidated financial statements.

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest in consolidated subsidiaries	Total shareholders' equity
Balance at December 29, 2012	\$ 27,900	\$	\$ 1,300,529	\$ 43,938	\$ (22,455)	\$ 57,098	\$ 1,407,010
Net earnings			167,132			2,324	169,456
Other comprehensive income (loss)				(62,957)		(5,513)	(68,470)
Cash dividends declared			(12,713)				(12,713)
Dividends to noncontrolling interests						(1,767)	(1,767)
Acquisition of Locker						325	325
Stock plan exercises; 85,874 shares acquired					(13,602)		(13,602)
Stock options exercised; 177,902 shares issued		(3,647)	3,378		14,367		14,098
Tax benefit from stock option exercises		305					305
Stock option expense		2,627					2,627
Stock awards; 2,667 shares issued		715			373		1,088
 Balance at June 29, 2013	 \$ 27,900	 \$	 \$ 1,458,326	 \$ (19,019)	 \$ (21,317)	 \$ 52,467	 \$ 1,498,357
 Balance at December 28, 2013	 \$ 27,900	 \$	 \$ 1,562,670	 \$ (47,685)	 \$ (20,860)	 \$ 22,821	 \$ 1,544,846
Net earnings			119,956			2,459	122,415
Other comprehensive income (loss)				25,481		(755)	24,726
Cash dividends declared			(16,651)				(16,651)
Dividends to noncontrolling interests						(1,340)	(1,340)
Acquisition of DS SM						9,232	9,232
Addition of noncontrolling interest						404	404
Purchase of treasury shares; 490,172 shares acquired					(77,084)		(77,084)
Stock plan exercises; 78,217 shares acquired					(11,984)		(11,984)
Stock options exercised; 158,317 shares issued		(7,262)	6,312		12,946		11,996
Tax benefit from stock option exercises		3,576					3,576
Stock option expense		2,525					2,525
Stock awards; 8,822 shares issued		1,161			1,268		2,429
 Balance at June 28, 2014	 \$ 27,900	 \$	 \$ 1,672,287	 \$ (22,204)	 \$ (95,714)	 \$ 32,821	 \$ 1,615,090

See accompanying notes to condensed consolidated financial statements.

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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 June 28, 2014, the Condensed Consolidated Statements of Earnings and Comprehensive Income for the thirteen and twenty-six weeks ended June 28, 2014 and June 29, 2013, and the Condensed Consolidated Statements of Cash Flows and Shareholders' Equity for the twenty-six 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 June 28, 2014 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 28, 2013. 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 28, 2013. The results of operations for the period ended June 28, 2014 are not necessarily indicative of the operating results for the full year.

Inventories

Approximately 41% and 43% of inventory is valued at the lower of cost, determined on the last-in, first-out (LIFO) method, or market as of June 28, 2014 and December 28, 2013, respectively. All other inventory is valued at the lower of cost, determined on the first-in, first-out (FIFO) method or market. Finished goods and manufactured goods inventories include the costs of acquired raw materials and related factory labor and overhead charges required to convert raw materials to manufactured and finished goods. The excess of replacement cost of inventories over the LIFO value is approximately \$47,141 and \$45,204 at June 28, 2014 and December 28, 2013, respectively.

Inventories consisted of the following:

	June 28, 2014	December 28, 2013
Raw materials and purchased parts	\$ 178,366	\$ 179,576
Work-in-process	27,242	27,294
Finished goods and manufactured goods	223,476	218,334
Subtotal	429,084	425,204
Less: LIFO reserve	47,141	45,204
	\$ 381,943	\$ 380,000

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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)

Income Taxes

Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries for the thirteen and twenty-six weeks ended June 28, 2014 and June 29, 2013, were as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	2014	2013	2014	2013
United States	\$ 65,096	\$ 98,684	\$ 136,790	\$ 187,421
Foreign	34,856	39,531	49,740	63,703
	\$ 99,952	\$ 138,215	\$ 186,530	\$ 251,124

Pension Benefits

The Company incurs expenses in connection with the Delta Pension Plan ("DPP"). The DPP was acquired as part of the Delta plc acquisition in fiscal 2010 and has no members that are active employees. In order to measure expense and the related benefit obligation, various assumptions are made including discount rates used to value the obligation, expected return on plan assets used to fund these expenses and estimated future inflation rates. These assumptions are based on historical experience as well as current facts and circumstances. An actuarial analysis is used to measure the expense and liability associated with pension benefits.

The components of the net periodic pension expense for the thirteen and twenty-six weeks ended June 28, 2014 and June 29, 2013 were as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	2014	2013	2014	2013
Net periodic benefit expense:				
Interest cost	\$ 7,312	\$ 6,487	\$ 14,509	\$ 13,058
Expected return on plan assets	(6,640)	(4,875)	(13,175)	(9,813)
Net periodic benefit expense	\$ 672	\$ 1,612	\$ 1,334	\$ 3,245

Stock Plans

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The Company maintains stock-based compensation plans approved by the shareholders, which provide that the Human Resource Committee of the Board of Directors may grant incentive stock options, nonqualified stock options, stock appreciation rights, non-vested stock awards and bonuses of common stock. At June 28, 2014, 1,463,096 shares of common stock remained available for issuance under the plans. Shares and options issued and available are subject to changes in capitalization.

Under the plans, the exercise price of each option equals the closing market price at the date 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.

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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)

Expiration of grants is from six to ten years from the date of grant. The Company's compensation expense (included in selling, general and administrative expenses) and associated income tax benefits related to stock options for the thirteen and twenty-six weeks ended June 28, 2014 and June 29, 2013, respectively, were as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	2014	2013	2014	2013
Compensation expense	\$ 1,262	\$ 1,314	\$ 2,525	\$ 2,627
Income tax benefits	486	505	972	1,011

Equity Method Investments

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

Fair Value

The Company applies the provisions of Accounting Standards Codification 820, *Fair Value Measurements* ("ASC 820") which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of ASC 820 apply to other accounting pronouncements that require or permit fair value measurements. As defined in ASC 820, 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.

ASC 820 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 refer 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.

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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)

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

Trading Securities: The assets and liabilities recorded for the investments held in the Valmont Deferred Compensation Plan of \$35,852 (\$27,133 at December 2013) represent mutual funds, invested in debt and equity securities, classified as trading securities in accordance with Accounting Standards Codification 320, *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. The Company's ownership in Delta EMD Pty. Ltd. (JSE:DTA) of \$10,114 and \$13,910 is recorded at fair value at June 28, 2014 and December 28, 2013, respectively. Quoted market prices are available for these securities in an active market and therefore categorized as a Level 1 input.

	Carrying Value June 28, 2014	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	\$ 45,966	\$ 45,966	\$	\$

	Carrying Value December 28, 2013	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	\$ 41,043	\$ 41,043	\$	\$

Comprehensive Income

Comprehensive income includes net earnings, currency translation adjustments, certain derivative-related activity and changes in net actuarial gains/losses from a pension plan. Results of operations for foreign subsidiaries are translated using the average exchange rates during the period. Assets and liabilities are translated at the exchange rates in effect on the balance sheet dates. Accumulated other comprehensive income (loss) consisted of the following at June 28, 2014 and December 28, 2013:

	Foreign Currency Translation Adjustments	Unrealized Loss on Cash Flow Hedge	Defined Benefit Pension Plan	Accumulated Other Comprehensive Income
Balance at December 28, 2013	\$ (20,165)	\$ (2,535)	\$ (24,985)	\$ (47,685)
Current-period comprehensive income (loss)	26,261	67	(847)	25,481
Balance at June 28, 2014	\$ 6,096	\$ (2,468)	\$ (25,832)	\$ (22,204)

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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)

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, *Revenue Recognition*. The new revenue recognition standard requires entities to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2016 and is to be applied retrospectively. Early application is not permitted. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations and financial position.

(2) ACQUISITIONS

On March 3, 2014, the Company purchased 90% of the outstanding shares of DS SM A/S, which was renamed Valmont SM. Valmont SM is a manufacturer of heavy complex steel structures for a diverse range of industries including wind energy, offshore oil and gas, and electricity transmission. Valmont SM's operations are reported in the Engineered Infrastructure Products Segment. Valmont SM's annual sales are approximately \$190,000 and it operates two manufacturing locations in Denmark. The purchase price paid for the business at closing (net of \$56 cash acquired) was \$120,483, including the payoff of an intercompany note payable by Valmont SM to its prior affiliates. The purchase is subject to an earn-out clause that is contingent on meeting future operational metrics for which no liability has been established based on current expectations. Additionally, the fair value measurements are subject to a trade working capital adjustment that has not yet been finalized. The acquisition, which was funded by cash held by the Company, was completed to participate in markets for wind energy, oil and gas exploration, power transmission and other related infrastructure projects and to increase the Company's geographic footprint in Europe. The Company also funded a portion of the acquisition with an intercompany note payable. The excess purchase price over the fair value of assets resulted in goodwill, which is not deductible for tax purposes.

The preliminary fair value measurement disclosed below is subject to management reviews and completion of the fair value measurements of the assets acquired and liabilities assumed. The Company expects the fair value measurement process and purchase price allocation to be completed in the third quarter of 2014 in conjunction with the finalization of the trade working capital settlement.

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

(2) ACQUISITIONS (Continued)

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

	At March 3, 2014
Current assets	\$ 73,421
Property, plant and equipment	88,917
Intangible assets	30,340
Goodwill	11,846
Total fair value of assets acquired	\$ 204,524
Current liabilities	50,953
Deferred income taxes	14,915
Intercompany note payable	37,448
Long-term debt	8,941
Total fair value of liabilities assumed	112,257
Non-controlling interests	9,232
Net assets acquired	\$ 83,035

The Company's Condensed Consolidated Statements of Earnings for the thirteen and twenty-six weeks ended June 28, 2014 included net sales of \$47,217 and \$64,521 and net earnings of \$2,925 and \$4,102, respectively, resulting from Valmont SM's operations from March 3, 2014 to June 28, 2014. No proforma information for 2014 has been provided as it does not have a material effect on the financial statements.

Based on the preliminary fair value assessments, the Company allocated \$30,340 of the purchase price to acquired intangible assets. The following table summarizes the major classes of Valmont SM's acquired intangible assets and the respective weighted average amortization periods:

	Amount	Weighted Average Amortization Period (Years)
Trade Names	\$ 12,210	Indefinite
Backlog	3,145	1.5
Customer Relationships	14,985	15.0

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Total Intangible Assets \$ 30,340

On February 5, 2013, the Company purchased 100% of the outstanding shares of Locker Group Holdings Pty. Ltd. ("Locker"). Locker is a manufacturer of perforated and expanded metal for the non-residential market, industrial flooring and handrails for the access systems market, and screening media for applications in the industrial and mining sectors in Australia and Asia. Locker's operations are reported in the Engineered Infrastructure Products Segment. The purchase price paid for the

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

(2) ACQUISITIONS (Continued)

business at closing (net of \$116 cash acquired) was \$53,152. In addition, a maximum of \$7,911 additional purchase price may be paid to the sellers upon the achievement of certain gross profit and inventory targets over the next two years. The Company determined the present value of the potential additional purchase price at February 5, 2013 to be \$7,178. The acquisition, which was funded by cash held by the Company, was completed to expand our product offering and sales coverage for access systems and related products in Asia Pacific.

In December 2013, the Company purchased 100% of the outstanding shares of Armorflex International Ltd. ("Armorflex") for \$10,000. Armorflex is a company holding proprietary intellectual property for products serving the highway safety market. In the measurement of fair values of assets acquired and liabilities assumed, we recorded goodwill of \$6,823 and an aggregate of \$3,792 for customer relationships, patented technology and other intangible assets. The goodwill is not deductible for tax purposes. Armorflex is included in the Engineered Infrastructure Products segment and was acquired to expand the Company's highway safety product offerings in the Asia Pacific region. This acquisition did not have a significant effect on the Company's fiscal 2013 financial results.

The Company's Condensed Consolidated Statement of Earnings for the thirteen and twenty-six weeks ended June 28, 2014 included net sales of \$69,473 and \$104,054 and net earnings of \$3,888 and \$5,574 resulting from the Valmont SM, Locker, and Armorflex acquisitions. The pro forma effect of these acquisitions on the second quarter and first half of 2013 Statement of Earnings was as follows:

	Thirteen weeks Ended June 29, 2013	Twenty-six weeks Ended June 29, 2013
Net sales	\$ 929,722	\$ 1,797,577
Net earnings	\$ 92,791	\$ 172,224
Earnings per share diluted	\$ 3.44	\$ 6.41

(3) GOODWILL AND INTANGIBLE ASSETS

Amortized Intangible Assets

The components of amortized intangible assets at June 28, 2014 and December 28, 2013 were as follows:

	June 28, 2014		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Life
Customer Relationships	\$ 194,824	\$ 84,034	13 years
Proprietary Software & Database	3,977	2,985	5 years
Patents & Proprietary Technology	11,397	8,148	8 years
Other	4,731	2,153	3 years
	\$ 214,929	\$ 97,320	

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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)

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

Amortization expense for intangible assets for the thirteen and twenty-six weeks ended June 28, 2014 and June 29, 2013, respectively was as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	2014	2013	2014	2013
	\$ 4,634	\$ 3,458	\$ 8,737	\$ 7,696

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

	Estimated Amortization Expense
2014	\$ 18,243
2015	17,436
2016	15,470
2017	15,421
2018	13,738

The useful lives assigned to finite-lived 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.

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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)

Non-amortized intangible assets

Intangible assets with indefinite lives are not amortized. The carrying values of trade names at June 28, 2014 and December 28, 2013 were as follows:

	June 28, 2014	December 28, 2013	Year Acquired
Webforge	\$ 18,389	\$ 17,787	2010
Valmont SM	12,059		2014
Newmark	11,111	11,111	2004
Ingal EPS/Ingal Civil Products	9,705	9,387	2010
Donhad	7,322	7,082	2010
Industrial Galvanizers	4,257	4,117	2010
Other	14,907	14,685	
	\$ 77,750	\$ 64,169	

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.

The Company's trade names were tested for impairment in the third quarter of 2013 (exclusive of Valmont SM acquired in the first quarter of 2014). 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.

Goodwill

The carrying amount of goodwill by segment as of June 28, 2014 and December 28, 2013 was as follows:

	Engineered Infrastructure Products Segment	Utility Support Structures Segment	Coatings Segment	Irrigation Segment	Other	Total
Balance at December 28, 2013	\$ 175,442	\$ 75,404	\$ 77,062	\$ 2,420	\$ 19,304	\$ 349,632
Acquisitions	11,846					11,846
Foreign currency translation	5,548		679	46	654	6,927

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Balance at June 28, 2014 \$ 192,836 \$ 75,404 \$ 77,741 \$ 2,466 \$ 19,958 \$ 368,405

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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)

The goodwill from acquisitions arose from the acquisition of Valmont SM in the first quarter of 2014. The Company's goodwill was tested for impairment during the third quarter of 2013. As a result of that testing, the Company determined that its goodwill was not impaired, as the valuation of the reporting units exceeded their respective carrying values. The Company continues to monitor changes in the global economy that could impact future operating results of its reporting units. If such conditions arise, the Company will test a given reporting unit for impairment prior to the annual test.

(4) CASH FLOW SUPPLEMENTARY INFORMATION

The Company considers all highly liquid temporary cash investments purchased with an original maturity of three months or less at the time of purchase to be cash equivalents. Cash payments for interest and income taxes (net of refunds) for the twenty-six weeks ended June 28, 2014 and June 29, 2013 were as follows:

	2014	2013
Interest	\$ 16,564	\$ 16,329
Income taxes	77,691	103,604

On May 13, 2014, the Company announced a new capital allocation philosophy which increased the dividend by 50% and covered a share repurchase program of up to \$500 million of the Company's outstanding common stock to be acquired from time to time over twelve months at prevailing market prices, through open market or privately-negotiated transactions. As of June 28, 2014, the Company has acquired 490,172 shares for approximately \$77.1 million.

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

(5) EARNINGS PER SHARE

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

	Basic EPS	Dilutive Effect of Stock Options	Diluted EPS
Thirteen weeks ended June 28, 2014:			
Net earnings attributable to Valmont Industries, Inc.	\$ 63,976	\$	\$ 63,976
Shares outstanding	26,623	233	26,856
Per share amount	\$ 2.40	\$ (0.02)	\$ 2.38
Thirteen weeks ended June 29, 2013:			
Net earnings attributable to Valmont Industries, Inc.	\$ 89,563	\$	\$ 89,563
Shares outstanding	26,648	262	26,910
Per share amount	\$ 3.36	\$ (0.03)	\$ 3.33
Twenty-six weeks ended June 28, 2014:			
Net earnings attributable to Valmont Industries, Inc.	\$ 119,956	\$	\$ 119,956
Shares outstanding	26,669	234	26,903
Per share amount	\$ 4.50	\$ (0.04)	\$ 4.46
Twenty-six weeks ended June 29, 2013:			
Net earnings attributable to Valmont Industries, Inc.	\$ 167,132	\$	\$ 167,132
Shares outstanding	26,615	269	26,884
Per share amount	\$ 6.28	\$ (0.06)	\$ 6.22

(6) BUSINESS SEGMENTS

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

Reportable segments are as follows:

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

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

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

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

(6) BUSINESS SEGMENTS (Continued)

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

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

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

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

(6) BUSINESS SEGMENTS (Continued)

Summary by Business

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
SALES:				
Engineered Infrastructure Products segment:				
Lighting, Traffic, and Roadway Products	\$ 164,753	\$ 161,487	\$ 303,730	\$ 308,657
Communication Products	43,618	34,771	73,504	63,393
Offshore Structures	47,217		64,521	
Access Systems	48,764	54,378	91,059	102,256
Engineered Infrastructure Products segment	304,352	250,636	532,814	474,306
Utility Support Structures segment:				
Steel	179,574	200,650	371,011	411,661
Concrete	33,456	27,593	56,746	56,220
Utility Support Structures segment	213,030	228,243	427,757	467,881
Coatings segment	85,157	93,798	167,328	183,043
Irrigation segment	219,917	270,175	432,650	514,882
Other	61,786	83,679	120,388	161,548
Total	884,242	926,531	1,680,937	1,801,660
INTERSEGMENT SALES:				
Engineered Infrastructure Products segment	18,166	22,169	37,731	51,621
Utility Support Structures segment	1,025	299	1,520	710
Coatings segment	14,770	14,448	29,723	28,778
Irrigation segment	4	1	13	1
Other	7,678	10,955	17,611	22,261
Total	41,643	47,872	86,598	103,371
NET SALES:				
Engineered Infrastructure Products segment	286,186	228,467	495,083	422,685
Utility Support Structures segment	212,005	227,944	426,237	467,171
Coatings segment	70,387	79,350	137,605	154,265
Irrigation segment	219,913	270,174	432,637	514,881
Other	54,108	72,724	102,777	139,287
Total	\$ 842,599	\$ 878,659	\$ 1,594,339	\$ 1,698,289

OPERATING INCOME:

Engineered Infrastructure Products segment	\$ 28,625	\$ 22,603	\$ 42,334	\$ 35,337
Utility Support Structures segment	26,375	42,121	59,132	88,276
Coatings segment	15,820	23,552	29,706	36,972
Irrigation segment	41,473	64,174	84,619	118,733
Other	8,343	13,025	16,893	23,812
Corporate	(15,860)	(21,210)	(29,060)	(40,675)
Total	\$ 104,776	\$ 144,265	\$ 203,624	\$ 262,455

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

(7) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION

The Company has \$450,000 principal amount of senior unsecured notes outstanding at a coupon interest rate of 6.625% per annum. The notes are guaranteed, jointly, severally, fully and unconditionally by certain of the Company's current and future direct and indirect domestic and foreign subsidiaries (collectively the "Guarantors"), excluding its other current domestic and foreign subsidiaries which do not guarantee the debt (collectively referred to as the "Non-Guarantors"). All Guarantors are 100% owned by the parent company.

In 2014, the Company classified "Equity in earnings of nonconsolidated subsidiaries" as an adjustment to reconcile net earnings to operating cash flows, as part of "Net cash flows from operating activities" in the Condensed Consolidating Statement of Cash Flows. In the 2013 Condensed Consolidating Statement of Cash Flows, these amounts were classified within "Other, net", as part of "Net cash flows from investing activities". The Company revised its presentation for 2013 with respect to the supplemental information included in this footnote in order to achieve comparability in the Condensed Consolidating Statements of Cash Flows.

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

The "Non-Guarantor" and "Total" columns were not affected by any of these revisions. There was also no effect on the consolidated (total) net cash flows or any other statements in this footnote. The following is a reconciliation of the columns affected for 2013.

	Parent As previously reported	Parent As revised	Guarantor As previously reported	Guarantor As revised	Eliminations As previously reported	Eliminations As revised
2013						
Cash flows from operating activities:						
Equity in earnings of nonconsolidated subsidiaries	\$ (266)	\$ (85,146)	\$ (42,385)	\$ (42,385)	\$	\$ 127,265
Net cash flows from operating activities	180,493	95,613	68,144	25,759	(124,172)	3,093
Cash flows from investing activities:						
Other, net	(53,317)	31,563	(99,472)	(57,087)	124,172	(3,093)
Net cash flows from investing activities	(74,677)	10,203	(118,009)	(75,624)	124,172	(3,093)

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

(7) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

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

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Thirteen weeks ended June 28, 2014

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$ 378,642	\$ 124,414	\$ 387,715	\$ (48,172)	\$ 842,599
Cost of sales	280,054	91,536	298,764	(48,232)	622,122
Gross profit	98,588	32,878	88,951	60	220,477
Selling, general and administrative expenses	50,164	12,670	52,867		115,701
Operating income	48,424	20,208	36,084	60	104,776
Other income (expense):					
Interest expense	(7,691)	(11,337)	(613)	11,337	(8,304)
Interest income	6	152	12,756	(11,337)	1,577
Other	1,754	140	9		1,903
	(5,931)	(11,045)	12,152		(4,824)
Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries	42,493	9,163	48,236	60	99,952
Income tax expense (benefit):					
Current	9,315	2,626	14,148	28	26,117
Deferred	7,672	2,079	(1,798)		7,953
	16,987	4,705	12,350	28	34,070
Earnings before equity in earnings of nonconsolidated subsidiaries	25,506	4,458	35,886	32	65,882
Equity in earnings of nonconsolidated subsidiaries					

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	38,470	16,964	(55,464)	(30)	
Net earnings	63,976	21,422	35,886	(55,432)	65,852
Less: Earnings attributable to noncontrolling interests			(1,876)		(1,876)
Net earnings attributable to Valmont Industries, Inc	\$ 63,976	\$ 21,422	\$ 34,010	\$ (55,432)	\$ 63,976

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

(7) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Twenty-six weeks ended June 28, 2014

	Parent	Guarantors	Non- Guarantors	Eliminations	Total
Net sales	\$ 755,284	\$ 260,311	\$ 687,996	\$ (109,252)	\$ 1,594,339
Cost of sales	551,813	191,352	533,398	(109,683)	1,166,880
Gross profit	203,471	68,959	154,598	431	427,459
Selling, general and administrative expenses	97,954	25,661	100,220		223,835
Operating income	105,517	43,298	54,378	431	203,624

Other income (expense):