

VULCAN MATERIALS CO

Form 10-Q

July 31, 2007

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**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 Quarter ended June 30, 2007

OR

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

For the transition period from _____ to _____

VULCAN MATERIALS COMPANY

(Exact name of registrant as specified in its charter)

New Jersey

(State or other jurisdiction
of incorporation)

1-4033

(Commission file number)

63-0366371

(I.R.S. Employer
Identification No.)

1200 Urban Center Drive

Birmingham, Alabama 35242

(Address of principal executive offices) (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 registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large accelerated filer Accelerated filer Non-accelerated filer

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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, 2007
Common Stock, \$1 Par Value	95,550,384

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FORM 10-Q
QUARTER ENDED JUNE 30, 2007
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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements
Vulcan Materials Company
and Subsidiary Companies**

	(Amounts in thousands)		
Consolidated Balance Sheets (Condensed and unaudited)	June 30 2007	December 31 2006	June 30 2006 (As Adjusted See Note 2)
Assets			
Cash and cash equivalents	\$ 34,593	\$ 55,230	\$ 71,191
Accounts and notes receivable:			
Accounts and notes receivable, gross	464,165	394,815	612,484
Less: Allowance for doubtful accounts	(3,246)	(3,355)	(4,238)
Accounts and notes receivable, net	460,919	391,460	608,246
Inventories:			
Finished products	251,486	214,508	204,114
Raw materials	11,803	9,967	10,138
Products in process	2,494	1,619	1,959
Operating supplies and other	20,329	17,443	18,452
Inventories	286,112	243,537	234,663
Deferred income taxes	18,531	25,579	19,281
Prepaid expenses	14,711	15,388	13,830
Total current assets	814,866	731,194	947,211
Investments and long-term receivables	5,004	6,664	6,729
Property, plant and equipment:			
Property, plant and equipment, cost	4,119,748	3,897,618	3,668,316
Less: Reserve for depr., depl. & amort.	(2,114,125)	(2,028,504)	(1,953,064)
Property, plant and equipment, net	2,005,623	1,869,114	1,715,252
Goodwill	650,205	620,189	630,802
Other assets	213,951	200,673	189,500
Total assets	\$ 3,689,649	\$ 3,427,834	\$ 3,489,494
Liabilities and Shareholders Equity			
Current maturities of long-term debt	\$ 727	\$ 630	\$ 32,547
Short-term borrowings	224,000	198,900	217,000
Trade payables and accruals	161,032	154,215	186,978
Other current liabilities	126,350	133,763	181,022
Total current liabilities	512,109	487,508	617,547

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Long-term debt	321,365	322,064	322,645
Deferred income taxes	293,199	287,905	278,778
Other noncurrent liabilities	340,386	319,458	289,608
Total liabilities	1,467,059	1,416,935	1,508,578
Other commitments and contingencies (Notes 13 & 19)			
Shareholders' equity:			
Common stock, \$1 par value	139,705	139,705	139,705
Capital in excess of par value	248,153	191,695	172,079
Retained earnings	3,124,385	2,982,526	2,803,275
Accumulated other comprehensive income (loss)	2,924	(4,953)	(2,213)
Treasury stock at cost	(1,292,577)	(1,298,074)	(1,131,930)
Shareholders' equity	2,222,590	2,010,899	1,980,916
Total liabilities and shareholders' equity	\$ 3,689,649	\$ 3,427,834	\$ 3,489,494

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**Vulcan Materials Company
and Subsidiary Companies**

(Amounts and shares in thousands, except per share data)

Consolidated Statements of Earnings (Condensed and unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006 (As Adjusted See Note 2)	2007	2006 (As Adjusted See Note 2)
Net sales	\$ 807,818	\$ 807,781	\$ 1,438,005	\$ 1,450,053
Delivery revenues	71,026	80,381	128,026	146,797
Total revenues	878,844	888,162	1,566,031	1,596,850
Cost of goods sold	522,585	549,898	985,577	1,028,277
Delivery costs	71,026	80,381	128,026	146,797
Cost of revenues	593,611	630,279	1,113,603	1,175,074
Gross profit	285,233	257,883	452,428	421,776
Selling, administrative and general expenses	71,308	65,151	145,710	130,163
Gain on sale of property, plant and equipment, net	4,852	1,304	51,239	2,061
Other operating expense (income), net	1,544	(24,088)	3,578	(23,463)
Operating earnings	217,233	218,124	354,379	317,137
Other (expense) income, net	(113)	10,756	1,089	22,849
Interest income	1,117	1,472	2,440	4,119
Interest expense	8,091	5,690	14,726	11,975
Earnings from continuing operations before income taxes	210,146	224,662	343,182	332,130
Provision for income taxes	66,465	72,314	110,162	107,878
Earnings from continuing operations	143,681	152,348	233,020	224,252
Discontinued operations (Note 3):				
Loss from results of discontinued operations	(2,787)	(2,868)	(3,564)	(5,900)
Income tax benefit	1,117	1,153	1,429	2,366
Loss on discontinued operations, net of tax	(1,670)	(1,715)	(2,135)	(3,534)
Net earnings	\$ 142,011	\$ 150,633	\$ 230,885	\$ 220,718
Basic earnings (loss) per share:				
Earnings from continuing operations	\$ 1.50	\$ 1.53	\$ 2.44	\$ 2.24

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Discontinued operations	(0.01)	(0.02)	(0.02)	(0.03)
Net earnings per share	\$ 1.49	\$ 1.51	\$ 2.42	\$ 2.21
Diluted earnings (loss) per share:				
Earnings from continuing operations	\$ 1.46	\$ 1.50	\$ 2.38	\$ 2.20
Discontinued operations	(0.01)	(0.02)	(0.02)	(0.04)
Net earnings per share	\$ 1.45	\$ 1.48	\$ 2.36	\$ 2.16
Weighted-average common shares outstanding:				
Basic	95,578	99,430	95,376	99,988
Assuming dilution	98,157	101,636	98,023	102,153
Cash dividends declared per share of common stock	\$ 0.46	\$ 0.37	\$ 0.92	\$ 0.74
Depreciation, depletion, accretion and amortization from continuing operations	\$ 63,903	\$ 55,170	\$ 124,705	\$ 108,843
Effective tax rate from continuing operations	31.6%	32.2%	32.1%	32.5%
See accompanying Notes to Condensed Consolidated Financial Statements				
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and Subsidiary Companies**

(Amounts in thousands)

Consolidated Statements of Cash Flows (Condensed and unaudited)	Six Months Ended June 30	
	2007	2006 (As Adjusted - See Note 2)
Operating Activities		
Net earnings	\$ 230,885	\$ 220,718
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, depletion, accretion and amortization	124,705	108,861
Net gain on sale of property, plant and equipment	(51,239)	(2,061)
Net gain on sale of contractual rights		(24,849)
Contributions to pension plans	(584)	(778)
Share-based compensation	8,282	8,354
Increase in assets before initial effects of business acquisitions and dispositions	(113,828)	(143,068)
Increase in liabilities before initial effects of business acquisitions and dispositions	19,570	33,588
Other, net	148	(6,664)
Net cash provided by operating activities	217,939	194,101
Investing Activities		
Purchases of property, plant and equipment	(234,800)	(187,273)
Proceeds from sale of property, plant and equipment	55,492	4,742
Proceeds from sale of contractual rights, net of cash transaction fees		24,888
Proceeds from sale of Chemicals business	8,418	3,930
Payment for businesses acquired, net of acquired cash	(58,861)	(20,355)
Proceeds from sales and maturities of medium-term investments		175,140
Decrease in investments and long-term receivables	1,660	240
Other, net	718	543
Net cash provided by (used for) investing activities	(227,373)	1,855
Financing Activities		
Net short-term borrowings	25,100	217,000
Payment of short-term debt and current maturities	(320)	(240,305)
Payment of long-term debt	(47)	
Purchases of common stock	(4,800)	(335,224)
Dividends paid	(87,610)	(73,855)
Proceeds from exercise of stock options	32,963	19,537
Excess tax benefits from exercise of stock options	23,511	9,626
Other, net		3,318

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Net cash used for financing activities	(11,203)	(399,903)
Net decrease in cash and cash equivalents	(20,637)	(203,947)
Cash and cash equivalents at beginning of period	55,230	275,138
Cash and cash equivalents at end of period	\$ 34,593	\$ 71,191

See accompanying Notes to Condensed Consolidated Financial Statements

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**VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

1. Basis of Presentation

Our accompanying condensed consolidated financial statements have been prepared in compliance with Form 10-Q instructions 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. 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. The statements should be read in conjunction with the summary of accounting policies and notes to financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006 (Form 10-K) and Current Report on Form 8-K filed on July 12, 2007 updating the historical financial statements included in our Form 10-K for the retrospective application of a change in accounting principle, as described in Note 2 (FSP AUG AIR-1 caption).

Due to the 2005 sale of our Chemicals business, as presented in Note 3, the operating results of the Chemicals business have been presented as discontinued operations in the accompanying Condensed Consolidated Statements of Earnings.

2. Accounting Changes

FIN 48 On January 1, 2007, we adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes, by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, the financial statement effects of a tax position should initially be recognized when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold should initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority.

As a result of the implementation of FIN 48, we increased the liability for unrecognized tax benefits by \$2,420,000, increased deferred tax assets by \$1,480,000 and reduced retained earnings as of January 1, 2007 by \$940,000. The total liability for unrecognized tax benefits as of January 1, 2007, amounted to \$11,760,000.

We recognized adjustments to our liability for prior year unrecognized tax benefits of \$1,310,000 during the second quarter of 2007 and \$1,860,000 during the first half of 2007. As of June 30, 2007, our total liability for unrecognized tax benefits amounts to \$13,620,000, of which \$11,860,000 would affect the effective tax rate if recognized.

We classify interest and penalties recognized on the liability for unrecognized tax benefits as income tax expense. Accrued interest and penalties included in our total liability for unrecognized tax benefits were \$2,670,000 as of June 30, 2007 and \$2,060,000 as of January 1, 2007.

The U.S. Federal statute of limitations expires during the third quarter of 2007 for our 2002 and 2003 tax years. However, on our U.S. consolidated corporation income tax returns for those years, we anticipate having no single tax position generating a significant increase or decrease in our liability for unrecognized tax benefits within 12 months of this reporting date.

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We file income tax returns in the U.S. federal and various state jurisdictions and one foreign jurisdiction. Generally, we are not subject to changes in income taxes by any taxing jurisdiction for the years prior to 2002.

FSP AUG AIR-1 On January 1, 2007, we adopted FASB Staff Position (FSP) No. AUG AIR-1, Accounting for Planned Major Maintenance Activities (FSP AUG AIR-1). This FSP amended certain provisions in the American Institute of Certified Public Accountants Industry Audit Guide, Audits of Airlines (Airline Guide). The Airline Guide is the principal source of guidance on the accounting for planned major maintenance activities and permits four alternative methods of accounting for such activities. This guidance principally affects our accounting for periodic overhauls on our oceangoing vessels. Prior to January 1, 2007, we applied the accrue-in-advance method as permitted by the Airline Guide, which allowed for the accrual of estimated costs for the next scheduled overhaul over the period leading up to the overhaul. At the time of the overhaul, the actual cost of the overhaul was charged to the accrual, with any deficiency or excess charged or credited to expense. FSP AUG AIR-1 prohibits the use of the accrue-in-advance method, and was effective for fiscal years beginning after December 15, 2006. Accordingly, we adopted this FSP effective January 1, 2007, and have elected to use the deferral method of accounting for planned major maintenance as permitted by the Airline Guide and allowed by FSP AUG AIR-1. Under the deferral method, the actual cost of each overhaul is capitalized and amortized over the period until the next overhaul. Additionally, the FSP must be applied retrospectively to the beginning of the earliest period presented in the financial statements. As a result of the retrospective application of this change in accounting standard, we have adjusted our financial statements for all prior periods presented to reflect using the deferral method of accounting for planned major maintenance.

The following table reflects the effect of the retrospective application of FSP AUG AIR-1 on our Condensed Consolidated Balance Sheet (in thousands of dollars):

	As Previously Reported	June 30, 2006 Adjustment Amount	As Adjusted
Selected Balance Sheet Data:			
Deferred income taxes	\$ 19,441	\$ (160)	\$ 19,281
Total current assets	947,371	(160)	947,211
Other assets	185,292	4,208	189,500
Total assets	3,485,446	4,048	3,489,494
Other current liabilities	187,193	(6,171)	181,022
Total current liabilities	623,718	(6,171)	617,547
Total liabilities	1,514,749	(6,171)	1,508,578
Retained earnings	2,793,056	10,219	2,803,275
Shareholders' equity	1,970,697	10,219	1,980,916
Total liabilities and shareholders' equity	3,485,446	4,048	3,489,494

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The following tables reflect the effect of the retrospective application of FSP AUG AIR-1 on our Condensed Consolidated Statements of Earnings (in thousands of dollars, except per share data):

	Three Months Ended June 30, 2006		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Statement of Earnings Data:			
Net sales	\$807,781	\$	\$807,781
Cost of goods sold	550,045	(147)	549,898
Cost of revenues	630,426	(147)	630,279
Gross profit	257,736	147	257,883
Selling, administrative and general expenses	65,180	(29)	65,151
Operating earnings	217,948	176	218,124
Earnings from continuing operations before income taxes	224,486	176	224,662
Provision for income taxes	75,080	(2,766)	72,314
Earnings from continuing operations	149,406	2,942	152,348
Net earnings	147,691	2,942	150,633
Basic earnings per share	\$ 1.49	\$ 0.02	\$ 1.51
Diluted earnings per share	\$ 1.45	\$ 0.03	\$ 1.48

	Six Months Ended June 30, 2006		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Statement of Earnings Data:			
Net sales	\$1,450,053	\$	\$1,450,053
Cost of goods sold	1,028,654	(377)	1,028,277
Cost of revenues	1,175,451	(377)	1,175,074
Gross profit	421,399	377	421,776
Selling, administrative and general expenses	130,222	(59)	130,163
Operating earnings	316,701	436	317,137
Earnings from continuing operations before income taxes	331,694	436	332,130
Provision for income taxes	110,551	(2,673)	107,878
Earnings from continuing operations	221,143	3,109	224,252
Net earnings	217,609	3,109	220,718
Basic earnings per share	\$ 2.18	\$ 0.03	\$ 2.21
Diluted earnings per share	\$ 2.13	\$ 0.03	\$ 2.16

The following table reflects the effect of the retrospective application of FSP AUG AIR-1 on our Condensed Consolidated Statement of Cash Flows (in thousands of dollars):