

VALMONT INDUSTRIES INC  
Form 10-Q  
April 30, 2014

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

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**Form 10-Q**

(Mark One)

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

For the quarterly period ended March 29, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-31429

**Valmont Industries, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**47-0351813**  
(I.R.S. Employer  
Identification No.)

**One Valmont Plaza,  
Omaha, Nebraska**  
(Address of Principal Executive Offices)

**68154-5215**  
(Zip Code)

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

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

**26,883,338**

Outstanding shares of common stock as of April 22, 2014

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## VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

## PART I. FINANCIAL INFORMATION

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Dollars in thousands, except per share amounts)

(Unaudited)

	Thirteen Weeks Ended	
	March 29, 2014	March 30, 2013
Product sales	\$ 681,043	\$ 740,447
Services sales	70,697	79,183
Net sales	751,740	819,630
Product cost of sales	497,843	529,161
Services cost of sales	46,915	55,100
Total cost of sales	544,758	584,261
Gross profit	206,982	235,369
Selling, general and administrative expenses	108,134	117,179
Operating income	98,848	118,190
Other income (expenses):		
Interest expense	(8,197)	(8,190)
Interest income	1,739	1,353
Other	(5,812)	1,556
	(12,270)	(5,281)
Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries	86,578	112,909
Income tax expense (benefit):		
Current	32,938	38,660
Deferred	(2,923)	(3,687)
	30,015	34,973
Earnings before equity in earnings of nonconsolidated subsidiaries	56,563	77,936

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Equity in earnings of nonconsolidated subsidiaries			204
Net earnings	56,563		78,140
Less: Earnings attributable to noncontrolling interests	(583)		(571)
Net earnings attributable to Valmont Industries, Inc.	\$ 55,980	\$	77,569
Earnings per share:			
Basic	\$ 2.10	\$	2.92
Diluted	\$ 2.08	\$	2.89
Cash dividends declared per share	\$ 0.250	\$	0.225
Weighted average number of shares of common stock outstanding Basic (000 omitted)	26,715		26,583
Weighted average number of shares of common stock outstanding Diluted (000 omitted)	26,950		26,859

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	
	March 29, 2014	March 30, 2013
Net earnings	\$ 56,563	\$ 78,140
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments:		
Unrealized translation gain (loss)	11,637	(9,620)
Realized loss included in net earnings during the period		(5,194)
Unrealized loss on cash flow hedge:		
Amortization cost included in interest expense	100	100
Actuarial gain (loss) in defined benefit pension plan	(233)	(936)
Other comprehensive income (loss)	11,504	(15,650)
Comprehensive income	68,067	62,490
Comprehensive loss (income) attributable to noncontrolling interests	88	1,640
Comprehensive income attributable to Valmont Industries, Inc.	\$ 68,155	\$ 64,130

See accompanying notes to condensed consolidated financial statements.

Table of Contents**VALMONT INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except shares and per share amounts)****(Unaudited)**

	<b>March 29, 2014</b>	<b>December 28, 2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 488,195	\$ 613,706
Receivables, net	529,693	515,440
Inventories	424,825	380,000
Prepaid expenses	57,913	22,997
Refundable and deferred income taxes	57,935	65,697
Total current assets	1,558,561	1,597,840
Property, plant and equipment, at cost	1,171,914	1,017,126
Less accumulated depreciation and amortization	559,711	482,916
Net property, plant and equipment	612,203	534,210
Goodwill	355,844	349,632
Other intangible assets, net	226,469	170,917
Other assets	132,789	123,895
Total assets	\$ 2,885,866	\$ 2,776,494

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:		
Current installments of long-term debt	\$ 188	\$ 202
Notes payable to banks	14,860	19,024
Accounts payable	234,218	216,121
Accrued employee compensation and benefits	86,327	122,967
Accrued expenses	91,110	71,560
Income taxes payable	9,967	
Dividends payable	6,721	6,706
Total current liabilities	443,391	436,580

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Deferred income taxes	104,642	78,924
Long-term debt, excluding current installments	479,141	470,907
Defined benefit pension liability	139,047	154,397
Deferred compensation	46,502	39,109
Other noncurrent liabilities	53,340	51,731
Shareholders' equity:		
Preferred stock of \$1 par value		
Authorized 500,000 shares; none issued		
Common stock of \$1 par value		
Authorized 75,000,000 shares; 27,900,000 issued	27,900	27,900
Retained earnings	1,615,696	1,562,670
Accumulated other comprehensive income (loss)	(35,510)	(47,685)
Treasury stock	(19,897)	(20,860)
<b>Total Valmont Industries, Inc. shareholders' equity</b>	<b>1,588,189</b>	<b>1,522,025</b>
Noncontrolling interest in consolidated subsidiaries	31,614	22,821
<b>Total shareholders' equity</b>	<b>1,619,803</b>	<b>1,544,846</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,885,866</b>	<b>\$ 2,776,494</b>

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)

	Thirteen Weeks Ended	
	March 29, 2014	March 30, 2013
Cash flows from operating activities:		
Net earnings	\$ 56,563	\$ 78,140
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization	19,601	19,208
Loss on investment	3,386	
Stock-based compensation	1,880	1,675
Defined benefit pension plan expense	662	1,633
Contribution to defined benefit pension plan	(17,484)	(10,346)
Gain on sale of property, plant and equipment	(127)	(66)
Equity in earnings in nonconsolidated subsidiaries		(204)
Deferred income taxes	(2,923)	(3,687)
Changes in assets and liabilities (net of acquisitions):		
Receivables	31,668	19,006
Inventories	(37,911)	(30,390)
Prepaid expenses	(9,148)	(2,786)
Accounts payable	(12,471)	(5,303)
Accrued expenses	(29,889)	(17,808)
Other noncurrent liabilities	1,551	1,130
Income taxes payable	16,559	14,410
Net cash flows from operating activities	21,917	64,612
Cash flows from investing activities:		
Purchase of property, plant and equipment	(23,526)	(21,845)
Proceeds from sale of assets	1,391	29,415
Acquisitions, net of cash acquired	(120,483)	(54,714)
Other, net	(990)	2,789
Net cash flows from investing activities	(143,608)	(44,355)
Cash flows from financing activities:		
Net borrowings under short-term agreements	(4,056)	(573)
Principal payments on long-term borrowings	(63)	(16)
Dividends paid	(6,706)	(6,001)
Dividends to noncontrolling interest	(351)	(1,476)
Proceeds from exercises under stock plans	7,860	11,697
Excess tax benefits from stock option exercises	2,296	226
Purchase of common treasury shares stock plan exercises	(8,574)	(12,375)

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Net cash flows from financing activities	(9,594)	(8,518)
Effect of exchange rate changes on cash and cash equivalents	5,774	(5,872)
Net change in cash and cash equivalents	(125,511)	5,867
Cash and cash equivalents beginning of year	613,706	414,129
Cash and cash equivalents end of period	\$ 488,195	\$ 419,996

See accompanying notes to condensed consolidated financial statements.

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## VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest in consolidated subsidiaries	Total shareholders' equity
<b>Balance at December 29, 2012</b>	\$ 27,900	\$	\$ 1,300,529	\$ 43,938	\$ (22,455)	\$ 57,098	\$ 1,407,010
Net earnings			77,569			571	78,140
Other comprehensive income (loss)				(13,439)		(2,211)	(15,650)
Cash dividends declared			(6,020)				(6,020)
Dividends to noncontrolling interests						(1,476)	(1,476)
Acquisition of Locker						325	325
Stock plan exercises; 77,955 shares acquired					(12,375)		(12,375)
Stock options exercised; 156,342 shares issued		(1,901)	659		12,939		11,697
Tax benefit from stock option exercises		226					226
Stock option expense		1,313					1,313
Stock awards; 2,667 shares issued		362			373		735
<b>Balance at March 30, 2013</b>	\$ 27,900	\$	\$ 1,372,737	\$ 30,499	\$ (21,518)	\$ 54,307	\$ 1,463,925
<b>Balance at December 28, 2013</b>	\$ 27,900	\$	\$ 1,562,670	\$ (47,685)	\$ (20,860)	\$ 22,821	\$ 1,544,846
Net earnings			55,980			583	56,563
Other comprehensive income (loss)				12,175		(671)	11,504
Cash dividends declared			(6,721)				(6,721)
Dividends to noncontrolling interests						(351)	(351)
Acquisition of DS SM						9,232	9,232
Stock plan exercises; 57,854 shares acquired					(8,574)		(8,574)
Stock options exercised; 110,339 shares issued		(4,176)	3,767		8,269		7,860
Tax benefit from stock option exercises		2,296					2,296
Stock option expense		1,263					1,263
Stock awards; 8,290 shares issued		617			1,268		1,885
<b>Balance at March 29, 2014</b>	\$ 27,900	\$	\$ 1,615,696	\$ (35,510)	\$ (19,897)	\$ 31,614	\$ 1,619,803

See accompanying notes to condensed consolidated financial statements.

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## VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Condensed Consolidated Financial Statements*

The Condensed Consolidated Balance Sheet as of March 29, 2014, the Condensed Consolidated Statements of Earnings and Comprehensive Income for the thirteen weeks ended March 29, 2014 and March 30, 2013, and the Condensed Consolidated Statements of Cash Flows and Shareholders' Equity for the thirteen 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 March 29, 2014 and for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2013. The accounting policies and methods of computation followed in these interim financial statements are the same as those followed in the financial statements for the year ended December 28, 2013. The results of operations for the period ended March 29, 2014 are not necessarily indicative of the operating results for the full year.

*Inventories*

Approximately 44% and 43% of inventory is valued at the lower of cost, determined on the last-in, first-out (LIFO) method, or market as of March 29, 2014 and December 28, 2013, respectively. All other inventory is valued at the lower of cost, determined on the first-in, first-out (FIFO) method or market. Finished goods and manufactured goods inventories include the costs of acquired raw materials and related factory labor and overhead charges required to convert raw materials to manufactured and finished goods. The excess of replacement cost of inventories over the LIFO value is approximately \$45,601 and \$45,204 at March 29, 2014 and December 28, 2013, respectively.

Inventories consisted of the following:

	March 29, 2014	December 28, 2013
Raw materials and purchased parts	\$ 183,412	\$ 179,576
Work-in-process	39,617	27,294
Finished goods and manufactured goods	247,397	218,334
Subtotal	470,426	425,204
Less: LIFO reserve	45,601	45,204
	\$ 424,825	\$ 380,000

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## VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Income Taxes*

Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries for the thirteen weeks ended March 29, 2014 and March 30, 2013, were as follows:

	Thirteen Weeks Ended	
	2014	2013
United States	\$ 71,694	\$ 89,384
Foreign	14,884	23,525
	\$ 86,578	\$ 112,909

*Pension Benefits*

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

The components of the net periodic pension expense for the thirteen weeks ended March 29, 2014 and March 30, 2013 were as follows:

	2014	2013
Net periodic benefit expense:		
Interest cost	\$ 7,197	\$ 6,571
Expected return on plan assets	(6,535)	(4,938)
Net periodic benefit expense	\$ 662	\$ 1,633

*Stock Plans*

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The Company maintains stock-based compensation plans approved by the shareholders, which provide that the Human Resource Committee of the Board of Directors may grant incentive stock options, nonqualified stock options, stock appreciation rights, non-vested stock awards and bonuses of common stock. At March 29, 2014, 1,476,466 shares of common stock remained available for issuance under the plans. Shares and options issued and available are subject to changes in capitalization.

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

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## VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expiration of grants is from six to ten years from the date of grant. The Company's compensation expense (included in selling, general and administrative expenses) and associated income tax benefits related to stock options for the thirteen weeks ended March 29, 2014 and March 30, 2013, respectively, were as follows:

	Thirteen Weeks Ended	
	2014	2013
Compensation expense	\$ 1,263	\$ 1,313
Income tax benefits	486	506

*Equity Method Investments*

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

*Fair Value*

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

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

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

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



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## VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Trading Securities: The assets and liabilities recorded for the investments held in the Valmont Deferred Compensation Plan of \$34,175 (\$27,133 in December 2013) represent mutual funds, invested in debt and equity securities, classified as trading securities in accordance with Accounting Standards Codification 320, *Accounting for Certain Investments in Debt and Equity Securities*, considering the employee's ability to change investment allocation of their deferred compensation at any time. The Company's ownership in Delta EMD Pty. Ltd. (JSE:DTA) of \$10,255 and \$13,910 is recorded at fair value at March 29, 2014 and December 28, 2013, respectively. Quoted market prices are available for these securities in an active market and therefore categorized as a Level 1 input.

	Carrying Value March 29, 2014	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Trading Securities	\$ 44,430	\$ 44,430	\$	\$

	Carrying Value December 28, 2013	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Trading Securities	\$ 41,043	\$ 41,043	\$	\$

*Comprehensive Income*

Comprehensive income includes net earnings, currency translation adjustments, certain derivative-related activity and changes in net actuarial gains/losses from a pension plan. Results of operations for foreign subsidiaries are translated using the average exchange rates during the period. Assets and liabilities are translated at the exchange rates in effect on the balance sheet dates. Accumulated other comprehensive income (loss) consisted of the following at March 29, 2014 and December 28, 2013:

	Foreign Currency Translation Adjustments	Unrealized Loss on Cash Flow Hedge	Defined Benefit Pension Plan	Accumulated Other Comprehensive Income
Balance at December 28, 2013	\$ (20,165)	\$ (2,535)	\$ (24,985)	\$ (47,685)
Current-period comprehensive income (loss)	12,308	100	(233)	12,175
Balance at March 29, 2014	\$ (7,857)	\$ (2,435)	\$ (25,218)	\$ (35,510)



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## VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

**(2) ACQUISITIONS**

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

The preliminary fair value measurement was completed at March 29, 2014, subject to management reviews and completion of the fair value measurements of the assets acquired and liabilities assumed. The Company expects the fair value measurement process to be completed in the second quarter of 2014.

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

	<b>At March 3, 2014</b>
Current assets	\$ 73,421
Property, plant and equipment	69,438
Intangible assets	59,110
Goodwill	4,885
<b>Total fair value of assets acquired</b>	<b>\$ 206,854</b>
Current liabilities	50,953
Deferred income taxes	17,245
Intercompany note payable	37,448
Long-term debt	8,941
Non-controlling interests	9,232