Vulcan Materials CO
Form 10-Q
August 06, 2014
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 June 30, 2014

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

For the transition period from to

Commission File Number 001-33841

VULCAN MATERIALS COMPANY
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| New Jersey<br>(State or other jurisdiction of incorporation) | 20-8579133<br>(I.R.S. Employer Identification No.) |
| 1200 Urban Center Drive, Birmingham, Alabama<br>(Address of principal executive offices) | 35242<br>(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 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 registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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 June 30, 2014 |
|---|---|
| Common Stock, $1 Par Value | 130,910,161 |

VULCAN MATERIALS COMPANY

FORM 10-Q

QUARTER ENDED JUNE 30, 2014

Contents

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.

part I financial information

ITEM 1

FINANCIAL STATEMENTS

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED BALANCE SHEETS

| Unaudited, except for December 31<br>in thousands, except per share data | June 30<br>2014 | December 31<br>2013 | June 30<br>2013 |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | $ 227,684 | $ 193,738 | $ 86,979 |
| Restricted cash | 62,087 | 0 | 0 |
| Accounts and notes receivable | | | |
| Accounts and notes receivable, gross | 439,938 | 344,475 | 410,021 |
| Less: Allowance for doubtful accounts | (5,606) | (4,854) | (5,339) |
| Accounts and notes receivable, net | 434,332 | 339,621 | 404,682 |
| Inventories | | | |
| Finished products | 260,111 | 270,603 | 266,489 |
| Raw materials | 20,458 | 29,996 | 29,863 |
| Products in process | 1,104 | 6,613 | 5,415 |
| Operating supplies and other | 28,041 | 37,394 | 38,720 |
| Inventories | 309,714 | 344,606 | 340,487 |
| Current deferred income taxes | 40,858 | 40,423 | 39,275 |
| Prepaid expenses | 27,309 | 22,549 | 27,300 |
| Assets held for sale | 0 | 10,559 | 12,926 |
| Total current assets | 1,101,984 | 951,496 | 911,649 |
| Investments and long-term receivables | 42,128 | 42,387 | 43,194 |
| Property, plant & equipment | | | |
| Property, plant & equipment, cost | 6,396,658 | 6,933,602 | 6,735,203 |
| Reserve for depreciation, depletion & amortization | (3,494,896) | (3,621,585) | (3,519,862) |
| Property, plant & equipment, net | 2,901,762 | 3,312,017 | 3,215,341 |
| Goodwill | 3,081,521 | 3,081,521 | 3,081,521 |
| Other intangible assets, net | 633,442 | 697,578 | 698,471 |
| Other noncurrent assets | 173,061 | 174,144 | 170,048 |
| Total assets | $ 7,933,898 | $ 8,259,143 | $ 8,120,224 |
| Liabilities | | | |
| Current maturities of long-term debt | $ 158 | $ 170 | $ 161 |
| Short-term debt | 0 | 0 | 100,000 |

| | | | |
|---|---|---|---|
| Trade payables and accruals | 178,239 | 139,345 | 128,142 |
| Other current liabilities | 171,008 | 159,620 | 163,466 |
| Total current liabilities | 349,405 | 299,135 | 391,769 |
| Long-term debt | 2,006,379 | 2,522,243 | 2,524,420 |
| Noncurrent deferred income taxes | 704,544 | 701,075 | 664,967 |
| Deferred revenue | 217,589 | 219,743 | 73,068 |
| Other noncurrent liabilities | 569,794 | 578,841 | 652,480 |
| Total liabilities | 3,847,711 | 4,321,037 | 4,306,704 |
| Other commitments and contingencies (Note 8) | | | |
| Equity | | | |
| Common stock, $1 par value, Authorized 480,000 shares, | | | |
| Issued 130,910, 130,200 and 129,963 shares, respectively | 130,910 | 130,200 | 129,963 |
| Capital in excess of par value | 2,665,793 | 2,611,703 | 2,592,239 |
| Retained earnings | 1,382,711 | 1,295,834 | 1,247,984 |
| Accumulated other comprehensive loss | (93,227) | (99,631) | (156,666) |
| Total equity | 4,086,187 | 3,938,106 | 3,813,520 |
| Total liabilities and equity | $ 7,933,898 | $ 8,259,143 | $ 8,120,224 |

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| Unaudited | | June 30 | | June 30 |
| in thousands, except per share data | 2014 | 2013 | 2014 | 2013 |
| Net sales | $ 756,289 | $ 696,078 | $ 1,304,785 | $ 1,200,632 |
| Delivery revenues | 34,854 | 42,655 | 60,778 | 76,263 |
| Total revenues | 791,143 | 738,733 | 1,365,563 | 1,276,895 |
| Cost of goods sold | 581,501 | 563,183 | 1,095,904 | 1,050,082 |
| Delivery costs | 34,854 | 42,655 | 60,778 | 76,263 |
| Cost of revenues | 616,355 | 605,838 | 1,156,682 | 1,126,345 |
| Gross profit | 174,788 | 132,895 | 208,881 | 150,550 |
| Selling, administrative and general expenses | 67,615 | 64,902 | 133,733 | 129,557 |
| Gain on sale of property, plant & equipment and businesses, net | 1,162 | 23,410 | 237,526 | 27,520 |
| Restructuring charges | 0 | 0 | 0 | (1,509) |
| Other operating expense, net | (5,089) | (4,537) | (14,758) | (10,196) |
| Operating earnings | 103,246 | 86,866 | 297,916 | 36,808 |
| Other nonoperating income, net | 1,798 | 286 | 4,622 | 2,658 |
| Interest expense, net | 40,551 | 50,873 | 160,639 | 103,623 |
| Earnings (loss) from continuing operations before income taxes | 64,493 | 36,279 | 141,899 | (64,157) |
| Provision for (benefit from) income taxes | 17,982 | 6,151 | 40,882 | (32,666) |
| Earnings (loss) from continuing operations | 46,511 | 30,128 | 101,017 | (31,491) |
| Earnings (loss) on discontinued operations, net of tax | (544) | (1,356) | (1,054) | 5,427 |
| Net earnings (loss) | $ 45,967 | $ 28,772 | $ 99,963 | $ (26,064) |
| Other comprehensive income, net of tax | | | | |
| Reclassification adjustment for cash flow hedges | 584 | 835 | 3,569 | 1,689 |
| Adjustment for funded status of benefit plans | 0 | 60,299 | 2,943 | 60,299 |
| Amortization of actuarial loss and prior service cost for benefit plans | 1,115 | 3,431 | (108) | 6,863 |
| Other comprehensive income | 1,699 | 64,565 | 6,404 | 68,851 |
| Comprehensive income | $ 47,666 | $ 93,337 | $ 106,367 | $ 42,787 |
| Basic earnings (loss) per share | | | | |
| Continuing operations | $ 0.35 | $ 0.23 | $ 0.77 | $ (0.24) |
| Discontinued operations | 0.00 | (0.01) | (0.01) | 0.04 |
| Net earnings (loss) | $ 0.35 | $ 0.22 | $ 0.76 | $ (0.20) |
| Diluted earnings (loss) per share | | | | |
| Continuing operations | $ 0.35 | $ 0.23 | $ 0.76 | $ (0.24) |
| Discontinued operations | 0.00 | (0.01) | (0.01) | 0.04 |
| Net earnings (loss) | $ 0.35 | $ 0.22 | $ 0.75 | $ (0.20) |

| | | | | |
|---|---|---|---|---|
| Weighted-average common shares outstanding | | | | |
| Basic | 131,149 | 130,250 | 130,980 | 130,219 |
| Assuming dilution | 132,876 | 131,332 | 132,468 | 130,219 |
| Cash dividends per share of common stock | $ 0.05 | $ 0.01 | $ 0.10 | $ 0.02 |
| Depreciation, depletion, accretion and amortization | $ 68,323 | $ 76,961 | $ 137,702 | $ 152,557 |
| Effective tax rate from continuing operations | 27.9% | 17.0% | 28.8% | 50.9% |

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

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VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six Months Ended | |
|---|---|---|
| Unaudited | | June 30 |
| in thousands | 2014 | 2013 |
| Operating Activities | | |
| Net earnings (loss) | $ 99,963 | $ (26,064) |
| Adjustments to reconcile net earnings to net cash provided by operating activities | | |
| Depreciation, depletion, accretion and amortization | 137,702 | 152,557 |
| Net gain on sale of property, plant & equipment and businesses | (237,526) | (40,550) |
| Contributions to pension plans | (2,791) | (2,308) |
| Share-based compensation | 11,928 | 11,102 |
| Excess tax benefits from share-based compensation | (3,242) | (888) |
| Deferred tax provision (benefit) | 24 | (31,581) |
| Cost of debt purchase | 72,949 | 0 |
| Changes in assets and liabilities before initial effects of business acquisitions and dispositions | (59,893) | (108,295) |
| Other, net | 3,786 | 682 |
| Net cash provided by (used for) operating activities | 22,900 | (45,345) |
| Investing Activities | | |
| Purchases of property, plant & equipment | (116,312) | (60,041) |
| Proceeds from sale of property, plant & equipment | 20,454 | 2,517 |
| Proceeds from sale of businesses, net of transaction costs | 719,089 | 52,908 |
| Payment for businesses acquired, net of acquired cash | (207) | (89,951) |
| Increase in restricted cash | (62,087) | 0 |
| Other, net | 0 | 2 |
| Net cash provided by (used for) investing activities | 560,937 | (94,565) |
| Financing Activities | | |
| Proceeds from line of credit | 0 | 111,000 |
| Payment of current maturities, long-term debt and line of credit | (579,694) | (161,477) |
| Proceeds from issuance of common stock | 27,539 | 0 |
| Dividends paid | (13,074) | (2,598) |
| Proceeds from exercise of stock options | 12,095 | 3,598 |
| Excess tax benefits from share-based compensation | 3,242 | 888 |
| Other, net | 1 | 0 |
| Net cash used for financing activities | $ (549,891) | $ (48,589) |
| Net increase (decrease) in cash and cash equivalents | 33,946 | (188,499) |
| Cash and cash equivalents at beginning of year | 193,738 | 275,478 |
| Cash and cash equivalents at end of period | $ 227,684 | $ 86,979 |

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 producer of construction aggregates, primarily crushed stone, sand and gravel and a major producer of asphalt mix and ready-mixed concrete.

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, 2013 was derived from the audited financial statement at that date. 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 six month periods ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014. 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 presented in Note 2, the operating results of the Chemicals business are presented as discontinued operations in the accompanying Condensed Consolidated Statements of Comprehensive Income.

RECLASSIFICATIONS

Certain items previously reported in specific financial statement captions have been reclassified to conform with the 2014 presentation.

RESTRICTED CASH

Restricted cash consists of cash proceeds from the sale of property held in escrow for the acquisition of replacement property under like-kind exchange agreements. The escrow accounts are administered by an intermediary. Pursuant to the like-kind exchange agreements, the cash remains restricted for a maximum of 180 days from the date of the property sale pending the acquisition of replacement property. Changes in restricted cash balances are reflected as an investment activity in the accompanying Condensed Consolidated Statements of Cash Flows.

RESTRUCTURING CHARGES

In 2012, our Board approved a Profit Enhancement Plan that further leveraged our streamlined management structure and substantially completed ERP and Shared Services platforms to achieve cost reductions and other earnings enhancements. During the first half of 2013, we incurred $1,509,000 of costs (primarily project design, outside advisory and severance) related to the implementation of this plan. We do not anticipate any future material charges related to this Profit Enhancement Plan.

EARNINGS PER SHARE (EPS)

We report two earnings per share numbers: basic and diluted. These 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:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | | June 30 | | June 30 |
| in thousands | 2014 | 2013 | 2014 | 2013 |
| Weighted-average common shares outstanding | 131,149 | 130,250 | 130,980 | 130,219 |
| Dilutive effect of | | | | |
| Stock options/SOSARs | 663 | 442 | 677 | 0 |
| Other stock compensation plans | 1,064 | 640 | 811 | 0 |
| Weighted-average common shares outstanding, assuming dilution | 132,876 | 131,332 | 132,468 | 130,219 |

All dilutive common stock equivalents are reflected in our earnings per share calculations. Antidilutive common stock equivalents are not included 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 are excluded. These excluded shares are as follows: six months ended June 30, 2013 — 1,113,000.

The number of antidilutive common stock equivalents for which the exercise price exceeds the weighted-average market price is as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | | June 30 | | June 30 |
| in thousands | 2014 | 2013 | 2014 | 2013 |
| Antidilutive common stock equivalents | 2,356 | 2,899 | 2,356 | 2,899 |

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. In addition to the initial cash proceeds, Basic Chemicals was required to make payments under two earn-out agreements. In March 2013, we received the final earn-out payment in the amount of $13,031,000. We were liable for a cash transaction bonus payable annually to certain former key Chemicals employees based on the prior years' earn-out results. As of June 30, 2013, we had accrued $1,303,000 for the 2013 transaction bonus which was subsequently paid in 2013.

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 net sales or revenues from discontinued operations for the periods presented. Results from discontinued operations are as follows:

| | Three Months Ended | June 30 | Six Months Ended | June 30 |
|---|---|---|---|---|
| in thousands | 2014 | 2013 | 2014 | 2013 |
| Discontinued Operations | | | | |
| Pretax loss | $ (897) | $ (2,221) | $ (1,739) | $ (2,761) |
| Gain on disposal, net of transaction bonus | 0 | 0 | 0 | 11,728 |
| Income tax (provision) benefit | 353 | 865 | 685 | (3,540) |
| Earnings (loss) on discontinued operations, net of income taxes | $ (544) | $ (1,356) | $ (1,054) | $ 5,427 |

The pretax losses from discontinued operations noted above were due primarily to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business.

Note 3: Income Taxes

Our estimated annual effective tax rate (EAETR) is based on full year expectations of pretax book 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, except in circumstances as described in the following paragraph, 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 book 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.

When expected pretax book earnings for the full year are at or near breakeven, the EAETR can distort the income tax provision for an interim period due to the size and nature of our permanent differences. In these circumstances, we calculate the interim income tax provision using the year-to-date effective tax rate. This method results in an income tax provision based solely on the year-to-date pretax book earnings as adjusted for permanent differences on a pro rata basis. In the second quarter of 2014, income taxes were calculated based on the EAETR. In the second quarter of 2013, income taxes were calculated based on the year-to-date effective tax rate.

We recorded an income tax provision from continuing operations of $17,982,000 in the second quarter of 2014 compared to $6,151,000 in the second quarter of 2013. The change in our income tax provision for the year resulted largely from applying the statutory rate to the increase in our pretax book earnings.

We recorded an income tax provision from continuing operations of $40,882,000 for the six months ended June 30, 2014 compared to an income tax benefit from continuing operations of $32,666,000 for the six months ended June 30, 2013. The change in our income tax provision for the year resulted largely from applying the statutory rate to the increase in our pretax book earnings.

We recognize a tax benefit associated with an uncertain 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 initially and subsequently measure the tax benefit as the largest amount that we judge to have a greater than 50% likelihood of being realized. Our liability associated with 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. Such adjustments are recognized entirely in the period in which they are identified. Our income tax provision includes the net impact of changes in the liability for unrecognized tax benefits.

We recognize deferred tax assets and liabilities based on the differences between the financial statement's carrying amounts of assets and liabilities and the amounts used for income tax purposes. Deferred tax assets represent items to be used as a tax deduction or credit in future tax returns. Realization of the deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character in either the carryback or carryforward period.

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. 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, 2013.

On an annual basis, we perform a comprehensive analysis of all forms of positive and negative evidence based on year end results. During each interim period, we update our annual analysis for significant changes to the positive and negative evidence.

Based on our second quarter 2014 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 the state net operating loss carryforwards for which a valuation allowance has been recorded. For year-end 2014, we project a valuation allowance of $54,855,000 against our state net operating loss deferred tax asset carryforwards; an increase of $8,575,000 from the prior year-end. Of the $54,855,000 valuation allowance, $53,433,000 relates to our Alabama net operating loss carryforward. The remaining valuation allowance of $1,422,000 relates to other state net operating loss carryforwards. This change in the valuation allowance is reflected as a component of our income tax provision.

Note 4: deferred revenue

We have entered into two transactions (September 2013 and December 2012) through which we sold a percentage of the future production from aggregates reserves at eight quarries (seven owned and one leased). These sales were structured as volumetric production payments (VPPs). We received net cash proceeds 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 on a unit-of-sales basis to revenue over the terms of the VPPs. Concurrently, we entered into marketing agreements with the purchaser through which we are designated the exclusive sales agent for the purchaser’s percentage of future production. Acting as the purchaser’s agent, our consolidated total revenues exclude these sales proceeds.

The common key terms of both VPP transactions are:

§ the purchaser has a nonoperating interest in future production entitling them to a percentage of future production
§ there is no minimum annual or cumulative production or sales volume, nor any minimum sales price guarantee
§ the purchaser has the right to take its percentage of future production in physical product, or receive the cash proceeds from the sale of its percentage of future production under the terms of a separate marketing agreement
§ the purchaser's percentage of future production is conveyed free and clear of future costs of production and sales
§ we retain full operational and marketing control of the specified quarries
§ we retain fee simple interest in the land as well as any residual values that may be realized upon the conclusion of mining

The key terms specific to the 2013 VPP transaction are:

§ terminates at the earlier to occur of September 30, 2051 or the sale of 250.8 million tons of aggregates from the specified quarries; based on historical and projected volumes from the specified quarries, it is expected that 250.8 million tons will be sold prior to September 30, 2051
§ the purchaser's percentage of the maximum 250.8 million tons of future production is estimated, based on current sales volume projection, to be 11.5% (approximately 29 million tons); the actual percentage may vary

The key terms specific to the 2012 VPP transaction are:

§ terminates at the earlier to occur of December 31, 2052 or the sale of 143.2 million tons of aggregates from the specified quarries; based on historical and projected volumes from the specified quarries, it is expected that 143.2 million tons will be sold prior to December 31, 2052
§ the purchaser's percentage of the maximum 143.2 million tons of future production is estimated, based on current sales volume projection, to be 10.5% (approximately 15 million tons); the actual percentage may vary

The impact to our net sales and gross margin related to the VPPs is outlined as follows:

| | Three Months Ended | June 30 | Six Months Ended | June 30 |
|---|---|---|---|---|
| in thousands | 2014 | 2013 | 2014 | 2013 |
| Amortization of deferred revenue | $ 1,357 | $ 324 | $ 2,341 | $ 576 |
| Purchaser's proceeds from sale of production | (4,137) | (1,069) | (7,081) | (1,898) |
| Decrease to net sales and gross margin | $ (2,780) | $ (745) | $ (4,740) | $ (1,322) |

Based on expected aggregates sales from the specified quarries, we anticipate recognizing a range of $4,800,000 to $5,800,000 of deferred revenue during the 12-month period ending June 30, 2015.

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 | | |
|---|---|---|---|
| in thousands | June 30 2014 | December 31 2013 | June 30 2013 |
| Fair Value Recurring | | | |
| Rabbi Trust | | | |
| Mutual funds | $ 14,365 | $ 15,255 | $ 13,689 |
| Equities | 14,052 | 12,828 | 10,638 |
| Total | $ 28,417 | $ 28,083 | $ 24,327 |

| | Level 2 | | |
|---|---|---|---|
| in thousands | June 30 2014 | December 31 2013 | June 30 2013 |
| Fair Value Recurring | | | |
| Rabbi Trust | | | |
| Common/collective trust funds | $ 1,349 | $ 1,244 | $ 1,507 |
| Total | $ 1,349 | $ 1,244 | $ 1,507 |

We have established 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 those funds (short-term, highly liquid assets in commercial paper, short-term bonds and certificates of deposit).

Net gains of the Rabbi Trust investments were $3,428,000 and $1,093,000 for the six months ended June 30, 2014 and 2013, respectively. The portions of the net gains related to investments still held by the Rabbi Trusts at June 30, 2014 and 2013 were $1,480,000 and $941,000, respectively.

The carrying values of our cash equivalents, accounts and notes receivable, current maturities of long-term debt, short-term borrowings, 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.

There were no assets or liabilities subject to fair value measurement on a nonrecurring basis in 2013. Assets that were subject to fair value measurement on a nonrecurring basis in 2014 are summarized below:

| | As of June 30, 2014 | |
|---|---|---|
| in thousands | Level 2 | Impairment Charges |
| Fair Value Nonrecurring | | |
| Property, plant & equipment | $ 2,280 | $ 2,987 |
| Total | $ 2,280 | $ 2,987 |

We recorded a $2,987,000 loss on impairment of long-lived assets in the first quarter of 2014 reducing the carrying value of these assets to their estimated fair value of $2,280,000. Fair value was estimated using a market approach (observed transactions involving comparable assets in similar locations).

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Note 6: Derivative Instruments

During the normal course of operations, we are exposed to market risks including fluctuations in interest rates, foreign currency exchange rates and commodity pricing. From time to time, and consistent with our risk management policies, we use derivative instruments to hedge against these market risks. We do not utilize 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 swap agreements described below were designated as either cash flow hedges or fair value hedges. The changes in fair value of our interest rate swap 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. The changes in fair value of our interest rate swap fair value hedges are recorded as interest expense consistent with the change in the fair value of the hedged items attributable to the risk being hedged.

CASH FLOW HEDGES

We have used interest rate swap agreements designated as cash flow hedges to minimize the variability in cash flows of liabilities or forecasted transactions caused by fluctuations in interest rates. During 2007, we entered into fifteen forward starting interest rate swap agreements for a total stated amount of $1,500,000,000. Upon the 2007 and 2008 issuances of the related fixed-rate debt, we terminated and settled these forward starting swaps for cash payments of $89,777,000. Amounts in AOCI are 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:

| | | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|---|
| in thousands | Location on Statement | 2014 | 2013 | 2014 | 2013 |