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Vulcan Materials CO
Form 10-Q
November 03, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____

Commission File Number 001-33841

VULCAN MATERIALS COMPANY

(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation)

20-8579133
(I.R.S. Employer Identification No.)

1200 Urban Center Drive,
Birmingham, Alabama
(Address of principal executive
offices)

35242
(zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that

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the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Large accelerated filer AcceleratedSmaller reporting company
filer

Non-accelerated filer (Do not check if Emerging growth company
smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class	Shares outstanding at October 31, 2017
Common Stock, \$1 Par Value	132,284,484

VULCAN MATERIALS COMPANY

FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2017

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

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part I financial information

ITEM 1

FINANCIAL STATEMENTS

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited, except for December 31 in thousands	September 30 2017	December 31 2016	September 30 2016
Assets			
Cash and cash equivalents	\$ 701,163	\$ 258,986	\$ 135,365
Restricted cash	0	9,033	0
Accounts and notes receivable			
Accounts and notes receivable, gross	582,105	494,634	536,242
Less: Allowance for doubtful accounts	(2,903)	(2,813)	(4,260)
Accounts and notes receivable, net	579,202	491,821	531,982
Inventories			
Finished products	307,046	293,619	283,266
Raw materials	27,852	22,648	25,411
Products in process	1,652	1,480	2,753
Operating supplies and other	29,276	27,869	26,612
Inventories	365,826	345,616	338,042
Prepaid expenses	100,781	31,726	71,370
Total current assets	1,746,972	1,137,182	1,076,759
Investments and long-term receivables	35,999	39,226	38,914
Property, plant & equipment			
Property, plant & equipment, cost	7,539,928	7,185,818	7,105,036
Allowances for depreciation, depletion & amortization	(4,002,227)	(3,924,380)	(3,876,743)
Property, plant & equipment, net	3,537,701	3,261,438	3,228,293
Goodwill	3,101,337	3,094,824	3,094,824
Other intangible assets, net	835,269	769,052	753,314
Other noncurrent assets	182,056	169,753	165,981
Total assets	\$ 9,439,334	\$ 8,471,475	\$ 8,358,085
Liabilities			
Current maturities of long-term debt	4,827	138	131
Trade payables and accruals	181,207	145,042	163,139

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Other current liabilities	227,665	227,064	197,642
Total current liabilities	413,699	372,244	360,912
Long-term debt	2,809,966	1,982,751	1,983,639
Deferred income taxes, net	716,165	702,854	706,715
Deferred revenue	193,117	198,388	201,732
Other noncurrent liabilities	621,253	642,762	601,117
Total liabilities	\$ 4,754,200	\$ 3,898,999	\$ 3,854,115
Other commitments and contingencies (Note 8)			
Equity			
Common stock, \$1 par value, Authorized 480,000 shares, Outstanding 132,281, 132,339 and 132,309 shares, respectively	132,281	132,339	132,309
Capital in excess of par value	2,803,106	2,807,995	2,805,355
Retained earnings	1,886,006	1,771,518	1,685,412
Accumulated other comprehensive loss	(136,259)	(139,376)	(119,106)
Total equity	\$ 4,685,134	\$ 4,572,476	\$ 4,503,970
Total liabilities and equity	\$ 9,439,334	\$ 8,471,475	\$ 8,358,085

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

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

Unaudited in thousands, except per share data	Three Months Ended		Nine Months Ended	
	2017	September 30 2016	2017	September 30 2016
Total revenues	\$ 1,094,715	\$ 1,008,140	\$ 2,912,806	\$ 2,719,693
Cost of revenues	789,199	703,931	2,155,536	1,958,581
Gross profit	305,516	304,209	757,270	761,112
Selling, administrative and general expenses	73,350	76,311	238,263	235,460
Gain on sale of property, plant & equipment and businesses	1,488	2,023	4,630	2,934
Business interruption claims recovery	0	690	0	11,652
Impairment of long-lived assets	0	0	0	(10,506)
Other operating expense, net	(4,167)	(3,535)	(27,763)	(23,949)
Operating earnings	229,487	227,076	495,874	505,783
Other nonoperating income, net	1,784	990	5,677	325
Interest expense, net	82,041	33,126	154,572	100,192
Earnings from continuing operations before income taxes	149,230	194,940	346,979	405,916
Income tax expense	39,080	49,803	81,557	91,575
Earnings from continuing operations	110,150	145,137	265,422	314,341
Earnings (loss) on discontinued operations, net of tax	(1,571)	(3,113)	8,217	(7,451)
Net earnings	\$ 108,579	\$ 142,024	\$ 273,639	\$ 306,890
Other comprehensive income, net of tax				
Reclassification adjustment for cash flow hedges	1,188	307	1,836	902
Amortization of actuarial loss and prior service				
cost for benefit plans	427	20	1,281	61
Other comprehensive income	1,615	327	3,117	963
Comprehensive income	\$ 110,194	\$ 142,351	\$ 276,756	\$ 307,853
Basic earnings (loss) per share				
Continuing operations	\$ 0.83	\$ 1.09	\$ 2.00	\$ 2.36
Discontinued operations	(0.01)	(0.02)	0.07	(0.06)
Net earnings	\$ 0.82	\$ 1.07	\$ 2.07	\$ 2.30
Diluted earnings (loss) per share				
Continuing operations	\$ 0.82	\$ 1.07	\$ 1.97	\$ 2.31
Discontinued operations	(0.01)	(0.02)	0.06	(0.05)
Net earnings	\$ 0.81	\$ 1.05	\$ 2.03	\$ 2.26
Weighted-average common shares outstanding				

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Basic	132,484	133,019	132,510	133,418
Assuming dilution	134,765	135,823	134,853	135,932
Cash dividends per share of common stock	\$ 0.25	\$ 0.20	\$ 0.75	\$ 0.60
Depreciation, depletion, accretion and amortization	\$ 79,636	\$ 72,049	\$ 227,974	\$ 213,362
Effective tax rate from continuing operations	26.2%	25.5%	23.5%	22.6%

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

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited in thousands	Nine Months Ended	
	2017	September 30 2016
Operating Activities		
Net earnings	\$ 273,639	\$ 306,890
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation, depletion, accretion and amortization	227,974	213,362
Net gain on sale of property, plant & equipment and businesses	(4,630)	(2,934)
Contributions to pension plans	(17,638)	(7,126)
Share-based compensation expense	19,953	15,645
Deferred tax expense (benefit)	11,298	25,094
Cost of debt purchase	43,048	0
Changes in assets and liabilities before initial effects of business acquisitions and dispositions	(162,849)	(145,548)
Other, net	8,740	(774)
Net cash provided by operating activities	\$ 399,535	\$ 404,609
Investing Activities		
Purchases of property, plant & equipment	(366,845)	(287,440)
Proceeds from sale of property, plant & equipment	10,403	5,865
Payment for businesses acquired, net of acquired cash	(210,562)	(1,611)
Decrease in restricted cash	9,033	1,150
Other, net	405	2,488
Net cash used for investing activities	\$ (557,566)	\$ (279,548)
Financing Activities		
Proceeds from line of credit	5,000	3,000
Payment of line of credit	(5,000)	(3,000)
Payment of current maturities and long-term debt	(800,572)	(14)
Proceeds from issuance of long-term debt	1,600,000	0
Debt discounts and issuance costs	(15,046)	0
Purchases of common stock	(60,303)	(161,463)
Dividends paid	(99,263)	(79,865)
Share-based compensation, shares withheld for taxes	(24,608)	(32,414)
Net cash provided by (used for) financing activities	\$ 600,208	\$ (273,756)
Net increase (decrease) in cash and cash equivalents	442,177	(148,695)
Cash and cash equivalents at beginning of year	258,986	284,060
Cash and cash equivalents at end of period	\$ 701,163	\$ 135,365

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

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notes to condensed consolidated financial statements

Note 1: summary of significant accounting policies

NATURE OF OPERATIONS

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

We operate primarily in the United States and our principal product — aggregates — is used in virtually all types of public and private construction projects and in the production of asphalt mix and ready-mixed concrete. We serve markets in twenty states, Washington D.C., and the local markets surrounding our operations in Mexico and the Bahamas. Our primary focus is serving metropolitan markets in the United States that are expected to experience the most significant growth in population, households and employment. These three demographic factors are significant drivers of demand for aggregates. While aggregates is our focus and primary business, we produce and sell asphalt mix and/or ready-mixed concrete in our mid-Atlantic, Georgia, Southwestern, Tennessee and Western markets.

BASIS OF PRESENTATION

Our accompanying unaudited condensed consolidated financial statements were prepared in compliance with the instructions to Form 10-Q and Article 10 of Regulation S-X and thus do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Our Condensed Consolidated Balance Sheet as of December 31, 2016 was derived from the audited financial statement, but it does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of our management, the statements reflect all adjustments, including those of a normal recurring nature, necessary to present fairly the results of the reported interim periods. Operating results for the three and nine month periods ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. For further information, refer to the consolidated financial statements and footnotes included in our most recent Annual Report on Form 10-K.

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

SHARE-BASED COMPENSATION – ACCOUNTING STANDARDS UPDATE

We adopted Accounting Standards Update (ASU) 2016-09, “Improvement to Employee Share-Based Payment Accounting,” in the fourth quarter of 2016. The provisions of this standard were applied as of the beginning of the year of adoption resulting in revisions to our 2016 interim financial statements.

Under ASU 2016-09, tax benefits resulting from tax deductions in excess of the compensation cost recognized (excess tax benefits) are reflected as discrete income tax benefits in the period of exercise or issuance. Before the adoption of this standard, excess tax benefits were recorded directly to equity (APIC). Net excess tax benefits are reflected as a reduction to our income tax expense for the three and nine months ended September 30, 2017 (\$4,001,000 and \$20,759,000, respectively) and revised three and nine months ended September 30, 2016 (\$2,259,000 and \$24,451,000, respectively). As a result, we also revised our September 30, 2016 diluted share calculation to exclude the assumption that proceeds from excess tax benefits would be used to purchase shares, resulting in an increase in dilutive shares of 790,000 for the quarter and 740,000 year-to-date.

Under ASU 2016-09, gross excess tax benefits are classified as operating cash flows rather than financing cash flows. As a result, for the nine months ended September 30, 2016 we increased our operating cash flows and decreased our financing cash flows by \$26,747,000. Additionally, this ASU requires cash paid for shares withheld to satisfy statutory income tax withholding obligations be classified as financing activities rather than operating activities. As a result, for the nine months ended September 30, 2016 we increased our operating cash flows and decreased our financing cash flows by \$32,414,000.

RECLASSIFICATIONS

Certain items previously reported in specific financial statement captions have been reclassified to conform with the 2017 presentation.

EARNINGS PER SHARE (EPS)

Earnings per share are computed by dividing net earnings by the weighted-average common shares outstanding (basic EPS) or weighted-average common shares outstanding assuming dilution (diluted EPS), as set forth below:

in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Weighted-average common shares outstanding	132,484	133,019	132,510	133,418
Dilutive effect of				
Stock-Only Stock Appreciation Rights	1,249	1,356	1,305	1,322
Other stock compensation plans	1,032	1,448	1,038	1,192
Weighted-average common shares outstanding, assuming dilution	134,765	135,823	134,853	135,932

All dilutive common stock equivalents are reflected in our earnings per share calculations. In periods of loss, shares that otherwise would have been included in our diluted weighted-average common shares outstanding computation would be excluded.

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

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	Three Months		Nine Months	
	Ended		Ended	
	September 30		September 30	
in thousands	2017	2016	2017	2016
Antidilutive common stock equivalents	79	2	79	234

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Note 2: Discontinued Operations

In 2005, we sold substantially all the assets of our Chemicals business to Basic Chemicals, a subsidiary of Occidental Chemical Corporation. The financial results of the Chemicals business are classified as discontinued operations in the accompanying Condensed Consolidated Statements of Comprehensive Income for all periods presented. There were no revenues from discontinued operations for the periods presented. Results from discontinued operations are as follows:

in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Discontinued Operations				
Pretax earnings (loss)	\$ (1,282)	\$ (5,135)	\$ 13,614	\$ (12,312)
Income tax (expense) benefit	(289)	2,022	(5,397)	4,861
Earnings (loss) on discontinued operations, net of tax	\$ (1,571)	\$ (3,113)	\$ 8,217	\$ (7,451)

Our discontinued operations include charges related to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business. The 2017 results noted above primarily reflect charges and related insurance recoveries, including those associated with the Texas Brine matter, as further discussed in Note 8.

Note 3: Income Taxes

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

In the third quarter of 2017, we recorded income tax expense from continuing operations of \$39,080,000 compared to income tax expense from continuing operations of \$49,803,000 in the third quarter of 2016. The decrease in our income tax expense resulted largely from applying the statutory rate to the decrease in our pretax earnings.

For the first nine months of 2017, we recorded income tax expense from continuing operations of \$81,557,000 compared to \$91,575,000 for the first nine months of 2016. The decrease in our income tax expense resulted largely from applying the statutory rate to the decrease in our pretax earnings.

We recognize deferred tax assets and liabilities (which reflect our best assessment of the future taxes we will pay) based on the differences between the book basis and tax basis of assets and liabilities. Deferred tax assets represent items to be used as a tax deduction or credit in future tax returns while deferred tax liabilities represent items that will result in additional tax in future tax returns.

Each quarter we analyze the likelihood that our deferred tax assets will be realized. A valuation allowance is recorded if, based on the weight of all available positive and negative evidence, it is more likely than not (a likelihood of more than 50%) that some portion, or all, of a deferred tax asset will not be realized.

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Based on our third quarter 2017 analysis, we believe it is more likely than not that we will realize the benefit of all our deferred tax assets with the exception of certain state net operating loss carryforwards. For December 31, 2017, we project deferred tax assets related to state net operating loss carryforwards of \$53,751,000, of which \$52,552,000 relates to Alabama. The Alabama net operating loss carryforward, if not utilized, would expire in years 2023 – 2029. Before 2015, this Alabama deferred tax asset carried a full valuation allowance. During 2015, we restructured our legal entities which resulted in a partial release of the valuation allowance in the amount of \$4,655,000. During the fourth quarter of 2016, we achieved three consecutive years of positive Alabama adjusted earnings which resulted in an additional partial release of the valuation allowance in the amount of \$4,791,000. We expect one additional significant partial release of this valuation allowance once we have returned to sustained profitability, which we project will occur in the fourth quarter of 2017 (“Alabama adjusted earnings” and “sustained profitability” are defined in our most recent Annual Report on Form 10-K).

We recognize a tax benefit associated with a tax position when, in our judgment, it is more likely than not that the position will be sustained based upon the technical merits of the position. For a tax position that meets the more likely than not recognition threshold, we measure the income tax benefit as the largest amount that we judge to have a greater than 50% likelihood of being realized. A liability is established for the unrecognized portion of any tax benefit. Our liability for unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation.

A summary of our deferred tax assets is included in Note 9 “Income Taxes” in our Annual Report on Form 10-K for the year ended December 31, 2016.

Note 4: deferred revenue

In 2013 and 2012, we sold a percentage interest in future production structured as volumetric production payments (VPPs).

The VPPs:

- § relate to eight quarries in Georgia and South Carolina
- § provide the purchaser solely with a nonoperating percentage interest in the subject quarries’ future production from aggregates reserves
- § are both time and volume limited
- § contain no minimum annual or cumulative guarantees for production or sales volume, nor minimum sales price

Our consolidated total revenues exclude the sales of aggregates owned by the VPP purchaser.

We received net cash proceeds from the sale of the VPPs of \$153,282,000 and \$73,644,000 for the 2013 and 2012 transactions, respectively. These proceeds were recorded as deferred revenue on the balance sheet and are amortized to revenue on a unit-of-sales basis over the terms of the VPPs (expected to be approximately 25 years, limited by volume rather than time).

Reconciliation of the deferred revenue balances (current and noncurrent) is as follows:

in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Deferred Revenue				
Balance at beginning of period	\$ 203,100	\$ 210,200	\$ 206,468	\$ 214,060
Amortization of deferred revenue	(1,903)	(2,068)	(5,271)	(5,928)
Balance at end of period	\$ 201,197	\$ 208,132	\$ 201,197	\$ 208,132

Based on expected sales from the specified quarries, we expect to recognize approximately \$8,080,000 of deferred revenue as income during the 12-month period ending September 30, 2018 (reflected in other current liabilities in our 2017 Condensed Consolidated Balance Sheet).

Note 5: Fair Value Measurements

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

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

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

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

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

	Level 1 Fair Value		
	September 30	December 31	September 30
in thousands	2017	2016	2016
Fair Value Recurring			
Rabbi Trust			
Mutual funds	\$ 7,431	\$ 6,883	\$ 6,601
Equities	12,825	10,033	8,574
Total	\$ 20,256	\$ 16,916	\$ 15,175

	Level 2 Fair Value		
	September 30	December 31	September 30
in thousands	2017	2016	2016
Fair Value Recurring			
Rabbi Trust			
Money market mutual fund	\$ 386	\$ 1,705	\$ 2,144
Total	\$ 386	\$ 1,705	\$ 2,144

We have two Rabbi Trusts for the purpose of providing a level of security for the employee nonqualified retirement and deferred compensation plans and for the directors' nonqualified deferred compensation plans. The fair values of these investments are estimated using a market approach. The Level 1 investments include mutual funds and equity securities for which quoted prices in active markets are available. Level 2 investments are stated at estimated fair

value based on the underlying investments in the fund (short-term, highly liquid assets in commercial paper, short-term bonds and certificates of deposit).

Net gains of the Rabbi Trust investments were \$1,950,000 and \$1,379,000 for the nine months ended September 30, 2017 and 2016, respectively. The portions of the net gains related to investments still held by the Rabbi Trusts at September 30, 2017 and 2016 were \$1,424,000 and \$273,000, respectively.

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

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Assets subject to fair value measurement on a nonrecurring basis are summarized below:

in thousands	Period ended September 30, 2017		Period ended September 30, 2016	
	Level 2	Impairment Charges	Level 2	Impairment Charges
Fair Value Nonrecurring				
Property, plant & equipment, net	\$ 0	\$ 0	\$ 0	\$ 1,359
Other intangible assets, net	0	0	0	8,180
Other assets	0	0	0	967
Total	\$ 0	\$ 0	\$ 0	\$ 10,506

We recorded \$10,506,000 of losses on impairment of long-lived assets for the nine months ended September 30, 2016, reducing the carrying value of these Aggregates segment assets to their estimated fair value of \$0. Fair value was estimated using a market approach (observed transactions involving comparable assets in similar locations).

Note 6: Derivative Instruments

During the normal course of operations, we are exposed to market risks including interest rates, foreign currency exchange rates and commodity prices. From time to time, and consistent with our risk management policies, we use derivative instruments to balance the cost and risk of such exposure. We do not use derivative instruments for trading or other speculative purposes.

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

CASH FLOW HEDGES

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During 2007, we entered into fifteen forward starting interest rate locks on \$1,500,000,000 of future debt issuances to hedge the risk of higher interest rates. Upon the 2007 and 2008 issuances of the related fixed-rate debt, underlying interest rates were lower than the rate locks and we terminated and settled these forward starting locks for cash payments of \$89,777,000. This amount was booked to AOCI and is being amortized to interest expense over the term of the related debt.

This amortization was reflected in the accompanying Condensed Consolidated Statements of Comprehensive Income as follows:

in thousands	Location on Statement	Three Months Ended		Nine Months Ended	
		September 30 2017	2016	September 30 2017	2016
Cash Flow Hedges					
Loss reclassified from AOCI (effective portion)	Interest expense	\$ (1,955)	\$ (507)	\$ (3,022)	\$ (1,490)

The 2017 losses reclassified from AOCI include the acceleration of deferred losses in the amount of \$1,405,000 referable to the July debt purchases as described in Note 7.

For the 12-month period ending September 30, 2018, we estimate that \$344,000 of the pretax loss in AOCI will be reclassified to earnings.

Note 7: Debt

Debt is detailed as follows:

in thousands	Effective Interest Rates	September 30 2017	December 31 2016	September 30 2016
Short-term Debt				
Bank line of credit expires 2021				
1, 2, 3	n/a	\$ 0	\$ 0	\$ 0
Total short-term debt		\$ 0	\$ 0	\$ 0
Long-term Debt				
Bank line of credit expires 2021				
1, 2, 3	n/a	\$ 0	\$ 235,000	\$ 235,000
7.00% notes due 2018	n/a	0	272,512	272,512
10.375% notes due 2018	n/a	0	250,000	250,000
Floating-rate notes due 2020	2.13%	250,000	0	0
7.50% notes due 2021	7.75%	600,000	600,000	600,000
8.85% notes due 2021	8.88%	6,000	6,000	6,000
Term loan due 2021 2, 3	2.49%	250,000	0	0
4.50% notes due 2025	4.65%	400,000	400,000	400,000
3.90% notes due 2027	4.00%	400,000	0	0
	8.05%	240,188	240,188	240,188

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7.15% notes due 2037				
4.50% notes due 2047	4.59%	700,000	0	0
Other notes 3	6.31%	353	365	484
Total long-term debt - face value		\$ 2,846,541	\$ 2,004,065	\$ 2,004,184
Unamortized discounts and debt issuance costs		(31,748)	(21,176)	(20,414)
Total long-term debt - book value		\$ 2,814,793	\$ 1,982,889	\$ 1,983,770
Less current maturities		4,827	138	131
Total long-term debt - reported value		\$ 2,809,966	\$ 1,982,751	\$ 1,983,639
Estimated fair value of long-term debt		\$ 3,068,236	\$ 2,243,213	\$ 2,305,065

1 Borrowings on the bank line of credit are classified as short-term debt if we intend to repay within twelve months and as long-term debt otherwise.

2 The effective interest rate is the spread over LIBOR as of the most recent balance sheet date.

3 Non-publicly traded debt.

Our total long-term debt - book value is presented in the table above net of unamortized discounts/premiums and unamortized deferred debt issuance costs. Discounts/premiums and debt issuance costs are amortized using the effective interest method over the terms of the respective notes resulting in \$4,473,000 of net interest expense for these items for the nine months ended September 30, 2017.

The estimated fair value of our debt presented in the table above was determined by: (1) averaging several asking price quotes for the publicly traded notes and (2) assuming par value for the remainder of the debt. The fair value estimates for the publicly traded notes were based on Level 2 information (as defined in Note 5) as of their respective

balance sheet dates.

LINE OF CREDIT

In December 2016, among other favorable changes, we extended the maturity date of our unsecured \$750,000,000 line of credit from June 2020 to December 2021. The credit agreement contains affirmative, negative and financial covenants customary for an unsecured investment-grade facility. The primary negative covenant limits our ability to incur secured debt. The financial covenants are: (1) a maximum ratio of debt to EBITDA of 3.5:1 (upon certain acquisitions, the maximum ratio can be 3.75:1 for three quarters), and (2) a minimum ratio of EBITDA to net cash interest expense of 3.0:1. As of September 30, 2017, we were in compliance with the line of credit covenants.

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Borrowings on our line of credit are classified as short-term debt if we intend to repay within twelve months and as long-term debt if we have the intent and ability to extend repayment beyond twelve months. Borrowings bear interest, at our option, at either LIBOR plus a credit margin ranging from 1.00% to 1.75%, or SunTrust Bank's base rate (generally, its prime rate) plus a credit margin ranging from 0.00% to 0.75%. The credit margin for both LIBOR and base rate borrowings is determined by our credit ratings. Standby letters of credit, which are issued under the line of credit and reduce availability, are charged a fee equal to the credit margin for LIBOR borrowings plus 0.175%. We also pay a commitment fee on the daily average unused amount of the line of credit that ranges from 0.10% to 0.25% determined by our credit ratings. As of September 30, 2017, the credit margin for LIBOR borrowings was 1.25%, the credit margin for base rate borrowings was 0.25%, and the commitment fee for the unused amount was 0.15%.

As of September 30, 2017, our available borrowing capacity was \$706,712,000. Utilization of the borrowing capacity was as follows:

§ none was borrowed

§ \$43,288,000 was used to provide support for outstanding standby letters of credit

TERM DEBT

All of our term debt is unsecured. \$2,596,188,000 of such debt is governed by two essentially identical indentures that contain customary investment-grade type covenants. The primary covenant in both indentures limits the amount of secured debt we may incur without ratably securing such debt. \$250,000,000 of such debt is governed, as described below, by the same credit agreement that governs our line of credit. As of September 30, 2017, we were in compliance with all term debt covenants.

In June 2017, we issued \$1,000,000,000 of debt composed of three issuances as follows: (1) \$700,000,000 of 4.50% senior notes due June 2047, (2) \$50,000,000 of 3.90% senior notes due April 2027 (these notes are a further issuance of, and form a single series with, the 3.90% notes issued in March 2017), and (3) \$250,000,000 of floating-rate senior notes due June 2020. These issuances resulted in proceeds of \$989,512,000 (net of original issue discounts/premiums, underwriter fees and other transaction costs). The proceeds will be used to partially finance the pending acquisition of Aggregates USA, LLC as described in Note 16 and were used to early retire the notes due in 2018 (\$272,512,000 @ 7.00% and \$250,000,000 @ 10.375%). This early retirement was completed in July at a cost of \$565,560,000 including a \$43,020,000 premium above the principal amount of the notes and transaction costs of \$28,000. As a result, in the third quarter, we recognized \$3,029,000 of net noncash expense associated with the acceleration of unamortized discounts, deferred debt issuance costs and deferred interest rate derivative settlement losses. The combined charge of \$46,077,000 was a component of interest expense for the three and nine months ended September 30, 2017.

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In June 2017, we drew the full \$250,000,000 on the unsecured delayed draw term loan entered into in December 2016. These funds were used to repay the \$235,000,000 borrowed on our line of credit and for general corporate purposes. Borrowings bear interest in the same manner as the line of credit. The term loan principal will be repaid quarterly beginning March 2018 as follows: quarters 5 - 8 @ \$1,562,500/quarter; 9 - 12 @ \$3,125,000/quarter; 13 - 19 @ \$4,687,500/quarter and \$198,437,500 for quarter 20 (December 2021). The term loan may be prepaid at any time without penalty. It is provided by the same group of banks that provides our line of credit, and is governed by the same credit agreement as the line of credit. As such, it is subject to the same affirmative, negative, and financial covenants.

In March 2017, we issued \$350,000,000 of 3.90% senior notes due April 2027 for proceeds of \$345,450,000 (net of original issue discounts, underwriter fees and other transaction costs). The proceeds were used for general corporate purposes. This series of notes now totals \$400,000,000 due to the additional \$50,000,000 of notes issued in June (as described above).

STANDBY LETTERS OF CREDIT

We provide, in the normal course of business, certain third-party beneficiaries with standby letters of credit to support our obligations to pay or perform according to the requirements of an underlying agreement. Such letters of credit typically have an initial term of one year, typically renew automatically, and can only be modified or cancelled with the approval of the beneficiary. All of our standby letters of credit are issued by banks that participate in our \$750,000,000 line of credit, and reduce the borrowing capacity thereunder. Our standby letters of credit as of September 30, 2017 are summarized by purpose in the table below:

in thousands

Standby Letters of Credit	
Risk management insurance	\$ 38,111
Reclamation/restoration requirements	5,177
Total	\$ 43,288

Note 8: Commitments and Contingencies

As summarized by purpose directly above in Note 7, our standby letters of credit totaled \$43,288,000 as of September 30, 2017.

As described in Note 9, our asset retirement obligations totaled \$222,888,000 as of September 30, 2017.

LITIGATION AND ENVIRONMENTAL MATTERS

We are subject to occasional governmental proceedings and orders pertaining to occupational safety and health or to protection of the environment, such as proceedings or orders relating to noise abatement, air emissions or water discharges. As part of our continuing program of stewardship in safety, health and environmental matters, we have been able to resolve such proceedings and to comply with such orders without any material adverse effects on our business.

We have received notices from the United States Environmental Protection Agency (EPA) or similar state or local agencies that we are considered a potentially responsible party (PRP) at a limited number of sites under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or Superfund) or similar state and local environmental laws. Generally, we share the cost of remediation at these sites with other PRPs or alleged PRPs in accordance with negotiated or prescribed allocations. There is inherent uncertainty in determining the potential cost of remediating a given site and in determining any individual party's share in that cost. As a result, estimates can change substantially as additional information becomes available regarding the nature or extent of site contamination, remediation methods, other PRPs and their probable level of involvement, and actions by or against governmental agencies or private parties.

We have reviewed the nature and extent of our involvement at each Superfund site, as well as potential obligations arising under other federal, state and local environmental laws. While ultimate resolution and financial liability is uncertain at a number of the sites, in our opinion based on information currently available, the ultimate resolution of claims and assessments related to these sites will not have a material effect on our consolidated results of operations, financial position or cash flows, although amounts recorded in a given period could be material to our results of operations or cash flows for that period.

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

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

§ Lower Passaic River Study Area (Superfund Site) — The Lower Passaic River Study Area is part of the Diamond Shamrock Superfund Site in New Jersey. Vulcan and approximately 70 other companies are parties (collectively the Cooperating Parties Group) to a May 2007 Administrative Order on Consent (AOC) with the EPA to perform a Remedial Investigation/Feasibility Study (draft RI/FS) of the lower 17 miles of the Passaic River (River). However, before the draft RI/FS was issued in final form, the EPA issued a record of decision (ROD) in March 2016 that calls for a bank-to-bank dredging remedy for the lower 8 miles of the River. The EPA estimates that the cost of implementing this proposal is \$1.38 billion. In September 2016, the EPA entered into an Administrative Settlement Agreement and Order on Consent with Occidental Chemical Corporation (Occidental) in which Occidental agreed to undertake the remedial design for this bank-to-bank dredging remedy, and to reimburse the United States for certain response costs.

Efforts to remediate the River have been underway for many years and have involved hundreds of entities that have had operations on or near the River at some point during the past several decades. We formerly owned a chemicals operation near the mouth of the River, which was sold in 1974. The major risk drivers in the River have been identified as dioxins, PCBs, DDx and mercury. We did not manufacture any of these risk drivers and have no evidence that any of these were discharged into the River by Vulcan.

The AOC does not obligate us to fund or perform the remedial action contemplated by either the draft RI/FS or the ROD. Furthermore, the parties who will participate in funding the remediation and their respective allocations have not been determined. We do not agree that a bank-to-bank remedy is warranted, and we are not obligated to fund any of the remedial action at this time; nevertheless, we previously estimated the cost to be incurred by us as a potential participant in a bank-to-bank dredging remedy and recorded an immaterial loss for this matter in 2015.

§ TEXAS BRINE MATTER — During the operation of its former Chemicals Division, Vulcan leased the right to mine salt out of an underground salt dome formation in Assumption Parish, Louisiana from 1976 - 2005. Throughout that period and for all times thereafter, the Texas Brine Company (Texas Brine) was the operator contracted by Vulcan to mine and deliver the salt. We sold our Chemicals Division in 2005 and transferred our rights and interests related to the salt and mining operations to the purchaser, a subsidiary of Occidental, and we have had no association with the leased premises or Texas Brine since that time. In August 2012, a sinkhole developed in the vicinity of the Texas Brine mining operations, and numerous lawsuits were filed in state court in Assumption Parish, Louisiana. Other lawsuits, including class action litigation, were also filed in federal court before the Eastern District of Louisiana in New Orleans.

There are numerous defendants, including Texas Brine and Occidental, to the litigation in state and federal court. Vulcan was first brought into the litigation as a third-party defendant in August 2013 by Texas Brine. We have since been added as a direct and third-party defendant by other parties, including a direct claim by the state of Louisiana. Damage categories encompassed within the litigation include individual plaintiffs' claims for property damage, a claim by the state of Louisiana and Texas Brine for response costs, claims for physical damages to nearby oil and gas pipelines and storage facilities (pipelines), and business interruption claims. In addition to the plaintiffs' claims, we were also sued for contractual indemnity and comparative fault by both Texas Brine and Occidental. It is alleged that

the sinkhole was caused, in whole or in part, by our negligent actions or failure to act. It is also alleged that we breached the salt lease with Occidental, as well as an operating agreement and related contracts with Texas Brine; that we are strictly liable for certain property damages in our capacity as a former lessee of the salt lease; and that we violated certain covenants and conditions in the agreement under which we sold our Chemicals Division to Occidental. We have likewise made claims for contractual indemnity and on a basis of comparative fault against Texas Brine and Occidental. Vulcan and Occidental have since dismissed all of their claims against one another. Texas Brine has claims that remain pending against Vulcan and against Occidental. Discovery remains ongoing in various cases.

In December 2016, we settled with plaintiffs in one of the cases involving individual property damages. During the first nine months of 2017, we settled with the plaintiffs in the cases involving physical damages to pipelines. Our insurers have funded the settlements in excess of our self-insured retention amount. Each of the pipeline plaintiffs signed a release in favor of Vulcan and agreed that we would not be responsible to the pipelines for any amount beyond the settlement amount. A bench trial (judge only) began in September 2017 and ended in October in two of the three pipeline cases. The trial was limited in scope to the allocation of comparative fault or liability for causing the sinkhole, with a damages trial to be held at a later date. Vulcan participated in the trial, as it encompassed cross-party and third-party claims against us. The court ordered post-trial briefs to be filed early November 2017, and scheduled closing arguments for later that month. We do not know at this time when the judge will issue his ruling.

We cannot reasonably estimate a range of liability pertaining to the open cases at this time.

§ HEWITT LANDFILL MATTER (SUPERFUND SITE) — In September 2015, the Los Angeles Regional Water Quality Control Board (RWQCB) issued a Cleanup and Abatement Order (CAO) directing Vulcan to assess, monitor, cleanup and abate wastes that have been discharged to soil, soil vapor, and/or groundwater at the former Hewitt Landfill in Los Angeles. The CAO followed a 2014 Investigative Order from the RWQCB that sought data and a technical evaluation regarding the Hewitt Landfill, and a subsequent amendment to the Investigative Order requiring us to provide groundwater monitoring results to the RWQCB and to create and implement a work plan for further investigation of the Hewitt Landfill. In April 2016, we submitted an interim remedial action plan (IRAP) to the RWQCB, proposing an on-site pilot test of a pump and treat system; testing and implementation of a leachate recovery system; and storm water capture and conveyance improvements.

Operation of the on-site pilot-scale treatment system began in January 2017, and was completed in April 2017. With completion of the pilot testing and other investigative work to date, we submitted an amendment to the IRAP (AIRAP) to RWQCB in August 2017 proposing the use of a 300 gallon per minute pump, treat and reinjection system. Based on the preliminary design of this system, we accrued \$14,216,000 in the second quarter of 2017 (reflected in other operating expense). We are currently responding to comments and planning for implementation of the AIRAP.

We are also engaged in an ongoing dialogue with the EPA, the Los Angeles Department of Water and Power, and other stakeholders regarding the potential contribution of the Hewitt Landfill to groundwater contamination in the North Hollywood Operable Unit (NHOU) of the San Fernando Valley Superfund Site. We are gathering and analyzing data and developing technical information to determine the extent of possible contribution by the Hewitt Landfill to the groundwater contamination in the area. This work is also intended to assist in identification of other PRPs that may have contributed to groundwater contamination in the area.

In July 2016, the EPA sent us a letter requesting that we enter into an AOC for remedial design work at the NHOU. We entered into an AOC and Statement of Work with the EPA in September 2017, for the design of two extraction wells south of the Hewitt Site to protect the North Hollywood West well field. The AOC provides for Vulcan to undertake a preliminary evaluation of the appropriateness of the two-well remedy. Estimated costs to comply with this AOC are immaterial and have been accrued. Until the remedial design work and evaluation of the two-well remedy is complete, we cannot identify an appropriate remedial action or reasonably estimate a loss pertaining to this matter.

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

Note 9: Asset Retirement Obligations

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

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

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

in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
ARO Operating Costs				
Accretion	\$ 2,857	\$ 2,692	\$ 8,620	\$ 8,163
Depreciation	1,494	1,469	4,741	4,783
Total	\$ 4,351	\$ 4,161	\$ 13,361	\$ 12,946

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

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

Three Months Ended September 30	Nine Months Ended September 30
------------------------------------	-----------------------------------

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in thousands	2017	2016	2017	2016
Asset Retirement Obligations				
Balance at beginning of period	\$ 223,953	\$ 217,043	\$ 223,872	\$ 226,594
Liabilities incurred	731	0	1,066	505
Liabilities settled	(5,263)	(3,937)	(15,739)	(14,256)
Accretion expense	2,857	2,692	8,620	8,163
Revisions, net	610	(1,112)	5,069	(6,320)
Balance at end of period	\$ 222,888	\$ 214,686	\$ 222,888	\$ 214,686

ARO liabilities settled during the first nine months of 2017 and 2016 include \$8,117,000 and \$10,373,000, respectively, of reclamation activities required under a development agreement and conditional use permits at two adjacent aggregates sites on owned property in Southern California. The reclamation required under the reclamation agreement will result in the restoration and development of 90 acres of previously mined property suitable for retail and commercial development.

Note 10: Benefit Plans

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

Effective July 2007, we amended our defined benefit pension plans to no longer accept new participants. Effective December 2013, we amended our defined benefit pension plans to freeze future benefit accruals for salaried pension participants effective December 31, 2015.

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

PENSION BENEFITS in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Components of Net Periodic Benefit Cost				
Service cost	\$ 1,653	\$ 1,335	\$ 4,961	\$ 4,007
Interest cost	9,057	9,127	27,172	27,379
Expected return on plan assets	(12,097)	(12,891)	(36,289)	(38,672)
Amortization of prior service cost (credit)	335	(11)	1,005	(32)
Amortization of actuarial loss	1,824	1,540	5,471	4,622
Net periodic pension benefit cost (credit)	\$ 772	\$ (900)	\$ 2,320	\$ (2,696)
Pretax reclassifications from AOCI included in net periodic pension benefit cost	\$ 2,159	\$ 1,529	\$ 6,476	\$ 4,590

The contributions to pension plans for the nine months ended September 30, 2017 and 2016, as reflected on the Condensed Consolidated Statements of Cash Flows, pertain to benefit payments under nonqualified plans and a third quarter 2017 discretionary qualified plan contribution of \$10,600,000.

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

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

OTHER POSTRETIREMENT BENEFITS in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Components of Net Periodic Benefit Cost				
Service cost	\$ 292	\$ 281	\$ 875	\$ 842
Interest cost	315	302	945	907
Amortization of prior service credit	(1,059)	(1,059)	(3,177)	(3,177)
Amortization of actuarial gain	(397)	(438)	(1,190)	(1,313)
Net periodic postretirement benefit credit	\$ (849)	\$ (914)	\$ (2,547)	\$ (2,741)
Pretax reclassifications from AOCI included in net periodic postretirement benefit credit	\$ (1,456)	\$ (1,497)	\$ (4,367)	\$ (4,490)

Note 11: other Comprehensive Income

Comprehensive income comprises two subsets: net earnings and other comprehensive income (OCI). The components of other comprehensive income are presented in the accompanying Condensed Consolidated Statements of Comprehensive Income, net of applicable taxes.

Amounts in accumulated other comprehensive income (AOCI), net of tax, are as follows:

in thousands	September 30 2017	December 31 2016	September 30 2016
AOCI			
Cash flow			
hedges	\$ (11,464)	\$ (13,300)	\$ (13,592)
Pension and			
postretirement			
plans	(124,795)	(126,076)	(105,514)
Total	\$ (136,259)	\$ (139,376)	\$ (119,106)

Changes in AOCI, net of tax, for the nine months ended September 30, 2017 are as follows:

in thousands	Cash Flow Hedges	Pension and Postretirement Benefit Plans	Total
AOCI			
Balance as			
of			
December			
31, 2016	\$ (13,300)	\$ (126,076)	\$ (139,376)
Amounts			
reclassified			
from AOCI	1,836	1,281	3,117
Balance as	\$ (11,464)	\$ (124,795)	\$ (136,259)
of			

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September
30, 2017

Amounts reclassified from AOCI to earnings, are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2017	2016	2017	2016
Reclassification Adjustment for Cash Flow Hedge Losses				
Interest expense	\$ 1,955	\$ 507	\$ 3,022	\$ 1,490
Benefit from income taxes	(767)	(200)	(1,186)	(588)
Total 1	\$ 1,188	\$ 307	\$ 1,836	\$ 902
Amortization of Pension and Postretirement Plan Actuarial Loss and Prior Service Cost				
Cost of revenues	\$ 576	\$ 27	\$ 1,721	\$ 82
Selling, administrative and general expenses	127	6	388	18
Benefit from income taxes	(276)	(13)	(828)	(39)
Total	\$ 427	\$ 20	\$ 1,281	\$ 61
Total reclassifications from AOCI to earnings	\$ 1,615	\$ 327	\$ 3,117	\$ 963

1 The 2017 losses reclassified from AOCI include the acceleration of deferred losses in the amount of \$1,405,000 referable to the July debt purchases as described in Note 7.

Note 12: Equity

Our capital stock consists solely of common stock, par value \$1.00 per share. Holders of our common stock are entitled to one vote per share. Our Certificate of Incorporation also authorizes 5,000,000 shares of preferred stock of which no shares have been issued. The terms and provisions of such shares will be determined by our Board of Directors upon any issuance of preferred shares in accordance with our Certificate of Incorporation.

Changes in total equity are summarized below:

in thousands	Nine Months Ended	
	September 30	
	2017	2016
Total Equity		
Balance at beginning of year	\$ 4,572,476	\$ 4,454,188
Net earnings	273,639	306,890
Share-based compensation plans, net of shares withheld for taxes	(24,485)	(32,388)
Purchase and retirement of common stock	(60,303)	(161,463)
Share-based compensation expense	19,953	15,645
Cash dividends on common stock (\$0.75/\$0.60 per share)	(99,263)	(79,865)
Other comprehensive income	3,117	963
Balance at end of period	\$ 4,685,134	\$ 4,503,970

There were no shares held in treasury as of September 30, 2017, December 31, 2016 and September 30, 2016.

Our common stock purchases (all of which were open market purchases) were as follows:

- § nine months ended September 30, 2017 – purchased and retired 510,283 shares for a cost of \$60,303,000
- § twelve months ended December 31, 2016 – purchased and retired 1,426,659 shares for a cost of \$161,463,000
- § nine months ended September 30, 2016 – purchased and retired 1,426,659 shares for a cost of \$161,463,000

As of September 30, 2017, 9,489,717 shares may be purchased under the current purchase authorization of our Board of Directors.

Note 13: Segment Reporting

We have four operating (and reportable) segments organized around our principal product lines: Aggregates, Asphalt, Concrete and Calcium. The vast majority of our activities are domestic. We sell a relatively small amount of construction aggregates outside the United States. Intersegment sales are made at local market prices for the particular grade and quality of product used in the production of asphalt mix and ready-mixed concrete. Management reviews earnings from the product line reporting segments principally at the gross profit level.

segment financial disclosure

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2017	2016	2017	2016
Total				
Revenues				
Aggregates 1	\$ 858,699	\$ 821,809	\$ 2,326,585	\$ 2,248,174
Asphalt	189,940	157,406	461,474	388,560
Concrete	115,485	91,147	309,448	242,790
Calcium	1,965	2,373	5,822	6,732
Segment sales	\$ 1,166,089	\$ 1,072,735	\$ 3,103,329	\$ 2,886,256
Aggregates intersegment sales	(71,374)	(64,595)	(190,523)	(166,563)
Total revenues	\$ 1,094,715	\$ 1,008,140	\$ 2,912,806	\$ 2,719,693
Gross Profit				
Aggregates	\$ 259,122	\$ 261,762	\$ 652,075	\$ 664,154
Asphalt	31,363	32,889	68,921	76,028
Concrete	14,367	8,711	34,302	18,334
Calcium	664	847	1,972	2,596
Total	\$ 305,516	\$ 304,209	\$ 757,270	\$ 761,112
Depreciation, Depletion, Accretion and Amortization (DDA&A)				
Aggregates	\$ 64,071	\$ 60,204	\$ 182,559	\$ 177,129
Asphalt	6,494	4,100	18,841	12,468
Concrete	3,591	3,072	10,286	9,141

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Calcium	180	198	567	577
Other	5,300	4,475	15,721	14,047
Total	\$ 79,636	\$ 72,049	\$ 227,974	\$ 213,362
Identifiable Assets 2				
Aggregates			\$ 7,974,915	\$ 7,671,222
Asphalt			355,171	243,909
Concrete			233,565	188,169
Calcium			3,505	5,392
Total identifiable assets			\$ 8,567,156	\$ 8,108,692
General corporate assets			171,015	114,028
Cash and cash equivalents			701,163	135,365
Total			\$ 9,439,334	\$ 8,358,085

1 Includes crushed stone, sand and gravel, sand, other aggregates, as well as freight, delivery and transportation revenues, and service revenues related to aggregates.

2 Certain temporarily idled assets are included within a segment's Identifiable Assets but the associated DDA&A is shown within Other in the DDA&A section above as the related DDA&A is excluded from segment gross profit.

Note 14: Supplemental Cash Flow Information

Supplemental information referable to our Condensed Consolidated Statements of Cash Flows is summarized below:

in thousands	Nine Months Ended September 30	
	2017	2016
Cash Payments		
Interest (exclusive of amount capitalized)	\$ 118,157	\$ 69,865
Income taxes	124,121	92,397
Noncash Investing and Financing Activities		
Accrued liabilities for purchases of property, plant & equipment	\$ 10,602	\$ 10,493
Amounts referable to business acquisitions		
Liabilities assumed	1,935	0

Note 15: Goodwill

Goodwill is recognized when the consideration paid for a business exceeds the fair value of the tangible and identifiable intangible assets acquired. Goodwill is allocated to reporting units for purposes of testing goodwill for impairment. There were no charges for goodwill impairment in the nine month periods ended September 30, 2017 and 2016.

We have four reportable segments organized around our principal product lines: Aggregates, Asphalt, Concrete and Calcium. Changes in the carrying amount of goodwill by reportable segment from December 31, 2016 to September 30, 2017 are summarized below:

in thousands	Aggregates	Asphalt	Concrete	Calcium	Total
Goodwill	\$ 3,003,191	\$ 91,633	\$ 0	\$ 0	\$ 3,094,824

Total as of December 31, 2016						
Goodwill of acquired businesses						
1	6,513	0	0	0	6,513	
Goodwill of divested businesses	0	0	0	0	0	
Total as of September 30, 2017	\$ 3,009,704	\$ 91,633	\$ 0	\$ 0	\$ 3,101,337	

1 See Note 16 for a summary of the current year acquisitions.

We test goodwill for impairment on an annual basis or more frequently if events or circumstances change in a manner that would more likely than not reduce the fair value of a reporting unit below its carrying value. A decrease in the estimated fair value of one or more of our reporting units could result in the recognition of a material, noncash write-down of goodwill.

Note 16: Acquisitions and Divestitures

BUSINESS ACQUISITIONS AND PENDING ACQUISITIONS

During the second quarter of 2017, we announced the pending acquisition of Aggregates USA, LLC, an aggregates business that is composed of 32 facilities (15 aggregates facilities, 16 aggregates rail distribution yards and 1 aggregates truck distribution yard) in Florida, Georgia, South Carolina, Tennessee and Virginia, for \$900.0 million in cash. In order to expedite the regulatory approval process, we may divest quarries in Tennessee and Virginia subject to receipt of regulatory approval. We expect to close this acquisition in the fourth quarter of 2017.

During the nine months ended September 30, 2017, we purchased the following for total consideration of \$212,406,000:

- § California — ready-mixed concrete facilities, an aggregates marine distribution yard and building materials yards
- § Illinois — two aggregates facilities
- § New Mexico — an aggregates facility
- § Tennessee — two aggregates facilities, asphalt mix operations and a construction paving business

The 2017 completed acquisitions listed above are reported in our condensed consolidated financial statements as of their respective acquisition dates. None of these acquisitions are material to our results of operations or financial position either individually or collectively.

The fair value of consideration transferred for these acquisitions and the preliminary amounts of assets acquired and liabilities assumed (based on their estimated fair values at their acquisition dates), are summarized below:

in thousands	September 30 2017
Fair Value of Purchase Consideration	
Cash	\$ 210,562
Payable to seller	1,844

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Total fair value of purchase consideration	\$ 212,406
Identifiable Assets Acquired and Liabilities Assumed	
Inventories	6,213
Other current assets	253
Property, plant & equipment	126,426
Other intangible assets	
Contractual rights in place	73,092
Liabilities assumed	(91)
Net identifiable assets acquired	\$ 205,893
Goodwill	\$ 6,513

Estimated fair values of assets acquired and liabilities assumed are preliminary pending appraisals of contractual rights in place and property, plant & equipment.

As a result of these 2017 completed acquisitions, we recognized \$73,092,000 of amortizable intangible assets (contractual rights in place). These contractual rights in place will be amortized against earnings (\$66,630,000 – straight-line over a weighted-average 18.8 years and \$6,462,000 – units of sales over an estimated 20 years) and deductible for income tax purposes over 15 years. The goodwill noted above will be deductible for income tax purposes over 15 years.

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For the full year 2016, we purchased the following for total consideration of \$33,287,000 (\$32,537,000 cash and \$750,000 payable):

- § Georgia — a distribution business to complement our aggregates logistics and distribution activities
- § New Mexico — an asphalt mix operation
- § Texas — an aggregates facility

None of the 2016 acquisitions listed above are material to our results of operations or financial position either individually or collectively. As a result of these 2016 acquisitions, we recognized \$16,670,000 of amortizable intangible assets (\$15,213,000 contractual rights in place and \$1,457,000 noncompetition agreement). The contractual rights in place are amortized against earnings (\$6,798,000 – straight-line over 20 years and \$8,415,000 – units of sales over an estimated 20 years) and deductible for income tax purposes over 15 years.

DIVESTITURES AND PENDING DIVESTITURES

No assets met the criteria for held for sale at September 30, 2017, December 31, 2016 or September 30, 2016. However, as stated above, we may divest several quarries in Tennessee in order to expedite the regulatory approval process for the pending Aggregates USA acquisition.

Note 17: New Accounting Standards

ACCOUNTING STANDARDS PENDING ADOPTION

PRESENTATION OF NET PERIODIC BENEFIT PLANS In March 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which changes the presentation of the net periodic benefit cost in the income statement. Employers will present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs. The other components of net benefit cost will be included in nonoperating expense. This ASU is effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within those annual reporting periods. Retrospective application of the change in income statement presentation is required. A practical expedient is provided that permits entities to use the components of cost disclosed in prior years as a basis for the retrospective application of the new income statement presentation. We will adopt ASU 2017-07 in the first quarter of 2018. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements; service cost for 2017 is estimated to be \$7,782,000 while all other

components are estimated to be a benefit of \$8,083,000.

GOODWILL IMPAIRMENT TESTING In January 2017, the FASB issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment,” which eliminates the requirement to calculate the implied fair value of goodwill (Step 2) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying value over its fair value. This ASU is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. We will early adopt this standard as of our November 1, 2017 annual impairment test. The results of our November 1, 2016 annual impairment test indicated that the fair value of all our reporting units substantially exceeded their carrying values. As a result, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

INTRA-ENTITY ASSET TRANSFERS In October 2016, the FASB issued ASU 2016-16, “Intra-Entity Transfers of Assets Other Than Inventory,” which requires the tax effects of intercompany transactions other than inventory to be recognized currently. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within those annual reporting periods. We will adopt this standard in the first quarter of 2018. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

CASH FLOW CLASSIFICATION In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments,” which amends guidance on the classification of certain cash receipts and payments in the statement of cash flows. This ASU adds or clarifies guidance on eight specific cash flow issues. Additionally, guidance on the presentation of restricted cash is addressed in ASU 2016-18 which was issued in November 2016. Our current policy is to present changes in restricted cash within the investing section of our consolidated statements of cash flows. Both of these standards are effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within those annual reporting periods. Early adoption is permitted. We do not expect the adoption of these standards to have a material impact on our consolidated statements of cash flows.

CREDIT LOSSES In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments,” which amends guidance on the impairment of financial instruments. The new guidance estimates credit losses based on expected losses, modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, and interim reporting periods within those annual reporting periods. Early adoption is permitted for annual reporting periods beginning after December 15, 2018. While we are still evaluating the impact of ASU 2016-13, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

LEASE ACCOUNTING In February 2016, the FASB issued ASU 2016-02, “Leases,” which amends existing accounting standards for lease accounting and adds additional disclosures about leasing arrangements. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement and presentation of cash flow in the statement of cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within those annual reporting periods. Early adoption is permitted and modified retrospective application is required. We will adopt this standard in the first quarter of 2019. While we expect the adoption of this standard to have a material effect on our consolidated financial statements and related disclosures, we have yet to quantify the effect.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities,” which amends certain aspects of current guidance on the recognition, measurement and disclosure of financial instruments. Among other changes, this ASU requires most equity investments be measured at fair value. Additionally, the ASU eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value for instruments not recognized at fair value in our financial statements. This ASU is effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within those annual reporting periods. Early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

REVENUE RECOGNITION In May 2014, the FASB issued ASU 2014-09, “Revenue From Contracts With Customers,” which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This ASU provides a more robust framework for addressing revenue issues and expands required revenue recognition disclosures. This ASU is effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within those annual reporting periods. Early adoption is permitted only as of annual

reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Further, in applying this ASU an entity is permitted to use either the full retrospective or cumulative effect transition approach. We expect to identify similar performance obligations under ASU 2014-09 compared with the deliverables and separate units of account we have identified under existing accounting standards. As a result, we expect the timing of our revenues to remain generally the same. We will adopt this standard using the cumulative effect transition approach.

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL COMMENTS

Overview

We provide the basic materials for the infrastructure needed to maintain and expand the U.S. economy. We operate primarily in the U.S. and are the nation's largest supplier of construction aggregates (primarily crushed stone, sand and gravel) and a major producer of asphalt mix and ready-mixed concrete. Our strategy and competitive advantage are based on our strength in aggregates. Aggregates are used in most types of construction and in the production of asphalt mix and ready-mixed concrete.

Demand for our products is dependent on construction activity and correlates positively with changes in population growth, household formation and employment. End uses include public construction (e.g., highways, bridges, buildings, airports, schools, prisons, sewer and waste disposal systems, water supply systems, dams and reservoirs), private nonresidential construction (e.g., manufacturing, retail, offices, industrial and institutional) and private residential construction (e.g., single-family houses, duplexes, apartment buildings and condominiums). Customers for our products include heavy construction and paving contractors; commercial building contractors; concrete products manufacturers; residential building contractors; railroads and electric utilities; and to a smaller extent state, county and municipal governments.

Aggregates have a high weight-to-value ratio and, in most cases, must be produced near where they are used; if not, transportation can cost more than the materials, rendering them uncompetitive compared to locally produced materials. Exceptions to this typical market structure include areas along the U.S. Gulf Coast and the Eastern Seaboard where there are limited supplies of locally available high-quality aggregates. We serve these markets from quarries that have access to long-haul transportation — shipping by barge and rail — and from our quarry on Mexico's Yucatan Peninsula with our fleet of Panamax-class, self-unloading ships.

There are practically no substitutes for quality aggregates. Because of barriers to entry created in many metropolitan markets by zoning and permitting regulation and because of high transportation costs relative to the value of the product, the location of reserves is a critical factor to our long-term success.

No material part of our business depends upon any single customer whose loss would have a significant adverse effect on our business. In 2016, our five largest customers accounted for 8.1% of our total revenues (excluding internal sales), and no single customer accounted for more than 3.0% of our total revenues. Our products typically are sold to private industry and not directly to governmental entities. Although approximately 45% to 55% of our aggregates shipments have historically been used in publicly funded construction, such as highways, airports and government buildings, relatively insignificant sales are made directly to federal, state, county or municipal governments/agencies. Therefore, although reductions in state and federal funding can curtail publicly funded construction, our business is not directly subject to renegotiation of profits or termination of contracts with state or federal governments.

While aggregates is our focus and primary business, we believe vertical integration between aggregates and downstream products, such as asphalt mix and ready-mixed concrete, can be managed effectively in certain markets to generate attractive financial returns. We produce and sell asphalt mix and/or ready-mixed concrete primarily in our mid-Atlantic, Georgia, Southwestern, Tennessee and Western markets. Aggregates comprise approximately 95% of asphalt mix by weight and 80% of ready-mixed concrete by weight. In both of these downstream businesses, aggregates are primarily supplied from our own operations.

Seasonality and cyclical nature of our business

Almost all our products are produced and consumed outdoors. Seasonal changes and other weather-related conditions can affect the production and sales volume of our products. Therefore, the financial results for any quarter do not necessarily indicate the results expected for the year. Normally, the highest sales and earnings are in the third quarter and the lowest are in the first quarter. Furthermore, our sales and earnings are sensitive to national, regional and local economic conditions, demographic and population fluctuations, and particularly to cyclical swings in construction spending, primarily in the private sector.

EXECUTIVE SUMMARY

Financial highlights for THIRD Quarter 2017

Compared to third quarter 2016:

- § Total revenues increased \$86.6 million, or 9%, to \$1,094.7 million
- § Gross profit increased \$1.3 million, or less than 1%, to \$305.5 million
- § Aggregates segment sales increased \$36.9 million, or 4%, to \$858.7 million
- § Aggregates segment freight-adjusted revenues increased \$27.4 million, or 4%, to \$668.5 million
- § Shipments increased 1%, or 0.7 million tons, to 50.9 million tons
- § Same-store shipments decreased less than 1%, or 0.2 million tons, to 50.1 million tons
- § Freight-adjusted sales price increased 3%, or \$0.37 per ton
- § Same-store freight-adjusted sales price increased 3%, or \$0.42 per ton
- § Segment gross profit decreased \$2.6 million, or 1%, to \$259.1 million
- § Asphalt, Concrete and Calcium segment gross profit increased \$3.9 million, or 9%, to \$46.4 million, collectively
- § Selling, administrative and general (SAG) expenses decreased \$3.0 million or 0.9 percentage points (90 basis points) as a percentage of total revenues
- § Operating earnings increased \$2.4 million, or 1%, to \$229.5 million
- § Earnings from continuing operations were \$110.2 million, or \$0.82 per diluted share, compared to \$145.1 million, or \$1.07 per diluted share
- § Discrete items in the third quarter of 2017 include:
 - § pretax interest charges of \$46.1 million related to the July debt purchase
 - § pretax charges of \$0.8 million associated with business development, net of an asset purchase agreement termination fee
- § Discrete items in the third quarter of 2016 include:
 - § a \$6.5 million tax benefit related to utilization of foreign tax credits
 - § a pretax gain of \$0.7 million for business interruption claims recovery
 - § pretax charges of \$1.1 million associated with divested operations
- § Net earnings were \$108.6 million, a decrease of \$33.4 million, or 24%
- § Adjusted EBITDA was \$311.8 million, an increase of \$10.8 million, or 4%

Hurricanes Harvey and Irma negatively affected more than half of our operational footprint in the third quarter. Important Southeastern markets, particularly Florida and Georgia, as well as coastal markets in Texas and along the central Gulf Coast were disrupted. Prolonged extreme weather conditions limited both revenue growth and profitability. Aggregates shipments increased 1% and pricing improved 3% versus the prior year's third quarter. Overall, both gross profit and operating earnings improved slightly compared to the prior year.

Storms disrupted the third quarter shipment pattern in a number of our stronger growth markets. Absent the impact of these storms, we believe that our third quarter shipments would have been in line with expectations. We are still experiencing some lingering effects from these storms on plant efficiency and shipment levels, which will take some time to work through. Underlying demand, however, remains solid, the pricing environment remains positive and our unit profitability in aggregates continues to strengthen. On a same-store basis, our third quarter gross profit per ton was essentially flat while our cash gross profit per ton set a third-quarter record despite the severe weather. We are

very encouraged by these trends, which should provide good momentum into 2018.

Our business remains on track with our longer-term goals and expectations. Growth in new construction starts in our markets continues to outpace the rest of the U.S. Recent acquisitions are performing well and should make meaningful contributions to our earnings growth in 2018 and beyond. We remain confident in the sustained, multi-year recovery in materials demand across our markets and in the further compounding improvements to our unit profitability. However, given the shortfall in shipments to date and due to certain lingering effects of third quarter weather events on fourth quarter shipments, pricing and costs, we now expect full year aggregates shipments to approximate the prior year, with full year Adjusted EBITDA of approximately \$1 billion.

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As of September 30, year-to-date cash capital expenditures were \$366.8 million. This amount included \$136.8 million invested in internal growth projects to enhance our aggregates distribution network to markets without local aggregates reserves, as well as development of new sites and other growth investment projects. Core capital investments to replace existing property, plant & equipment made up the remaining \$230.0 million, and are expected to be approximately \$300 million for the full year.

We remain active in the pursuit of acquisitions and other value-creating growth investments. Since January, we have closed acquisitions totaling \$212.4 million (see Note 16 to the condensed consolidated financial statements). These acquisitions complement our existing positions in certain California, Illinois, New Mexico and Tennessee markets.

We expect to close the Aggregates USA acquisition (see Note 16) during the fourth quarter.

At the end of the third quarter, total debt was \$2.8 billion and cash was \$701.2 million. Retirement of notes due in June and December of 2018 was completed in July for \$565.6 million using part of the proceeds from the \$1.0 billion of new notes issued in June. The remainder of the proceeds will be used to help fund acquisitions and other growth investments including the Aggregates USA acquisition. One-time charges related to this early debt retirement were \$46.1 million. Full year interest expense will be approximately \$190.2 million including these one-time charges.

We are excited about the growth opportunities ahead of us. Leading indicators, such as growth in the pre-construction pipeline and in construction starts in our markets, as well as growth in our own order backlogs, point toward a return to growth in 2018 and beyond. Private demand continues to grow and public demand is firming up after relative weakness during the last 18 months.

Our confidence in the longer term outlook for our business remains strong. Our industry-leading core profitability in aggregates keeps improving and positions us well for future earnings growth. We have the financial strength to continue making smart growth investments that fit us best and we are committed to continuous improvements in safety, customer service and operational efficiencies.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

Gross profit margin excluding freight and delivery revenues is not a Generally Accepted Accounting Principle (GAAP) measure. We present this metric as it is consistent with the basis by which we review our operating results. Likewise, we believe that this presentation is consistent with our competitors and consistent with the basis by which investors analyze our operating results considering that freight and delivery services represent pass-through activities. Reconciliation of this metric to its nearest GAAP measure is presented below:

gross profit margin in accordance with gaap

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
dollars in millions				
Gross profit	\$ 305.5	\$ 304.2	\$ 757.3	\$ 761.1
Total revenues	\$ 1,094.7	\$ 1,008.1	\$ 2,912.8	\$ 2,719.7
Gross profit margin	27.9%	30.2%	26.0%	28.0%

gross profit margin excluding freight and delivery revenues

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
dollars in millions				
Gross profit	\$ 305.5	\$ 304.2	\$ 757.3	\$ 761.1
Total revenues	\$ 1,094.7	\$ 1,008.1	\$ 2,912.8	\$ 2,719.7
Freight and delivery revenues 1	143.7	143.8	397.9	407.3
Total revenues excluding freight and delivery revenues	\$ 951.0	\$ 864.3	\$ 2,514.9	\$ 2,312.4
Gross profit margin excluding freight and delivery revenues	32.1%	35.2%	30.1%	32.9%

1 Includes freight to remote distribution sites.

SAME-STORE

We have provided certain information on a same-store basis. When discussing our financial results in comparison to prior periods, we may exclude the operating results of recently acquired/divested businesses that do not have comparable results in the periods being discussed. These recently acquired/divested businesses are disclosed in Note 16 "Acquisitions and Divestitures." This approach allows us to evaluate the performance of our operations on a comparable basis. We believe that measuring performance on a same-store basis is useful to investors because it enables evaluation of how our operations are performing period over period without the effects of acquisition and divestiture activity. Our same-store information may not be comparable to similar measures used by other entities.

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Aggregates segment gross profit margin as a percentage of freight-adjusted revenues is not a GAAP measure. We present this metric as it is consistent with the basis by which we review our operating results. We believe that this presentation is consistent with our competitors and meaningful to our investors as it excludes freight, delivery and transportation revenues, which are pass-through activities. It also excludes immaterial other revenues related to services, such as landfill tipping fees, that are derived from our aggregates business. Incremental gross profit as a percentage of freight-adjusted revenues represents the year-over-year change in gross profit divided by the year-over-year change in freight-adjusted revenues. Reconciliations of these metrics to their nearest GAAP measures are presented below:

Aggregates segment gross profit margin in accordance with gaap

dollars in millions	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Aggregates segment				
Gross profit	\$ 259.1	\$ 261.8	\$ 652.1	\$ 664.2
Segment sales	\$ 858.7	\$ 821.8	\$ 2,326.6	\$ 2,248.2
Gross profit margin	30.2%	31.9%	28.0%	29.5%
Incremental gross profit margin	n/a		n/a	

Aggregates segment gross profit as a percentage of freight-adjusted revenues

dollars in millions	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Aggregates segment				
Gross profit	\$ 259.1	\$ 261.8	\$ 652.1	\$ 664.2
Segment sales	\$ 858.7	\$ 821.8	\$ 2,326.6	\$ 2,248.2
Less				
Freight, delivery and transportation revenues	181.3	176.9	505.6	494.0
Other revenues	8.9	3.8	24.3	11.4
Freight-adjusted revenues	\$ 668.5	\$ 641.1	\$ 1,796.7	\$ 1,742.8
Gross profit as a percentage of freight-adjusted revenues	38.8%	40.8%	36.3%	38.1%
Incremental gross profit as a percentage of freight-adjusted revenues	n/a		n/a	

1 At the segment level, freight, delivery and transportation revenues include intersegment freight & delivery revenues, which are eliminated at the consolidated level.

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GAAP does not define “cash gross profit” and it should not be considered as an alternative to earnings measures defined by GAAP. We present this metric for the convenience of investment professionals who use such metrics in their analyses and for shareholders who need to understand the metrics we use to assess performance. We and the investment community use this metric to assess the operating performance of our business. Additionally, we present this metric as we believe that it closely correlates to long-term shareholder value. We do not use this metric as a measure to allocate resources. Aggregates segment cash gross profit per ton is computed by dividing Aggregates segment cash gross profit by tons shipped. Reconciliation of this metric to its nearest GAAP measure is presented below:

cash gross profit

in millions, except per ton data	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Aggregates segment				
Gross profit	\$ 259.1	\$ 261.8	\$ 652.1	\$ 664.2
DDA&A	64.1	60.2	182.5	177.1
Aggregates segment cash gross profit	\$ 323.2	\$ 322.0	\$ 834.6	\$ 841.3
Unit shipments - tons	50.9	50.3	137.2	138.3
Aggregates segment cash gross profit per ton	\$ 6.34	\$ 6.40	\$ 6.09	\$ 6.09
Asphalt segment				
Gross profit	\$ 31.4	\$ 32.9	\$ 68.9	\$ 76.0
DDA&A	6.5	4.1	18.8	12.5
Asphalt segment cash gross profit	\$ 37.9	\$ 37.0	\$ 87.7	\$ 88.5
Concrete segment				
Gross profit	\$ 14.4	\$ 8.7	\$ 34.3	\$ 18.3
DDA&A	3.6	3.1	10.3	9.1
Concrete segment cash gross profit	\$ 18.0	\$ 11.8	\$ 44.6	\$ 27.4
Calcium segment				
Gross profit	\$ 0.7	\$ 0.8	\$ 2.0	\$ 2.6
DDA&A	0.2	0.2	0.6	0.6
Calcium segment cash gross profit	\$ 0.9	\$ 1.0	\$ 2.6	\$ 3.2

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GAAP does not define “Earnings Before Interest, Taxes, Depreciation and Amortization” (EBITDA) and it should not be considered as an alternative to earnings measures defined by GAAP. We present this metric for the convenience of investment professionals who use such metrics in their analyses and for shareholders who need to understand the metrics we use to assess performance. We use this metric to assess the operating performance of our business and for a basis of strategic planning and forecasting as we believe that it closely correlates to long-term shareholder value. We do not use this metric as a measure to allocate resources. We adjust EBITDA for certain items to provide a more consistent comparison of earnings performance from period to period. Reconciliation of this metric to its nearest GAAP measure is presented below:

EBITDA and adjusted ebitda

in millions	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Net earnings	\$ 108.6	\$ 142.0	\$ 273.6	\$ 306.9
Income tax expense	39.1	49.8	81.6	91.6
Interest expense, net	82.0	33.2	154.6	100.1
(Earnings) loss on discontinued operations, net of tax	1.6	3.1	(8.2)	7.5
EBIT	231.3	228.1	501.6	506.1
Depreciation, depletion, accretion and amortization	79.6	72.0	228.0	213.4
EBITDA	\$ 310.9	\$ 300.1	\$ 729.6	\$ 719.5
Business interruption claims recovery, net of incentives	\$ 0.0	\$ (0.2)	\$ 0.0	\$ (11.2)
Charges associated with divested operations	0.1	1.1	16.5	16.8
Business development, net of termination fee	0.8	0.0	0.8	0.0
Asset impairment	0.0	0.0	0.0	10.5
Restructuring charges	0.0	0.0	1.9	0.3
Adjusted EBITDA	\$ 311.8	\$ 301.0	\$ 748.8	\$ 735.9
Depreciation, depletion, accretion and amortization	(79.6)	(72.0)	(228.0)	(213.4)
Adjusted EBIT	\$ 232.2	\$ 229.0	\$ 520.8	\$ 522.5

Adjusted EBITDA for 2016 has been revised to conform with the 2017 presentation which no longer includes an adjustment for routine business development charges. However, business development charges that are deemed to be non-routine are included as an adjustment.

2017 projected ebitda

The following reconciliation to the mid-point of the range of 2017 Projected EBITDA excludes adjustments for charges associated with divested operations, asset impairment and other unusual gains and losses. Due to the difficulty of forecasting the timing or amount of items that have not yet occurred, are out of our control, or cannot be reasonably predicted, we are unable to estimate the significance of this unavailable information.

	2017 Projected
in millions	Mid-point
Net earnings	\$ 380
Income tax expense	130
Interest expense, net	190
Discontinued operations, net of tax	0
Depreciation, depletion, accretion and amortization	300
Projected EBITDA	\$ 1,000

RESULTS OF OPERATIONS

Total revenues include sales of products to customers, net of any discounts and taxes, and freight and delivery revenues billed to customers. Related freight and delivery costs are included in cost of revenues. This presentation is consistent with the basis on which we review our consolidated results of operations. We discuss separately our discontinued operations, which consist of our former Chemicals business.

The following table highlights significant components of our consolidated operating results including EBITDA and Adjusted EBITDA.

consolidated operating Result highlights

in millions, except per share data	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Total revenues	\$ 1,094.7	\$ 1,008.1	\$ 2,912.8	\$ 2,719.7
Cost of revenues	789.2	703.9	2,155.5	1,958.6
Gross profit	\$ 305.5	\$ 304.2	\$ 757.3	\$ 761.1
Selling, administrative and general expenses	\$ 73.4	\$ 76.3	\$ 238.3	\$ 235.5
Gain on sale of property, plant & equipment and businesses	\$ 1.5	\$ 2.0	\$ 4.6	\$ 2.9
Operating earnings	\$ 229.5	\$ 227.1	\$ 495.9	\$ 505.8
Interest expense, net	\$ 82.0	\$ 33.1	\$ 154.6	\$ 100.2
Earnings from continuing operations before income taxes	\$ 149.2	\$ 194.9	\$ 347.0	\$ 405.9
Earnings from continuing operations	\$ 110.2	\$ 145.1	\$ 265.4	\$ 314.3
Earnings (loss) on discontinued operations, net of income taxes	(1.6)	(3.1)	8.2	(7.4)
Net earnings	\$ 108.6	\$ 142.0	\$ 273.6	\$ 306.9
Basic earnings (loss) per share				
Continuing operations	\$ 0.83	\$ 1.09	\$ 2.00	\$ 2.36
Discontinued operations	(0.01)	(0.02)	0.07	(0.06)
Basic net earnings per share	\$ 0.82	\$ 1.07	\$ 2.07	\$ 2.30
Diluted earnings (loss) per share				
Continuing operations	\$ 0.82	\$ 1.07	\$ 1.97	\$ 2.31
Discontinued operations	(0.01)	(0.02)	0.06	(0.05)
Diluted net earnings per share	\$ 0.81	\$ 1.05	\$ 2.03	\$ 2.26
EBITDA	\$ 310.9	\$ 300.1	\$ 729.6	\$ 719.5
Adjusted EBITDA	\$ 311.8	\$ 301.0	\$ 748.8	\$ 735.9

THIRD quarter 2017 Compared to THIRD Quarter 2016

Third quarter 2017 total revenues were \$1,094.7 million, up 9% from the third quarter of 2016. Shipments increased in aggregates (+1%), asphalt mix (+7%) and ready-mixed concrete (+20%). Gross profit declined in the Aggregates (-\$2.6 million or -1%) and Asphalt (-\$1.5 million or -5%) segments, while it was up in the Concrete segment (+\$5.7 million or +65%). Diesel fuel costs were up \$3.9 million as a result of an 18% increase in the unit cost of diesel fuel, with most (\$2.7 million) of this increased cost reflected in the Aggregates segment.

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Net earnings for the third quarter of 2017 were \$108.6 million, or \$0.81 per diluted share, compared to \$142.0 million, or \$1.05 per diluted share, in the third quarter of 2016. Each period's results were impacted by discrete items, as follows:

- § Net earnings for the third quarter of 2017 include pretax interest charges of \$46.1 million related to the July debt purchase and pretax charges of \$0.8 million associated with business development, net of an asset purchase agreement termination fee.
- § Net earnings for the third quarter of 2016 include a \$6.5 million tax benefit related to utilization of foreign tax credits, a pretax gain of \$0.7 million for business interruption claims recovery and pretax charges of \$1.1 million associated with divested operations.

Continuing Operations — Changes in earnings from continuing operations before income taxes for the third quarter of 2017 versus the third quarter of 2016 are summarized below:

earnings from continuing operations before income taxes

in millions	
Third quarter 2016	\$ 194.9
Lower aggregates gross profit	(2.6)
Lower asphalt gross profit	(1.5)
Higher concrete gross profit	5.7
Lower calcium gross profit	(0.2)
Lower selling, administrative and general expenses	3.0
Lower gain on sale of property, plant & equipment and businesses	(0.5)
Lower business interruption claims recovery	(0.7)
Higher interest expense, net	(48.9)
All other	0.0
Third quarter 2017	\$ 149.2

Aggregates shipments increased 1% versus the prior year's quarter. Shipment trends in aggregates were disrupted by hurricanes across our Florida, Georgia, Gulf Coast, North Carolina, South Carolina and coastal Texas markets. Markets outside of these areas combined to grow mid-single digit versus the prior year's third quarter – more in line with trends and expectations.

Broad pricing momentum continued across our footprint with most markets realizing price growth in the third quarter. For the quarter, freight-adjusted average sales price for aggregates increased 3% versus the prior year, or \$0.37 per ton, despite a negative product mix impact. Product mix, partly due to aggregates needs immediately after the hurricanes, negatively impacted price growth by approximately one percentage point (100 basis points). Excluding mix impact, aggregates price increased 4%. The overall pricing climate remains favorable as visibility to a sustained

recovery improves and as construction materials producers stay focused on earning adequate returns on capital.

Third quarter Aggregates segment gross profit was \$259.1 million, or \$5.09 per ton. These results were slightly lower than the prior year as a result of the third quarter weather events. Weather-related disruptions impaired shipments and drove inefficiencies that limited revenue growth and earnings improvement. The aforementioned 18% increase in the unit cost of diesel fuel and costs related to the transition to two new, more efficient ships to transport aggregates from our quarry in Mexico negatively impacted segment gross profit by \$6.7 million in comparison to the prior year.

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Asphalt segment gross profit was \$31.4 million in the third quarter of 2017 versus \$32.9 million in the prior year period. Shipments of asphalt mix were 3.1 million tons in total and 2.8 million tons on a same-store basis. Shipments in the prior year were 2.9 million tons. An 18% increase in liquid asphalt unit cost negatively affected materials margins.

Concrete segment gross profit was \$14.4 million in the quarter compared to \$8.7 million in the prior year period. Shipments increased 20% versus the prior year. On a same-store basis, volumes increased 8%, as volumes in Virginia (our largest concrete market) drove most of the year-over-year increase. Materials margins and unit gross profit in the Concrete segment also improved versus the prior year.

Our Calcium segment reported gross profit of \$0.7 million versus \$0.8 million in the third quarter of 2016.

On a trailing-twelve-month basis, total gross profit in our non-aggregates segments was \$135.9 million, a 12% increase from the prior year's comparable period.

SAG expenses were \$73.4 million versus \$76.3 million in the prior year's third quarter. Trailing-twelve-month SAG expenses were \$317.8 million, in line with full-year expectations.

Other operating expense was \$4.2 million in the third quarter of 2017 versus \$3.5 million in the third quarter of 2016. This line item includes the aforementioned discrete charges associated with business development (net of a termination fee) in the amount of \$1.2 million for the third quarter of 2017. These net charges were composed of \$9.2 million of non-routine business development charges partially offset by an \$8.0 million credit related to an asset purchase agreement termination fee. Additionally, this line item includes the aforementioned discrete charges associated with divested operations (environmental liability accruals at divested sites) of \$0.1 million and \$1.1 million for the third quarters of 2017 and 2016, respectively.

Net interest expense was \$82.0 million in the third quarter of 2017 compared to \$33.1 million in 2016. The higher interest expense resulted primarily from the \$46.1 million charge related to the July 2017 debt purchase. For additional details, see Note 7 to the condensed consolidated financial statements.

Income tax expense from continuing operations was \$39.1 million in the third quarter of 2017 compared to income tax expense of \$49.8 million in the third quarter of 2016. The decrease in our income tax expense resulted largely from applying the statutory rate to the decrease in our pretax earnings.

Earnings from continuing operations were \$0.82 per diluted share in the third quarter of 2017 compared to \$1.07 per diluted share in the third quarter of 2016.

Discontinued Operations — Third quarter pretax loss from discontinued operations was \$1.3 million in 2017 compared with a pretax loss of \$5.1 million in 2016. Both periods include charges related to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business. For additional details, see Note 2 to the condensed consolidated financial statements.

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YEAR-TO-DATE SEPTEMBER 30, 2017 Compared to YEAR-TO-DATE SEPTEMBER 30, 2016

Total revenues for the first nine months of 2017 were \$2,912.8 million, up 7% from the first nine months of 2016. Shipments declined in aggregates (-1%) while they were up in asphalt mix (+10%) and ready-mixed concrete (+21%). Gross profit declined in the Aggregates (-\$12.1 million or -2%) and Asphalt (-\$7.1 million or -9%) segments while it was up in the Concrete segment (+\$16.0 million or +87%). Diesel fuel costs were up \$12.4 million as a result of a 22% increase in the unit cost of diesel fuel compared with the first nine months of 2016, with most (\$9.1 million) of this increased cost reflected in the Aggregates segment.

Net earnings for the first nine months of 2017 were \$273.6 million, or \$2.03 per diluted share, compared to \$306.9 million, or \$2.26 per diluted share, in the first nine months of 2016. Each period's results were impacted by discrete items, as follows:

§ Net earnings for the first nine months of 2017 include pretax interest charges of \$46.1 million related to the July debt purchase, pretax charges of \$16.5 million associated with divested operations, net pretax charges of \$0.8 million associated with business development (net of an asset purchase agreement termination fee) and a \$1.9 million pretax charge for restructuring, and excess tax benefits of \$20.8 million related to share-based compensation.

§ Net earnings for the first nine months of 2016 include a pretax gain of \$11.7 million for business interruption claims recovery, pretax charges of \$16.8 million associated with divested operations, a pretax loss of \$10.5 million for asset impairment, and excess tax benefits of \$24.5 million related to share-based compensation.

Continuing Operations — Changes in earnings from continuing operations before income taxes for year-to-date September 30, 2017 versus year-to-date September 30, 2016 are summarized below:

earnings from continuing operations before income taxes

in millions

Year-to-date September 30, 2016	\$ 405.9
Lower aggregates gross profit	(12.1)
Lower asphalt gross profit	(7.1)
Higher concrete gross profit	16.0
Lower calcium gross profit	(0.6)
Higher selling, administrative and general expenses	(2.8)
Higher gain on sale of property, plant & equipment and businesses	1.7
Lower business interruption claims recovery	(11.7)
Lower impairment charges	10.5
Higher interest expense, net	(54.4)

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All other	1.6
Year-to-date September 30, 2017	\$ 347.0

Gross profit for our Aggregates segment was \$652.1 million for the first nine months of 2017 versus \$664.2 million in the comparable period of 2016. Aggregates segment sales of \$2,326.6 million were up 3%, and aggregates freight-adjusted revenues of \$1,796.7 million were also up 3%. Year-to-date aggregates shipments declined 1%, or 1.1 million tons, compared to the first nine months of 2016. Wet weather — severe flooding in California during the first quarter of 2017, extreme rainfall in core Southeastern markets (Alabama, Florida, Georgia, Louisiana and Mississippi) during the second quarter of 2017, and hurricanes/tropical storm conditions across our Florida, Georgia, Gulf Coast, North Carolina, South Carolina and coastal Texas markets during the third quarter of 2017 — contributed to the shipment shortfall. Freight-adjusted average sales price for aggregates increased 4%, or \$0.49 per ton, versus the first nine months of 2016, with most major markets realizing price improvement. Year-to-date unit cost of sales (freight-adjusted) in the Aggregates segment was up 7%, or \$0.55 per ton, versus the nine months of 2016. As noted above, higher diesel fuel costs accounted for \$9.1 million of the cost increase in the Aggregates segment. Additionally, inefficiencies and lower volume due to the severe weather conditions noted above also contributed to the increased cost. Gross profit per ton was \$4.75 per ton for the first nine months of 2017 compared with \$4.80 per ton for the first nine months of 2016.

Asphalt segment gross profit of \$68.9 million was down \$7.1 million from the first nine months of 2016. Shipments increased 10% in total and were essentially flat on a same-store basis. Materials margins were lower as a result of lower unit sales price and higher liquid asphalt unit cost.

Concrete segment gross profit was \$34.3 million for the first nine months of 2017, up \$16.0 million from the prior year period. Shipments increased 21% versus the first nine months of 2016 as ready-mixed concrete volumes increased in most of our markets. On a same-store basis, ready-mixed concrete shipments increased 13%. Concrete segment materials margins and unit gross profit also improved versus the first nine months of 2016.

Our Calcium segment reported gross profit of \$2.0 million versus \$2.6 million in the first nine months of 2016.

SAG expenses were \$238.3 million versus \$235.5 million in the prior year's first nine months reflecting a 0.5 percentage point (50 basis point) reduction as a percentage of total revenues.

In the first nine months of 2016, we recognized a gain of \$11.7 million related to the settlement of business interruption claims from the 2010 Gulf Coast oil spill.

There were no asset impairment charges during the first nine months of 2017. During the first nine months of 2016, we recorded \$10.5 million of losses on impairment of long-lived assets, as follows: (\$0.9 million) — wrote off nonrecoverable project costs related to two Aggregates segment capital projects that we no longer intend to complete and (\$9.6 million) — terminated a nonstrategic aggregates site lease we no longer intended to develop.

Other operating expense, net is composed of various cost items not included in cost of revenues and not specifically presented in the accompanying Condensed Consolidated Statement of Comprehensive Income. The total other operating expense, net and significant items included in the total were:

- § \$27.8 million in the first nine months of 2017 — includes \$1.2 million of discrete charges associated with business development (net of termination fee). These net charges were composed of \$9.2 million of non-routine business development charges partially offset by an \$8.0 million credit related to an asset purchase agreement termination fee. Additionally, this line item includes \$16.5 million of discrete charges associated with divested operations including \$15.6 million of environmental liability accruals related to the Hewitt Landfill matter (see Note 8 to the condensed consolidated financial statements)
- § \$23.9 million in the first nine months of 2016 — includes \$16.8 million of discrete charges associated with divested operations. These charges were composed of charges associated with office space no longer needed and vacated (\$5.2 million), the write-off of a prepaid royalty asset resulting from a change in long-term mining plans (\$3.6 million), a property litigation settlement (\$1.9 million), a pension withdrawal settlement revision (\$1.5 million) and environmental liability accruals associated with previously divested properties (\$4.6 million)

Net interest expense was \$154.6 million in the first nine months of 2017 compared to \$100.2 million in 2016. This increase resulted from the \$46.1 million charge related to the July 2017 debt purchase coupled with the higher debt load. For additional details, see Note 7 to the condensed consolidated financial statements.

Income tax expense from continuing operations was \$81.6 million in the first nine months of 2017 compared to \$91.6 million in the first nine months of 2016. The decrease in our income tax expense resulted largely from applying the statutory rate to the decrease in our pretax earnings.

Earnings from continuing operations were \$2.03 per diluted share in the first nine months of 2017 compared to \$2.26 per diluted share in the first nine months of 2016.

Discontinued Operations — Year-to-date September pretax earnings from discontinued operations were \$13.6 million in 2017 compared with a pretax loss of \$12.3 million in 2016. Our discontinued operations include charges related to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business. The current year results also include insurance recoveries from previously incurred general liability costs. For additional details, see Note 2 to the condensed consolidated financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

Our primary sources of liquidity are cash provided by our operating activities and a substantial, committed bank line of credit. Additional sources of capital include access to the capital markets, the sale of surplus real estate, and dispositions of nonstrategic operating assets. We believe these financial resources are sufficient to fund our business requirements for 2017, including:

- § cash contractual obligations
- § capital expenditures
 - § debt service obligations
- § dividend payments
- § potential share repurchases
- § potential acquisitions

Our balanced approach to capital deployment remains unchanged. We intend to balance reinvestment in our business, growth through acquisitions and return of capital to shareholders, while sustaining financial strength and flexibility.

We actively manage our capital structure and resources in order to minimize the cost of capital while properly managing financial risk. We seek to meet these objectives by adhering to the following principles:

- § maintain substantial bank line of credit borrowing capacity
- § proactively manage our debt maturity schedule such that repayment/refinancing risk in any single year is low
- § maintain an appropriate balance of fixed-rate and floating-rate debt
- § minimize financial and other covenants that limit our operating and financial flexibility

Cash

Included in our September 30, 2017 cash and cash equivalents balance of \$701.2 million is \$55.1 million of cash held at our foreign subsidiaries. All of this \$55.1 million of cash relates to earnings that are indefinitely reinvested offshore. Use of this cash is currently limited to our foreign operations.

cash from operating activities

in millions	Nine Months Ended	
	September 30	
	2017	2016
Net earnings	\$ 273.6	\$ 306.9
Depreciation, depletion, accretion and amortization (DDA&A)	228.0	213.4
Net earnings before noncash deductions for DDA&A	\$ 501.6	\$ 520.3
Contributions to pension plans	(17.6)	(7.1)
Cost of debt purchase	43.0	0.0
Other operating cash flows, net ¹	(127.5)	(108.6)
Net cash provided by operating activities	\$ 399.5	\$ 404.6

¹ Primarily reflects changes to working capital balances.

Net cash provided by operating activities is derived primarily from net earnings before noncash deductions for depreciation, depletion, accretion and amortization. Net cash provided by operating activities was \$399.5 million during the nine months ended September 30, 2017, a \$5.1 million decrease compared to the same period of 2016. During the third quarter of 2017, we made a discretionary pension plan contribution of \$10.6 million. Additionally, we retired debt costing \$43.0 million above the principal amount of the notes which is reflected as a financing cash outflow.

cash from investing activities

Net cash used for investing activities was \$557.6 million during the first nine months of 2017, a \$278.0 million increase compared to the same period of 2016. We invested \$366.8 million in our existing operations in the first nine months of 2017, a \$79.4 million increase compared to the prior year period. Of this \$366.8 million, \$136.8 million was invested in shipping capacity enhancements, new site developments and other growth opportunities. Additionally, during the first nine months of 2017, we acquired the following businesses for \$210.6 million of cash consideration: California — ready-mixed concrete facilities, an aggregates marine distribution yard and building materials yards; Illinois — two aggregates facilities; New Mexico — an aggregates facility; and Tennessee — two aggregates facilities, asphalt mix operations and a construction paving business. During the first nine months of 2016, we purchased a distribution business in Georgia for \$1.6 million of cash consideration.

cash from financing activities

Net cash provided by financing activities in the first nine months of 2017 was \$600.2 million, an increase of \$874.0 million compared with the cash used during the same period of 2016. This increase was primarily attributable to the 2017 debt issuances (as described in the section below) which provided net proceeds of \$1,585.0 million partially offset by the repayment of our \$235.0 million line of credit and the early retirement of notes due in 2018 for a total cost of \$565.6 million (\$522.5 million principal and \$43.0 million cost of debt purchase). Additionally, we increased dividends to our shareholders by \$19.4 million (\$0.75 per share compared to \$0.60 per share). Share repurchases decreased by \$101.2 million (510,283 shares @ \$118.18 per share compared to 1,426,659 shares @ \$113.18 per share). Finally, cash paid for shares withheld to satisfy statutory income tax withholding obligations of \$24.6 million decreased \$7.8 million from the first nine months of 2016 (see Note 1 to the condensed consolidated financial statements, caption Share-based Compensation – Accounting Standards Update).

debt

Certain debt measures are outlined below:

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	September 30 dollars in millions 2017	December 31 2016	September 30 2016
Debt			
Current maturities of long-term debt \$	4.8	\$ 0.1	\$ 0.1
Short-term debt (line of credit)	0.0	0.0	0.0
Long-term debt 1	2,810.0	1,982.8	1,983.6
Total debt	\$ 2,814.8	\$ 1,982.9	\$ 1,983.7
Capital			
Total debt	\$ 2,814.8	\$ 1,982.9	\$ 1,983.7
Equity	4,685.1	4,572.5	4,504.0
Total capital	\$ 7,499.9	\$ 6,555.4	\$ 6,487.7
Total Debt as a Percentage of			
Total Capital	37.5%	30.2%	30.6%
Weighted-average Effective Interest Rates			
Line of credit 2	1.25%	1.25%	1.25%
Term debt	5.08%	7.52%	7.52%
Fixed versus Floating Interest Rate Debt			
Fixed-rate debt	82.4%	88.3%	88.3%
Floating-rate debt	17.6%	11.7%	11.7%

1 Includes borrowings under our line of credit for which we have the intent and ability to extend payment beyond twelve months, as follows: September 30, 2017 — none, December 31, 2016 — \$235.0 million and September 30, 2016 — \$235.0 million.

2 Reflects the margin above LIBOR for LIBOR-based borrowings; we also paid upfront fees that are amortized to interest expense and pay fees for unused borrowing capacity and standby letters of credit.

Line of credit

Covenants, borrowing cost ranges and other details are described in Note 7 to the condensed consolidated financial statements. As of September 30, 2017, we were in compliance with the line of credit covenants and the credit margin for London Interbank Offered Rate (LIBOR) borrowings was 1.25%, the credit margin for base rate borrowings was 0.25%, and the commitment fee for the unused amount was 0.15%.

As of September 30, 2017, our available borrowing capacity under the line of credit was \$706.7 million. Utilization of the borrowing capacity was as follows:

§ none was borrowed

§ \$43.3 million was used to provide support for outstanding standby letters of credit

TERM DEBT

All of our term debt is unsecured. \$2,596.2 million of such debt is governed by two essentially identical indentures that contain customary investment-grade type covenants. The primary covenant in both indentures limits the amount of secured debt we may incur without ratably securing such debt. \$250.0 million of such debt is governed, as described below, by the same credit agreement that governs our line of credit. As of September 30, 2017, we were in compliance with all term debt covenants.

In June 2017, we issued \$1,000.0 million of debt composed of three issuances as follows: (1) \$700.0 million of 4.50% senior notes due June 2047, (2) \$50.0 million of 3.90% senior notes due April 2027 (these notes are a further issuance of, and form a single series with, the 3.90% notes issued in March 2017), and (3) \$250.0 million of floating-rate senior notes due June 2020. These issuances resulted in proceeds of \$989.5 million (net of original issue discounts/premiums, underwriter fees and other transaction costs). The proceeds will be used to partially finance the pending acquisition of Aggregates USA as described in Note 16 to the condensed consolidated financial statements and were used to early retire the notes due in 2018 (\$272.5 million @ 7.00% and \$250.0 million @ 10.375%). This early retirement was completed in July at a cost of \$565.6 million including \$43.0 million in premium above the principal amount of the notes and transaction costs. As a result, in the third quarter, we recognized \$3.0 million of net noncash expense associated with the acceleration of unamortized discounts, deferred debt issuance costs and deferred interest rate derivative settlement losses. The combined charge of \$46.1 million was a component of interest expense for the three and nine months ended September 30, 2017.

In June 2017, we drew the full \$250.0 million on the unsecured delayed draw term loan entered into in December 2016. These funds were used to repay the \$235.0 million borrowed on our line of credit and for general corporate purposes. Borrowings bear interest in the same manner as the line of credit. The term loan principal will be repaid quarterly beginning March 2018 as follows: quarters 5 - 8 @ \$1.6 million/quarter; 9 - 12 @ \$3.1 million/quarter; 13 -

19 @ \$4.7 million/quarter and \$198.4 million for quarter 20 (December 2021). The term loan may be prepaid at any time without penalty. It is provided by the same group of banks that provides our line of credit, and is governed by the same credit agreement as the line of credit. As such, it is subject to the same affirmative, negative, and financial covenants.

In March 2017, we issued \$350.0 million of 3.90% senior notes due April 2027 for proceeds of \$345.5 million (net of original issue discounts, underwriter fees and other transaction costs). The proceeds were used for general corporate purposes. This series of notes now totals \$400.0 million due to the additional \$50.0 million of notes issued in June (as described above).

CURRENT MATURITIES of long-term debt

The \$4.8 million of current maturities of long-term debt as of September 30, 2017 includes all long-term debt that we intend to pay within twelve months, and is due as follows:

in millions	Current Maturities
Fourth quarter 2017	\$0.1
First quarter 2018	1.6
Second quarter 2018	1.6
Third quarter 2018	1.5

debt ratings

Our debt ratings and outlooks as of September 30, 2017 are as follows:

Rating/Outlook	Date	Description
Senior Unsecured Term Debt 1		
Fitch BBB- /stable	6/12/2017	rating/outlook affirmed
Moody's Baa3 /stable	6/12/2017	rating/outlook affirmed
Standard & Poor's BBB- /stable	6/12/2017	rating/outlook affirmed

1 Not all of our long-term debt is rated.

Equity

Our common stock issuances and purchases are as follows:

September 30 in thousands	2017	December 31 2016	September 30 2016
Common stock shares at January 1, issued and outstanding	132,339	133,172	133,172
Common Stock Issuances			
Share-based compensation plans	452	594	564

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Common Stock Purchases			
Purchased and retired	(510)	(1,427)	(1,427)
Common stock shares at end of period, issued and outstanding	132,281	132,339	132,309

On February 10, 2006, our Board of Directors authorized us to purchase up to 10,000,000 shares of our common stock. On February 10, 2017, there were 1,756,757 shares remaining under this authorization and our Board of Directors authorized us to purchase an additional 8,243,243 shares to refresh the number of shares we were authorized to purchase to 10,000,000. As of September 30, 2017, there were 9,489,717 shares remaining under the authorization. Depending upon market, business, legal and other conditions, we may make share purchases from time to time through open market (including plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934) and/or privately negotiated transactions. The authorization has no time limit, does not obligate us to purchase any specific number of shares, and may be suspended or discontinued at any time.

Our common stock purchases (all of which were open market purchases) for the year-to-date periods ended are detailed below:

September 30 in thousands, except average cost	2017	December 31 2016	September 30 2016
Shares Purchased and Retired			
Number	510	1,427	1,427
Cost ¹	\$ 60,303	\$ 161,463	\$ 161,436
Average cost per share ¹	\$ 118.18	\$ 113.18	\$ 113.18

¹ Excludes commissions of \$0.02 per share.

There were no shares held in treasury as of September 30, 2017, December 31, 2016 and September 30, 2016.

off-balance sheet arrangements

We have no off-balance sheet arrangements, such as financing or unconsolidated variable interest entities, that either have or are reasonably likely to have a current or future material effect on our:

- § results of operations and financial position
- § capital expenditures
- § liquidity and capital resources

Standby Letters of Credit

For a discussion of our standby letters of credit, see Note 7 to the condensed consolidated financial statements.

Cash Contractual Obligations

Our obligation to make future payments under contracts is presented in our most recent Annual Report on Form 10-K. Changes resulting from our March 2017 debt issuance as described in Note 7 to the condensed consolidated financial statements are outlined in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017. Changes resulting from our June 2017 debt transactions as well as the July 2017 debt retirement, as described in Note 7 to the condensed consolidated financial statements, are outlined in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017.

CRITICAL ACCOUNTING POLICIES

We follow certain significant accounting policies when preparing our consolidated financial statements. A summary of these policies is included in our Annual Report on Form 10-K for the year ended December 31, 2016 (Form 10-K).

We prepare these financial statements to conform with accounting principles generally accepted in the United States of America. These principles require us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses, and the related disclosures of contingent assets and contingent liabilities at the date of the financial statements. We base our estimates on historical experience, current conditions and various other assumptions we believe reasonable under existing circumstances and evaluate these estimates and judgments on an ongoing basis. The results of these estimates form the basis for our judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Our actual results may materially differ from these estimates.

We believe that the accounting policies described in the “Management's Discussion and Analysis of Financial Condition and Results of Operations” section of our Form 10-K require the most significant judgments and estimates used in the preparation of our consolidated financial statements, so we consider these to be our critical accounting policies. There have been no changes to our critical accounting policies during the nine months ended September 30, 2017.

new Accounting standards

For a discussion of the accounting standards recently adopted or pending adoption and the effect such accounting changes will have on our results of operations, financial position or liquidity, see Note 17 to the condensed consolidated financial statements.

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this report, including expectations regarding future performance, contain forward-looking statements that are subject to assumptions, risks and uncertainties that could cause actual results to differ materially from those projected. These assumptions, risks and uncertainties include, but are not limited to:

- § general economic and business conditions
- § the timing and amount of federal, state and local funding for infrastructure
- § changes in our effective tax rate
- § the increasing reliance on information technology infrastructure for our ticketing, procurement, financial statements and other processes could adversely affect operations in the event that the infrastructure does not work as intended or experiences technical difficulties or is subjected to cyber attacks
- § the impact of the state of the global economy on our businesses and financial condition and access to capital markets
- § changes in the level of spending for private residential and private nonresidential construction
- § the highly competitive nature of the construction materials industry
- § the impact of future regulatory or legislative actions, including those relating to climate change, greenhouse gas emissions, the definition of minerals or international trade
- § the outcome of pending legal proceedings
- § pricing of our products
- § weather and other natural phenomena
- § energy costs
- § costs of hydrocarbon-based raw materials
- § healthcare costs
- § the amount of long-term debt and interest expense we incur
- § changes in interest rates
- § volatility in pension plan asset values and liabilities, which may require cash contributions to the pension plans
- § the impact of environmental cleanup costs and other liabilities relating to existing and/or divested businesses
- § our ability to secure and permit aggregates reserves in strategically located areas
- § modification to the terms of the acquisition of Aggregates USA, LLC may be required in order to satisfy approvals or conditions
- § business disruption during the pendency of, or following the acquisition of, Aggregates USA, LLC, including diversion of management time
- § our ability to manage and successfully integrate acquisitions
- § the potential of goodwill or long-lived asset impairment
- § other assumptions, risks and uncertainties detailed from time to time in our periodic reports filed with the SEC

All forward-looking statements are made as of the date of filing. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by law. Investors are cautioned not to rely unduly on such forward-looking statements when evaluating the information presented in our filings, and are advised to consult any of our future disclosures in filings made with the Securities and Exchange Commission (SEC) and our press releases with regard to our business and consolidated financial position, results of operations and cash flows.

INVESTOR information

We make available on our website, www.vulcanmaterials.com, free of charge, copies of our:

- § Annual Report on Form 10-K
- § Quarterly Reports on Form 10-Q
- § Current Reports on Form 8-K

Our website also includes amendments to those reports filed with or furnished to the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as well as all Forms 3, 4 and 5 filed with the SEC by our executive officers and directors, as soon as the filings are made publicly available by the SEC on its EDGAR database (www.sec.gov).

The public may read and copy materials filed with the SEC at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330. In addition to accessing copies of our reports online, you may request a copy of our Annual Report on Form 10-K, including financial statements, by writing to Jerry F. Perkins Jr., General Counsel and Secretary, Vulcan Materials Company, 1200 Urban Center Drive, Birmingham, Alabama 35242.

We have a:

- § Business Conduct Policy applicable to all employees and directors
- § Code of Ethics for the CEO and Senior Financial Officers

Copies of the Business Conduct Policy and the Code of Ethics are available on our website under the heading “Corporate Governance.” If we make any amendment to, or waiver of, any provision of the Code of Ethics, we will disclose such information on our website as well as through filings with the SEC.

Our Board of Directors has also adopted:

- § Corporate Governance Guidelines
- § Charters for its Audit, Compensation, Executive, Finance, Governance and Safety, Health & Environmental Affairs Committees

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These documents meet all applicable SEC and New York Stock Exchange regulatory requirements.

The Charters of the Audit, Compensation and Governance Committees are available on our website under the heading, "Corporate Governance," or you may request a copy of any of these documents by writing to Jerry F. Perkins Jr., General Counsel and Secretary, Vulcan Materials Company, 1200 Urban Center Drive, Birmingham, Alabama 35242.

Information included on our website is not incorporated into, or otherwise made a part of, this report.

ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

We are exposed to certain market risks arising from transactions that are entered into in the normal course of business. To manage these market risks, we may use derivative financial instruments. We do not enter into derivative financial instruments for speculative or trading purposes.

As discussed in the Liquidity and Financial Resources section of Part I, Item 2, we actively manage our capital structure and resources to balance the cost of capital and risk of financial stress. Such activity includes balancing the cost and risk of interest expense. In addition to floating-rate borrowings, we at times use interest rate swaps to manage the mix of fixed-rate and floating-rate debt.

While floating-rate debt exposes us to rising interest rates, it is typically cheaper than issuing fixed-rate debt at any point in time but can become more expensive than previously issued fixed-rate debt. However, a rising interest rate environment is not necessarily harmful to our financial results. Since 2002, our EBITDA and Operating income are positively correlated to floating interest rates (as measured by 3-month LIBOR). As such, our business serves as a natural hedge to rising interest rates, and floating-rate debt serves as a natural hedge against weaker operating results due to general economic weakness.

At September 30, 2017, the estimated fair value of our long-term debt including current maturities was \$3,073.1 million compared to a book value of \$2,814.8 million. The estimated fair value was determined by averaging several asking price quotes for the publicly traded notes and assuming par value for the remainder of the debt. The fair value estimate is based on information available as of the balance sheet date. The effect of a decline in interest rates of one percentage point would increase the fair value of our debt by approximately \$258.3 million.

We are exposed to certain economic risks related to the costs of our pension and other postretirement benefit plans. These economic risks include changes in the discount rate for high-quality bonds and the expected return on plan assets. The impact of a change in these assumptions on our annual pension and other postretirement benefits costs is discussed in our most recent Annual Report on Form 10-K.

ITEM 4

controls and procedures

disclosure controls and procedures

We maintain a system of controls and procedures designed to ensure that information required to be disclosed in reports we file with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. These disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a - 15(e) or 15d - 15(e)), include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer, with the participation of other management officials, evaluated the effectiveness of the design and operation of the disclosure controls and procedures as of September 30, 2017. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2017.

No material changes were made during the third quarter of 2017 to our internal controls over financial reporting, nor have there been other factors that materially affect these controls.

part II other information

ITEM 1

legal proceedings

Certain legal proceedings in which we are involved are discussed in Note 12 to the consolidated financial statements and Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2016, and in Note 8 to the condensed consolidated financial statements and Part II, Item 1 of our Quarterly Report on Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017. See Note 8 to the condensed consolidated financial statements of this Form 10-Q for a discussion of certain recent developments concerning our legal proceedings.

ITEM 1A

risk factors

There were no material changes to the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 2

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of our equity securities during the quarter ended September 30, 2017 are summarized below.

Total Number of Shares	Maximum Number of
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Period	Total Number of Shares Purchased	Average Price Paid Per Share	Purchased as Part of Publicly Announced Plans or Programs	Shares that May Yet Be Purchased Under the Plans or Programs 1
2017				
July 1 - July 31	0	\$ 0.00	0	9,489,717
Aug 1 - Aug 31	0	\$ 0.00	0	9,489,717
Sept 1 - Sept 30	0	\$ 0.00	0	9,489,717
Total	0	\$ 0.00	0	

1 On February 10, 2006, our Board of Directors authorized us to purchase up to 10,000,000 shares of our common stock. On February 10, 2017, there were 1,756,757 shares remaining under this authorization, and our Board of Directors authorized us to purchase an additional 8,243,243 shares to refresh the number of shares we were authorized to purchase to 10,000,000. As of September 30, 2017, there were 9,489,717 shares remaining under the authorization. Depending upon market, business, legal and other conditions, we may make share purchases from time to time through open market (including plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934) and/or privately negotiated transactions. The authorization has no time limit, does not obligate us to purchase any specific number of shares, and may be suspended or discontinued at any time.

We did not have any unregistered sales of equity securities during the third quarter of 2017.

ITEM 4

MINE SAFETY DISCLOSURES

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 of this report.

ITEM 6

exhibits

- Exhibit 31(a) [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- Exhibit 31(b) [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- Exhibit 32(a) [Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- Exhibit 32(b) [Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- Exhibit 95 [MSHA Citations and Litigation](#)
- Exhibit 101.INS XBRL Instance Document
- Exhibit 101.SCH XBRL Taxonomy Extension Schema Document
- Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

Our SEC file number for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 001-33841.

SIGNATURES

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

VULCAN MATERIALS COMPANY

/s/ Ejaz A. Khan

Ejaz A. Khan

Vice President, Controller

Date November 3, 2017 (Principal Accounting Officer)

/s/ John R. McPherson

John R. McPherson

Executive Vice President and Chief Financial and Strategy Officer

Date November 3, 2017 (Principal Financial Officer)