VALMONT INDUSTRIES INC
Form 10-Q
July 27, 2017

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

Form 10-Q
(Mark One)
x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 1, 2017
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to
Commission file number 1-31429

Valmont Industries, Inc.
(Exact name of registrant as specified in its charter)

Delaware	47-0351813
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
One Valmont Plaza, Omaha, Nebraska	68154-5215
(Address of Principal Executive Offices)	(Zip Code)

(402) 963-1000
(Registrant’s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non accelerated filer o	Smaller reporting company o
Emerging growth company o		(Do not check if a 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. o

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

22,590,934

Outstanding shares of common stock as of July 21, 2017

VALMONT INDUSTRIES, INC.

INDEX TO FORM 10-Q

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
PART I. FINANCIAL INFORMATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Product sales	$632,507	$570,762	$1,205,459	$1,103,702
Services sales	80,230	69,487	144,751	133,152
Net sales	712,737	640,249	1,350,210	1,236,854
Product cost of sales	477,174	418,072	904,021	811,564
Services cost of sales	52,283	47,060	98,304	89,204
Total cost of sales	529,457	465,132	1,002,325	900,768
Gross profit	183,280	175,117	347,885	336,086
Selling, general and administrative expenses	104,990	103,311	205,093	201,915
Operating income	78,290	71,806	142,792	134,171
Other income (expenses):				
Interest expense	(10,818)	(11,122)	(22,122)	(22,176)
Interest income	967	707	1,894	1,518
Other	(32)	1,252	1,167	(426)
	(9,883)	(9,163)	(19,061)	(21,084)
Earnings before income taxes	68,407	62,643	123,731	113,087
Income tax expense:				
Current	27,803	22,745	29,101	33,259
Deferred	(6,718)	(3,544)	7,347	2,215
	21,085	19,201	36,448	35,474
Net earnings	47,322	43,442	87,283	77,613
Less: Earnings attributable to noncontrolling interests	(1,658)	(1,416)	(2,640)	(2,618)
Net earnings attributable to Valmont Industries, Inc.	$45,664	$42,026	84,643	74,995
Earnings per share:				
Basic	$2.03	$1.86	$3.76	$3.31
Diluted	$2.01	$1.85	$3.73	$3.29
Cash dividends declared per share	$0.375	$0.375	$0.750	$0.750
Weighted average number of shares of common stock outstanding - Basic (000 omitted)	22,517	22,602	22,494	22,651
Weighted average number of shares of common stock outstanding - Diluted (000 omitted)	22,740	22,749	22,700	22,782

See accompanying notes to condensed consolidated financial statements.

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Net earnings	$47,322	$43,442	$87,283	$77,613
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments:				
Unrealized translation gain (loss)	21,551	(2,296)	40,941	217
Gain/(loss) on hedging activities:				
Net investment hedge	(550)	—	(1,076)	—
Amortization cost included in interest expense	18	19	37	38
Other comprehensive income (loss)	21,019	(2,277)	39,902	255
Comprehensive income	68,341	41,165	127,185	77,868
Comprehensive loss (income) attributable to noncontrolling interests	(2,223)	(1,787)	(1,982)	(4,114)
Comprehensive income attributable to Valmont Industries, Inc.	$66,118	$39,378	$125,203	$73,754

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	July 1, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$448,222	$399,948
Receivables, net	496,962	439,342
Inventories	382,648	350,028
Prepaid expenses, restricted cash, and other assets	43,545	57,297
Refundable income taxes	4,830	6,601
Total current assets	1,376,207	1,253,216
Property, plant and equipment, at cost	1,148,482	1,105,736
Less accumulated depreciation and amortization	628,375	587,401
Net property, plant and equipment	520,107	518,335
Goodwill	329,708	321,110
Other intangible assets, net	141,557	144,378
Other assets	155,583	154,692
Total assets	$2,523,162	$2,391,731
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	$921	$851
Notes payable to banks	376	746
Accounts payable	193,087	177,488
Accrued employee compensation and benefits	68,944	72,404
Accrued expenses	102,247	89,914
Dividends payable	8,472	8,445
Total current liabilities	374,047	349,848
Deferred income taxes	32,642	35,803
Long-term debt, excluding current installments	754,436	754,795
Defined benefit pension liability	194,517	209,470
Deferred compensation	47,799	44,319
Other noncurrent liabilities	17,275	14,910
Shareholders' equity:		
Preferred stock of $1 par value -		
Authorized 500,000 shares; none issued	—	—
Common stock of $1 par value -		
Authorized 75,000,000 shares; 27,900,000 issued	27,900	27,900
Retained earnings	1,945,874	1,874,722
Accumulated other comprehensive loss	(305,799)	(346,359)
Treasury stock	(603,726)	(612,781)
Total Valmont Industries, Inc. shareholders' equity	1,064,249	943,482
Noncontrolling interest in consolidated subsidiaries	38,197	39,104
Total shareholders' equity	1,102,446	982,586
Total liabilities and shareholders' equity	$2,523,162	$2,391,731

See accompanying notes to condensed consolidated financial statements.

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Twenty-six Weeks Ended	
	July 1, 2017	June 25, 2016
Cash flows from operating activities:		
Net earnings	$87,283	$77,613
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization	41,754	40,804
Noncash loss on trading securities	188	1,035
Stock-based compensation	4,590	4,201
Defined benefit pension plan expense	314	959
Contribution to defined benefit pension plan	(25,379)	(712)
Change in restricted cash - pension plan trust	12,568	(13,652)
(Gain)/loss on sale of property, plant and equipment	(64)	1,074
Deferred income taxes	7,347	2,215
Changes in assets and liabilities:		
Receivables	(49,416)	2,942
Inventories	(24,963)	(29,335)
Prepaid expenses and other assets	(5,892)	(4,859)
Accounts payable	10,715	1,430
Accrued expenses	5,252	(13,636)
Other noncurrent liabilities	1,973	327
Income taxes refundable	2,028	9,516
Net cash flows from operating activities	68,298	79,922
Cash flows from investing activities:		
Purchase of property, plant and equipment	(26,183)	(26,019)
Proceeds from sale of assets	890	1,827
Proceeds from settlement of net investment hedge	5,123	—
Other, net	(2,467)	(1,608)
Net cash flows from investing activities	(22,637)	(25,800)
Cash flows from financing activities:		
Net borrowings under short-term agreements	(369)	2,593
Principal payments on long-term borrowings	(434)	(659)
Dividends paid	(16,913)	(17,098)
Dividends to noncontrolling interest	(2,889)	(1,923)
Purchase of noncontrolling interest	—	(11,009)
Purchase of treasury shares	—	(28,621)
Proceeds from exercises under stock plans	10,168	5,975
Purchase of common treasury shares—stock plan exercises	(3,056)	(1,453)
Net cash flows from financing activities	(13,493)	(52,195)
Effect of exchange rate changes on cash and cash equivalents	16,106	(6,655)
Net change in cash and cash equivalents	48,274	(4,728)
Cash and cash equivalents—beginning of year	399,948	349,074
Cash and cash equivalents—end of period	$448,222	$344,346

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest in consolidated subsidiaries	Total shareholders' equity
Balance at December 26, 2015	$27,900	$ —	$1,729,679	$(267,218)	$(571,920)	$46,770	$965,211
Net earnings	—	—	74,995	—	—	2,618	77,613
Other comprehensive income (loss)	—	—	—	(1,241)	—	1,496	255
Cash dividends declared	—	—	(17,027)	—	—	—	(17,027)
Dividends to noncontrolling interests	—	—	—	—	—	(1,923)	(1,923)
Purchase of noncontrolling interests	—	(137)	—	—	—	(10,872)	(11,009)
Purchase of treasury shares; 245,798 shares acquired	—	—	—	—	(28,621)	—	(28,621)
Stock plan exercises; 10,747 shares acquired	—	—	—	—	(1,453)	—	(1,453)
Stock options exercised; 62,535 shares issued	—	(4,064)	2,473	—	7,566	—	5,975
Stock option expense	—	2,959	—	—	—	—	2,959
Stock awards; 6,976 shares issued	—	1,242	—	—	949	—	2,191
Balance at June 25, 2016	$27,900	$ —	$1,790,120	$(268,459)	$(593,479)	$38,089	$994,171
Balance at December 31, 2016	$27,900	$ —	$1,874,722	$(346,359)	$(612,781)	$39,104	$982,586
Net earnings	—	—	84,643	—	—	2,640	87,283
Other comprehensive income (loss)	—	—	—	40,560	—	(658)	39,902
Cash dividends declared	—	—	(16,939)	—	—	—	(16,939)
Dividends to noncontrolling interests	—	—	—	—	—	(2,889)	(2,889)
Stock plan exercises; 19,086 shares acquired	—	—	—	—	(3,056)	—	(3,056)
Stock options exercised; 84,432 shares issued	—	(4,590)	3,448	—	11,310	—	10,168
Stock option expense	—	2,578	—	—	—	—	2,578
Stock awards; 5,677 shares issued	—	2,012	—	—	801	—	2,813
Balance at July 1, 2017	$27,900	$ —	$1,945,874	$(305,799)	$(603,726)	$38,197	$1,102,446

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Condensed Consolidated Financial Statements

The Condensed Consolidated Balance Sheet as of July 1, 2017, the Condensed Consolidated Statements of Earnings and Comprehensive Income for the thirteen and twenty-six weeks ended July 1, 2017 and June 25, 2016, and the Condensed Consolidated Statements of Cash Flows and Shareholders' Equity for the twenty-six week periods then ended have been prepared by the Company, without audit. In the opinion of management, all necessary adjustments (which include normal recurring adjustments) have been made to present fairly the financial statements as of July 1, 2017 and for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. The accounting policies and methods of computation followed in these interim financial statements are the same as those followed in the financial statements for the year ended December 31, 2016. The results of operations for the period ended July 1, 2017 are not necessarily indicative of the operating results for the full year.

Inventories

Approximately 35% and 38% of inventory is valued at the lower of cost, determined on the last-in, first-out (LIFO) method, or market as of July 1, 2017 and December 31, 2016. All other inventory is valued at the lower of cost, determined on the first-in, first-out (FIFO) method or market. Finished goods and manufactured goods inventories include the costs of acquired raw materials and related factory labor and overhead charges required to convert raw materials to manufactured and finished goods. The excess of replacement cost of inventories over the LIFO value is approximately $39,260 and $38,047 at July 1, 2017 and December 31, 2016, respectively.

Inventories consisted of the following:

	July 1, 2017	December 31, 2016
Raw materials and purchased parts	$163,214	$ 143,659
Work-in-process	33,543	27,291
Finished goods and manufactured goods	225,151	217,125
Subtotal	421,908	388,075
Less: LIFO reserve	39,260	38,047
	$382,648	$ 350,028

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries for the thirteen and twenty-six weeks ended July 1, 2017 and June 25, 2016, were as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	2017	2016	2017	2016
United States	$50,773	$44,240	$86,197	$83,840
Foreign	17,634	18,403	37,534	29,247
	$68,407	$62,643	$123,731	$113,087

Pension Benefits

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

The components of the net periodic pension (benefit) expense for the thirteen and twenty-six weeks ended July 1, 2017 and June 25, 2016 were as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
Net periodic (benefit) expense:	2017	2016	2017	2016
Interest cost	$4,478	$6,659	$8,799	$13,042
Expected return on plan assets	(5,054)	(6,084)	(9,931)	(12,083)
Amortization of actuarial loss	736	—	1,446	—
Net periodic expense	$160	$575	$314	$959

Stock Plans

The Company maintains stock based compensation plans approved by the shareholders, which provide that the Human Resource Committee of the Board of Directors may grant incentive stock options, nonqualified stock options, stock appreciation rights, non-vested stock awards and bonuses of common stock. At July 1, 2017, 700,078 shares of common stock remained available for issuance under the plans. Shares and options issued and available are subject to changes in capitalization.

Under the plans, the exercise price of each option equals the closing market price at the date of the grant. Options vest beginning on the first anniversary of the grant in equal amounts over three to six years or on the fifth anniversary of the grant.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expiration of grants is from seven to ten years from the date of grant. The Company's compensation expense (included in selling, general and administrative expenses) and associated income tax benefits related to stock options for the thirteen and twenty-six weeks ended July 1, 2017 and June 25, 2016, respectively, were as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	2017	2016	2017	2016
Compensation expense	$1,289	$1,468	$2,578	$2,959
Income tax benefits	496	565	993	1,139

Fair Value

The Company applies the provisions of Accounting Standards Codification 820, Fair Value Measurements (“ASC 820”) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of ASC 820 apply to other accounting pronouncements that require or permit fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a three level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

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

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

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

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

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

Trading Securities: The assets and liabilities recorded for the investments held in the Valmont Deferred Compensation Plan of $38,732 ($35,784 at December 31, 2016) represent mutual funds, invested in debt and equity securities, classified as trading securities in accordance with Accounting Standards Codification 320, Accounting for Certain Investments in Debt and Equity Securities, considering the employee's ability to change investment allocation of their deferred compensation at any time.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's ownership of shares in Delta EMD Pty. Ltd. (JSE:DTA) is also classified as trading securities. The shares are valued at $1,931 and $2,016 as of July 1, 2017 and December 31, 2016, respectively, which is the estimated fair value. Quoted market prices are available for these securities in an active market and therefore categorized as a Level 1 input.

		Fair Value Measurement Using:		
	Carrying Value July 1, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Trading Securities	$40,663	$40,663	$ —	$ —

		Fair Value Measurement Using:		
	Carrying Value December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Trading Securities	$ 37,800	$37,800	$ —	$ —

Comprehensive Income

Comprehensive income includes net earnings, currency translation adjustments, certain derivative-related activity and changes in net actuarial gains/losses from a pension plan. Results of operations for foreign subsidiaries are translated using the average exchange rates during the period. Assets and liabilities are translated at the exchange rates in effect on the balance sheet dates. Accumulated other comprehensive income (loss) consisted of the following at July 1, 2017 and December 31, 2016:

	Foreign Currency Translation Adjustments	Gain on Hedging Activities	Defined Benefit Pension Plan	Accumulated Other Comprehensive Loss
Balance at December 31, 2016	$ (251,228)	$ 7,978	$ (103,109)	$ (346,359)
Current-period comprehensive income (loss)	41,599	(1,039)	—	40,560
Balance at July 1, 2017	$ (209,629)	$ 6,939	$ (103,109)	$ (305,799)

Net Investment Hedge

In the second quarter of 2016, the Company entered into a one-year foreign currency forward contract which qualified as a net investment hedge, in order to mitigate foreign currency risk on a portion of our investments denominated in British pounds. The forward contract had a notional amount to sell British pounds and receive $44,000, and matured in May 2017. The realized gain of $5,123 ($3,150 after tax) has been deferred in other comprehensive income where it will remain until the Company's net investments in its British subsidiaries are divested. No ineffectiveness resulted from the hedge prior to its maturity.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Recently Issued Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-9, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. The new revenue recognition standard requires entities to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This standard is effective for interim and annual reporting periods beginning after December 15, 2017, and can be adopted either retrospectively or as a cumulative effect adjustment as of the date of adoption. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations and financial position. One area under assessment is the timing of revenue recognition for the Company’s product lines that are custom engineered to a single customer’s specifications resulting in limited ability that the asset can be used for another customer. These product lines reside in the Utility and Engineered Support Structures segments. When the terms and conditions allow the Company to bill a customer for full compensation on a canceled order for the performance completed to date, revenue will be recognized over the production period and not the current practice which is upon shipment or time of delivery to the customer. The Company is also evaluating the necessary changes to its internal control processes to recognize revenue over time using an inputs based model after adoption. Based on the current status of the evaluation, the adoption of the standard is not expected to have a material effect on the amounts or timing of revenue recognition for the Company’s other segments. The Company expects to adopt the new standard using the modified retrospective approach effective January 1, 2018.
In February 2016, the FASB issued ASU 2016-02, Leases, which provides revised guidance on leases requiring lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018 and is to be applied on a modified retrospective transition. The Company is currently evaluating the effect that adopting this new accounting guidance but expects the adoption will result in a significant increase in total assets and liabilities.
In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments in the Statement of Cash Flows, which provides more specific guidance on cash flow presentation for certain transactions. ASU 2016-15 is effective for interim periods and fiscal years beginning after December 15, 2017, with early adoption permitted. We do not expect the provisions of this new standard will have a material impact on our consolidated financial statements and plan to adopt it in the first quarter of 2018.
In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. ASU 2017-04 is effective for periods and fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company will consider early adopting this standard prior to the annual goodwill impairment test in the third quarter of 2017.

In March 2017, the FASB issued ASU 2017-07, Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans, which amends the income statement presentation requirements for the components of net periodic benefit cost for an entity's defined benefit pension and post-retirement plans. ASU 2017-07 is effective for periods and fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of any annual period for which an entity's financial statements have not been issued. The Company does not believe this ASU will have a material impact on our consolidated financial statements and plans to adopt this ASU in the first quarter of 2018.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

(2) ACQUISITIONS

Acquisitions of Noncontrolling Interests

In April 2016, the Company acquired the remaining 30% of IGC Galvanizing Industries (M) Sdn Bhd that it did not own for $5,841. In June 2016, the Company acquired 5.2% of the remaining 10% of Valmont SM that it did not own for $5,168. As these transactions were for acquisitions of part or all of the remaining shares of consolidated subsidiaries with no change in control, they were recorded within shareholders' equity and as a financing cash flow in the Consolidated Statements of Cash Flows.

3) RESTRUCTURING ACTIVITIES

In April 2015, the Company's Board of Directors authorized a broad restructuring plan (the "2015 Plan") to respond to the market environment in certain businesses. During fiscal 2016, the Company incurred pre-tax restructuring charges of $4,581 as it completed the 2015 Plan.

In 2016, the Company identified and executed further region specific restructuring activities (the "2016 Plan") and incurred $5,045 of pre-tax restructuring expenses in cost of sales and $2,780 of pre-tax restructuring expense in SG&A in 2016. Within the total $7,825, were pre-tax asset impairments of $1,099. The 2016 Plan was primarily completed by year-end 2016. A significant change in market conditions in any of the Company's segments may affect of the Company's assessment of necessity for further restructuring activities.

Liabilities recorded for the restructuring plans and changes therein for the first half of fiscal 2017 were as follows:

	Balance at December 31, 2016	Recognized Restructuring Expense	Costs Paid or Otherwise Settled	Balance at July 1, 2017
Severance	$ 1,597	$ —	$ (1,597)	$ —
Other cash restructuring expenses	4,581	—	(2,226)	2,355
Total	$ 6,178	$ —	$ (3,823)	$ 2,355

(4) GOODWILL AND INTANGIBLE ASSETS

Amortized Intangible Assets

The components of amortized intangible assets at July 1, 2017 and December 31, 2016 were as follows:

	July 1, 2017		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Life
Customer Relationships	$ 196,201	$ 121,382	13 years
Proprietary Software & Database	3,659	3,083	8 years
Patents & Proprietary Technology	6,581	3,720	11 years
Other	3,942	3,912	3 years
	$ 210,383	$ 132,097	

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(4) GOODWILL AND INTANGIBLE ASSETS (Continued)

	December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Life
Customer Relationships	$191,316	$ 111,342	13 years
Proprietary Software & Database	3,616	3,056	8 years
Patents & Proprietary Technology	6,434	3,420	11 years
Other	3,713	3,668	3 years
	$205,079	$ 121,486	

Amortization expense for intangible assets for the thirteen and twenty-six weeks ended July 1, 2017 and June 25, 2016, respectively was as follows:

Thirteen Weeks Ended		Twenty-six Weeks Ended	
2017	2016	2017	2016
3,903	4,078	7,767	8,073

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

	Estimated Amortization Expense
2017	$ 15,498
2018	13,840
2019	13,079
2020	11,989
2021	9,903

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

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(4) GOODWILL AND INTANGIBLE ASSETS (Continued)
Non-amortized intangible assets
Intangible assets with indefinite lives are not amortized. The carrying values of trade names at July 1, 2017 and December 31, 2016 were as follows:

	July 1, 2017	December 31, 2016	Year Acquired
Webforge	$9,101	$ 8,624	2010
Valmont SM	9,525	8,765	2014
Newmark	11,111	11,111	2004
Ingal EPS/Ingal Civil Products	7,420	7,032	2010
Donhad	5,598	5,305	2010
Shakespeare	4,000	4,000	2014
Industrial Galvanizers	2,323	2,201	2010
Other	14,193	13,747	
	$63,271	$ 60,785	

In its determination of these intangible assets as indefinite lived, the Company considered such factors as its expected future use of the intangible asset, legal, regulatory, technological and competitive factors that may impact the useful life or value of the intangible asset and the expected costs to maintain the value of the intangible asset. The Company expects that these intangible assets will maintain their value indefinitely. Accordingly, these assets are not amortized.
The Company’s trade names were tested for impairment in the third quarter of 2016. The values of each trade name was determined using the relief-from-royalty method. Based on this evaluation, no trade names were determined to be impaired as of the third quarter of 2016.
Goodwill
The carrying amount of goodwill by segment as of July 1, 2017 and December 31, 2016 was as follows:

	Engineered Support Structures Segment	Energy & Mining Segment	Utility Support Structures Segment	Coatings Segment	Irrigation Segment	Total
Balance at December 31, 2016	$ 94,314	$ 72,212	$ 75,404	$ 59,569	$ 19,611	$321,110
Foreign currency translation	2,885	4,628	—	483	602	8,598
Balance at July 1, 2017	$ 97,199	$ 76,840	$ 75,404	$ 60,052	$ 20,213	$329,708

The Company’s annual impairment test of goodwill was performed during the third quarter of 2016, using the discounted cash flow method. As a result of that testing, the Company determined that its goodwill was not impaired, as the valuation of the reporting units exceeded their respective carrying values. The Company's offshore and other complex steel structures reporting unit with $14,179 of goodwill, is the reporting unit with the least amount of cushion between its estimated fair value and its carrying value. In the impairment model, the Company is forecasting steady growth in sales between 2018 to 2020 of the other complex steel structures to offset the significant decline in sales from offshore oil and gas structures realized in fiscal 2016. Sales and profitability amounts for the first half of 2017 approximated the amounts in the 2016 annual impairment model. The Company continues to monitor the sales backlog of this reporting unit and changes in the global economy that could impact future operating results of any of its reporting units.

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(5) CASH FLOW SUPPLEMENTARY INFORMATION

The Company considers all highly liquid temporary cash investments purchased with an original maturity of three months or less at the time of purchase to be cash equivalents. Cash payments for interest and income taxes (net of refunds) for the twenty-six weeks ended July 1, 2017 and June 25, 2016 were as follows:

	2017	2016
Interest	$22,113	$22,142
Income taxes	26,966	28,791

(6) EARNINGS PER SHARE

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

	Basic EPS	Dilutive Effect of Stock Options	Diluted EPS
Thirteen weeks ended July 1, 2017:			
Net earnings attributable to Valmont Industries, Inc.	$45,664	$—	$45,664
Shares outstanding (000 omitted)	22,517	223	22,740
Per share amount	$2.03	$(0.02)	$2.01
Thirteen weeks ended June 25, 2016:			
Net earnings attributable to Valmont Industries, Inc.	$42,026	$—	$42,026
Shares outstanding (000 omitted)	22,602	147	22,749
Per share amount	$1.86	$(0.01)	$1.85
Twenty-six weeks ended July 1, 2017:			
Net earnings attributable to Valmont Industries, Inc.	$84,643	$—	$84,643
Shares outstanding (000 omitted)	22,494	206	22,700
Per share amount	$3.76	$(0.03)	$3.73
Twenty-six weeks ended June 25, 2016:			
Net earnings attributable to Valmont Industries, Inc.	$74,995	$—	$74,995
Shares outstanding (000 omitted)	22,651	131	22,782
Per share amount	$3.31	$(0.02)	$3.29

At July 1, 2017 and June 25, 2016, there were 84,712 and 381,973 outstanding stock options with exercise prices exceeding the market price of common stock that were excluded from the computation of diluted earnings per share, respectively.

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(7) BUSINESS SEGMENTS

The accounting principles used in the preparation of the segment information are the same as those used for the consolidated financial statements as disclosed in Note 1, except that the segment assets and income reflect the FIFO basis of accounting for inventory. Certain inventories are accounted for using the LIFO basis in the consolidated financial statements. In the first quarter of 2017, the Company changed its reportable segment operating income to separate out the LIFO expense (benefit). Prior year financial information has been updated to reflect this change. Reportable segments are as follows:

ENGINEERED SUPPORT STRUCTURES: This segment consists of the manufacture of engineered metal structures and components for the global lighting and traffic, wireless communication, and roadway safety industries;

ENERGY AND MINING: This segment, all outside of the United States, consists of the manufacture of access systems applications, forged steel grinding media, on and offshore oil, gas, and wind energy structures;

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

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

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

The Company evaluates the performance of its business segments based upon operating income and invested capital. The Company does not allocate LIFO expense, interest expense, non-operating income and deductions, or income taxes to its business segments.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
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(7) BUSINESS SEGMENTS (Continued)
Summary by Business

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
SALES:				
Engineered Support Structures segment:				
Lighting, Traffic, and Roadway Products	$173,768	$163,191	$322,850	$309,493
Communication Products	43,813	40,725	75,289	71,394
Engineered Support Structures segment	217,581	203,916	398,139	380,887
Energy and Mining segment:				
Offshore and Other Complex Steel Structures	24,619	25,908	50,326	48,877
Grinding Media	21,072	21,018	40,666	40,508
Access Systems	31,516	33,766	64,187	63,756
Energy and Mining segment	77,207	80,692	155,179	153,141
Utility Support Structures segment:				
Steel	161,716	126,101	310,124	248,072
Concrete	22,906	25,144	49,110	47,693
Utility Support Structures segment	184,622	151,245	359,234	295,765
Coatings segment	79,781	75,298	153,249	143,879
Irrigation segment	188,287	152,252	355,511	310,766
Total	747,478	663,403	1,421,312	1,284,438
INTERSEGMENT SALES:				
Engineered Support Structures segment	16,456	8,114	36,663	19,126
Energy & Mining segment	—	1,409	—	3,067
Utility Support Structures segment	982	86	1,217	262
Coatings segment	15,181	11,886	29,317	21,699
Irrigation segment	2,122	1,659	3,905	3,430
Total	34,741	23,154	71,102	47,584
NET SALES:				
Engineered Support Structures segment	201,125	195,802	361,476	361,761
Energy & Mining segment	77,207	79,283	155,179	150,074
Utility Support Structures segment	183,640	151,159	358,017	295,503
Coatings segment	64,600	63,412	123,932	122,180
Irrigation segment	186,165	150,593	351,606	307,336
Total	$712,737	$640,249	$1,350,210	$1,236,854
OPERATING INCOME:				
Engineered Support Structures segment	$20,244	$20,817	$29,457	$33,292
Energy & Mining segment	3,941	3,341	7,778	5,243
Utility Support Structures segment	20,189	17,582	42,897	32,006
Coatings segment	12,108	14,023	21,514	25,436
Irrigation segment	34,670	31,013	64,961	59,908

Adjustment to LIFO inventory valuation method	(434)	(3,153)	(1,213)	(1,126)
Corporate	(12,428)	(11,817)	(22,602)	(20,588)
Total	$78,290	$71,806	$142,792	