

Vulcan Materials CO  
Form 10-Q  
August 08, 2012  
Table of Contents

**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, 2012**

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**

**20-8579133**

(State or other jurisdiction of incorporation)

(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 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.

Edgar Filing: Vulcan Materials CO - Form 10-Q

(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
Common Stock, \$1 Par Value	at June 30, 2012 129,392,801

---

**Table of Contents**

VULCAN MATERIALS COMPANY

**FORM 10-Q**

**QUARTER ENDED JUNE 30, 2012**

CONTENTS

	Page
PART I	FINANCIAL INFORMATION
Item 1.	Financial Statements
	<u>Condensed Consolidated Balance Sheets</u>
	<u>Condensed Consolidated Statements of Comprehensive Income</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>
	3 4 5 6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	24
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	38
Item 4.	<u>Controls and Procedures</u>
	38
PART II	OTHER INFORMATION
Item 1.	<u>Legal Proceedings</u>
	39
Item 1A.	<u>Risk Factors</u>
	40
Item 4	<u>Mine Safety Disclosures</u>
Item 6.	<u>Exhibits</u>
	40 40
	<u>Signatures</u>
	41

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1  
FINANCIAL STATEMENTS****VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<i>June 30</i>	<i>December 31</i>	<i>June 30</i>
	<i>2012</i>	<i>2011</i>	<i>2011</i>
<i>Unaudited, except for December 31</i>			
<i>in thousands, except per share data</i>			
<b>Assets</b>			
Cash and cash equivalents	<b>\$158,301</b>	\$155,839	\$106,744
Restricted cash	<b>0</b>	81	109
Accounts and notes receivable			
Accounts and notes receivable, gross	<b>397,506</b>	321,391	397,423
Less: Allowance for doubtful accounts	<b>(7,375)</b>	(6,498)	(7,641)
Accounts and notes receivable, net	<b>390,131</b>	314,893	389,782
Inventories			
Finished products	<b>266,265</b>	260,732	259,109
Raw materials	<b>24,457</b>	23,819	26,300
Products in process	<b>3,974</b>	4,198	4,930
Operating supplies and other	<b>39,910</b>	38,908	38,926
Inventories	<b>334,606</b>	327,657	329,265
Current deferred income taxes	<b>43,357</b>	43,032	45,704
Prepaid expenses	<b>24,840</b>	21,598	22,394
Total current assets	<b>951,235</b>	863,100	893,998
Investments and long-term receivables	<b>28,506</b>	29,004	37,251
Property, plant & equipment			
Property, plant & equipment, cost	<b>6,697,685</b>	6,705,546	6,739,908
Reserve for depreciation, depletion & amortization	<b>(3,419,174)</b>	(3,287,367)	(3,197,163)
Property, plant & equipment, net	<b>3,278,511</b>	3,418,179	3,542,745
Goodwill	<b>3,086,716</b>	3,086,716	3,097,016
Other intangible assets, net	<b>694,972</b>	697,502	694,509
Other noncurrent assets	<b>140,135</b>	134,813	121,736
Total assets	<b>\$8,180,075</b>	\$8,229,314	\$8,387,255
<b>Liabilities</b>			
Current maturities of long-term debt	<b>\$285,152</b>	\$134,762	\$5,230
Short-term borrowings	<b>0</b>	0	100,000
Trade payables and accruals	<b>171,834</b>	103,931	153,729
Other current liabilities	<b>159,481</b>	167,560	178,677
Total current liabilities	<b>616,467</b>	406,253	437,636
Long-term debt	<b>2,528,387</b>	2,680,677	2,785,843
Noncurrent deferred income taxes	<b>687,337</b>	732,528	756,557
Other noncurrent liabilities	<b>604,948</b>	618,239	535,136
Total liabilities	<b>4,437,139</b>	4,437,697	4,515,172
Other commitments and contingencies (Note 18)			
<b>Equity</b>			
Common stock, \$1 par value	<b>129,393</b>	129,245	129,224
Capital in excess of par value	<b>2,560,824</b>	2,544,740	2,534,562
Retained earnings	<b>1,261,501</b>	1,334,476	1,376,026
Accumulated other comprehensive loss	<b>(208,782)</b>	(216,844)	(167,729)

Edgar Filing: Vulcan Materials CO - Form 10-Q

Total equity	<b>3,742,936</b>	3,791,617	3,872,083
Total liabilities and equity	<b>\$8,180,075</b>	\$8,229,314	\$8,387,255

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

**Table of Contents****VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>Unaudited</i>	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>June 30</i>		<i>June 30</i>	
<i>in thousands, except per share data</i>	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Net sales	<b>\$648,890</b>	\$657,457	<b>\$1,148,741</b>	\$1,113,773
Delivery revenues	<b>45,246</b>	44,514	<b>81,277</b>	75,398
Total revenues	<b>694,136</b>	701,971	<b>1,230,018</b>	1,189,171
Cost of goods sold	<b>542,951</b>	556,617	<b>1,020,844</b>	1,020,039
Delivery costs	<b>45,246</b>	44,514	<b>81,277</b>	75,398
Cost of revenues	<b>588,197</b>	601,131	<b>1,102,121</b>	1,095,437
Gross profit	<b>105,939</b>	100,840	<b>127,897</b>	93,734
Selling, administrative and general expenses	<b>61,914</b>	74,062	<b>126,826</b>	151,271
Gain on sale of property, plant & equipment and businesses, net	<b>13,152</b>	2,919	<b>19,678</b>	3,373
Recovery from legal settlement (Note 18)	<b>0</b>	0	<b>0</b>	25,546
Restructuring charges (Note 1)	<b>(4,551)</b>	(1,831)	<b>(5,962)</b>	(2,137)
Exchange offer costs (Note 1)	<b>(32,060)</b>	0	<b>(42,125)</b>	0
Other operating income (expense), net	<b>(904)</b>	(4,378)	<b>720</b>	(6,940)
Operating earnings (loss)	<b>19,662</b>	23,488	<b>(26,618)</b>	(37,695)
Other nonoperating income (expense), net	<b>(709)</b>	(20)	<b>2,391</b>	1,361
Interest expense, net	<b>53,687</b>	70,911	<b>105,954</b>	113,161
Loss from continuing operations before income taxes	<b>(34,734)</b>	(47,443)	<b>(130,181)</b>	(149,495)
Benefit from income taxes	<b>(17,749)</b>	(40,341)	<b>(56,145)</b>	(77,771)
Loss from continuing operations	<b>(16,985)</b>	(7,102)	<b>(74,036)</b>	(71,724)
Earnings (loss) on discontinued operations, net of tax	<b>(1,298)</b>	(1,037)	<b>3,700</b>	8,852
Net loss	<b>(\$18,283)</b>	(\$8,139)	<b>(\$70,336)</b>	(\$62,872)
Other comprehensive income, net of tax				
Reclassification adjustment for cash flow hedges	<b>955</b>	4,003	<b>1,893</b>	5,453
Amortization of pension and postretirement benefit plans actuarial loss and prior service cost	<b>3,084</b>	1,941	<b>6,168</b>	4,158
Other comprehensive income	<b>4,039</b>	5,944	<b>8,061</b>	9,611
Comprehensive loss	<b>(\$14,244)</b>	(\$2,195)	<b>(\$62,275)</b>	(\$53,261)
Basic earnings (loss) per share				
Continuing operations	<b>(\$0.13)</b>	(\$0.05)	<b>(\$0.57)</b>	(\$0.55)
Discontinued operations	<b>(\$0.01)</b>	(\$0.01)	<b>\$0.03</b>	\$0.06
Net loss per share	<b>(\$0.14)</b>	(\$0.06)	<b>(\$0.54)</b>	(\$0.49)
Diluted earnings (loss) per share				
Continuing operations	<b>(\$0.13)</b>	(\$0.05)	<b>(\$0.57)</b>	(\$0.55)
Discontinued operations	<b>(\$0.01)</b>	(\$0.01)	<b>\$0.03</b>	\$0.06
Net loss per share	<b>(\$0.14)</b>	(\$0.06)	<b>(\$0.54)</b>	(\$0.49)
Weighted-average common shares outstanding				
Basic	<b>129,676</b>	129,446	<b>129,634</b>	129,263
Assuming dilution	<b>129,676</b>	129,446	<b>129,634</b>	129,263
Dividends declared per share	<b>\$0.01</b>	\$0.25	<b>\$0.02</b>	\$0.50
Depreciation, depletion, accretion and amortization	<b>\$84,116</b>	\$92,137	<b>\$169,283</b>	\$182,723
Effective tax rate from continuing operations	<b>51.1%</b>	85.0%	<b>43.1%</b>	52.0%

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



**Table of Contents****VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>Unaudited</i>	<i>Six Months Ended</i>	
<i>in thousands</i>	<i>2012</i>	<i>June 30 2011</i>
<b>Operating Activities</b>		
Net loss	(\$70,336)	(\$62,872)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation, depletion, accretion and amortization	169,283	182,723
Net gain on sale of property, plant & equipment and businesses	(31,014)	(15,657)
Contributions to pension plans	(2,248)	(1,995)
Share-based compensation	3,601	8,849
Deferred tax provision	(51,613)	(92,031)
Cost of debt purchase	0	19,153
Changes in assets and liabilities before initial effects of business acquisitions and dispositions	(20,033)	(37,591)
Other, net	(701)	6,437
Net cash provided by (used for) operating activities	(3,061)	7,016
<b>Investing Activities</b>		
Purchases of property, plant & equipment	(33,584)	(51,512)
Proceeds from sale of property, plant & equipment	26,069	6,717
Proceeds from sale of businesses, net of transaction costs	11,827	12,284
Other, net	49	1,364
Net cash provided by (used for) investing activities	4,361	(31,147)
<b>Financing Activities</b>		
Net short-term payments	0	(185,500)
Payment of current maturities and long-term debt	(105)	(737,739)
Cost of debt purchase	0	(19,153)
Proceeds from issuance of long-term debt	0	1,100,000
Debt issuance costs	0	(17,904)
Proceeds from issuance of common stock	0	4,936
Dividends paid	(2,590)	(64,570)
Proceeds from exercise of stock options	3,524	3,232
Other, net	333	32
Net cash provided by financing activities	1,162	83,334
Net increase in cash and cash equivalents	2,462	59,203
Cash and cash equivalents at beginning of year	155,839	47,541
Cash and cash equivalents at end of period	\$158,301	\$106,744

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



---

**Table of Contents**

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### **NOTE 1: BASIS OF PRESENTATION**

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; a major producer of asphalt mix and ready-mixed concrete and a leading producer of cement in Florida.

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, 2011 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, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012. 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 2012 presentation.

### **RESTRUCTURING CHARGES**

In 2011, we substantially completed the implementation of a multi-year project to replace our legacy information technology systems with new ERP and Shared Services platforms. These platforms are helping us streamline processes enterprise-wide and standardize administrative and support functions while providing enhanced flexibility to monitor and control costs. Leveraging this significant investment in technology allowed us to reduce overhead and administrative staff, resulting in \$2,137,000 of severance and related charges in the first six months of 2011 and \$12,971,000 for the full year 2011. There were no significant charges related to this restructuring plan in 2012.

In 2012, our Board approved a Profit Enhancement Plan that further leverages our streamlined management structure and substantially completed ERP and Shared Services platforms to achieve cost reductions and other earnings enhancements. During the second quarter and for the first half of 2012, we incurred \$4,551,000 and \$5,962,000, respectively, of costs related to the implementation of this plan. We expect to recognize the total estimated \$8,870,000 cost of this plan in 2012.

### **UNSOLICITED EXCHANGE OFFER**

In December 2011, Martin Marietta Materials, Inc. (Martin Marietta) commenced an unsolicited exchange offer for all outstanding shares of our common stock at a fixed exchange ratio of 0.50 shares of Martin Marietta common stock for each Vulcan common share and indicated its intention to nominate a slate of directors to our Board. After careful consideration, including a thorough review of the offer with its financial and legal advisors, our Board unanimously determined that Martin Marietta's offer was inadequate, substantially undervalued Vulcan, was not in the best interests of Vulcan and its shareholders and had substantial risk.

In May 2012, the Delaware Chancery Court ruled and the Delaware Supreme Court affirmed that Martin Marietta had breached two confidentiality agreements between the companies, and enjoined Martin Marietta for a period of four months from pursuing its exchange offer for our shares, prosecuting its proxy contest, or otherwise taking steps to acquire control of our shares or assets and from any further violations of the two confidentiality agreements between the parties.

In response to Martin Marietta's actions, we incurred legal, professional and other costs as follows: second quarter of 2012 \$32,060,000, first quarter of 2012 \$10,065,000 and fourth quarter of 2011 \$2,227,000. As of June 30, 2012, \$8,087,000 of the costs incurred in 2012 were paid.



**Table of Contents**

**CORRECTION OF PRIOR PERIOD FINANCIAL STATEMENTS**

In preparation for an Internal Revenue Service (IRS) exam during 2011, we identified improper deductions and errors in the calculation of taxable income for items primarily associated with the 2007 acquisition of Florida Rock. These items have been voluntarily submitted to the IRS for use in their examination.

The errors arose during periods prior to 2009, did not impact earnings or cash flows for any years presented and are not material to previously issued financial statements. As a result, we did not amend previously filed financial statements but have restated the affected Condensed Consolidated Balance Sheet presented in this Form 10-Q. The correction of these errors resulted in adjustments to the following opening balances:

- an increase to current deferred income tax assets of \$910,000
  
- an increase to prepaid income taxes of \$735,000
  
- an increase to current income taxes payable of \$16,676,000
  
- a decrease to noncurrent deferred income tax liabilities of \$5,849,000
  
- a decrease to retained earnings of \$9,182,000

A summary of the effects of the correction of the errors on our Condensed Consolidated Balance Sheet as of June 30, 2011, is presented in the table below:

	<i>As of June 30, 2011</i>		
	<i>As</i>		<i>As</i>
<i>in thousands</i>	<i>Reported</i>	<i>Correction</i>	<i>Restated</i>
<b>Balance Sheet</b>			
<b>Assets</b>			
Current deferred income taxes	\$44,794	\$910	\$45,704
Prepaid expenses	21,659	735	22,394
Total current assets	892,353	1,645	893,998
Total assets	\$8,385,610	\$1,645	\$8,387,255
<b>Liabilities</b>			
Other current liabilities	\$162,001	\$16,676	\$178,677
Total current liabilities	420,960	16,676	437,636
Noncurrent deferred income taxes	762,406	(5,849)	756,557
Total liabilities	\$4,504,345	\$10,827	\$4,515,172
<b>Equity</b>			
Retained earnings	\$1,385,208	(\$9,182)	\$1,376,026
Total equity	3,881,265	(9,182)	3,872,083
Total liabilities and equity	\$8,385,610	\$1,645	\$8,387,255

**NOTE 2: DISCONTINUED OPERATIONS**

## Edgar Filing: Vulcan Materials CO - Form 10-Q

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 subject to certain conditions. During 2007, we received the final payment under the ECU (electrochemical unit) earn-out, bringing cumulative cash receipts to its \$150,000,000 cap.

Proceeds under the second earn-out agreement are based on the performance of the hydrochlorocarbon product HCC-240fa (commonly referred to as 5CP) from the closing of the transaction through December 31, 2012 (5CP earn-out). The primary determinant of the value for this earn-out is the level of growth in 5CP sales volume.

In March 2012, we received a payment of \$11,336,000 under the 5CP earn-out related to performance during the year ended December 31, 2011. During the first quarter of 2011, we received \$12,284,000 under the 5CP earn-out related to the year ended December 31, 2010. Through June 30, 2012, we have received a total of \$66,327,000 under the 5CP earn-out, a total of \$33,226,000 in excess of the receivable recorded on the date of disposition.

**Table of Contents**

We are liable for a cash transaction bonus payable annually to certain former key Chemicals employees based on prior year's 5CP earn-out results. We expect the 2012 payout will be \$1,134,000 and have accrued this amount as of June 30, 2012. In comparison, we had accrued \$1,228,000 as of June 30, 2011.

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 during the six month periods ended June 30, 2012 and 2011. Results from discontinued operations are as follows:

<i>in thousands</i>	<i>Three Months Ended June 30</i>		<i>Six Months Ended June 30</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
<b>Discontinued Operations</b>				
Pretax earnings (loss) from results	<b>(\$2,097)</b>	(\$1,719)	<b>(\$4,077)</b>	\$3,587
Gain on disposal, net of transaction bonus	<b>0</b>	0	<b>10,203</b>	11,056
Income tax (provision) benefit	<b>799</b>	682	<b>(2,426)</b>	(5,791)
Earnings (loss) on discontinued operations, net of tax	<b>(\$1,298)</b>	(\$1,037)	<b>\$3,700</b>	\$8,852

The second quarter pretax losses from results of discontinued operations of \$2,097,000 in 2012 and \$1,719,000 in 2011 were due primarily to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business. The pretax loss from results of discontinued operations of \$4,077,000 for the six months ended June 30, 2012 was also due primarily to general and product liability claims, including legal defense costs, and environmental remediation costs associated with our former Chemicals business. The pretax earnings from results of discontinued operations of \$3,587,000 for the six months ended June 30, 2011 include a \$7,500,000 pretax gain recognized on recovery from an insurer in lawsuits involving perchloroethylene. This gain was offset in part by general and product liability costs, including legal defense costs, and environmental remediation costs.

**NOTE 3: 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:

<i>in thousands</i>	<i>Three Months Ended June 30</i>		<i>Six Months Ended June 30</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Weighted-average common shares outstanding	<b>129,676</b>	129,446	<b>129,634</b>	129,263
Dilutive effect of				
Stock options/SOSARs	<b>0</b>	0	<b>0</b>	0
Other stock compensation plans	<b>0</b>	0	<b>0</b>	0
Weighted-average common shares outstanding, assuming dilution	<b>129,676</b>	129,446	<b>129,634</b>	129,263

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: three months ended June 30, 2012 341,000, three months ended June 30, 2011 291,000, six months ended June 30, 2012 372,000 and six months ended June 30, 2011 324,000.

**Table of Contents**

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

<i>in thousands</i>	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>June 30</i>		<i>June 30</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Antidilutive common stock equivalents	<b>5,054</b>	5,873	<b>5,053</b>	5,873

**NOTE 4: INCOME TAXES**

Our income tax provision and the corresponding annual effective tax rate are based on expected income, statutory tax rates, 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 estimate the annual effective tax rate based on projected taxable income for the full year and record a quarterly tax provision in accordance with the annual effective tax rate. As the year progresses, we refine the estimates of the year's taxable income as new information becomes available, including year-to-date financial results. This continual estimation process often results in a change to our annual effective tax rate for the year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date income tax provision reflects the annual effective tax rate. Significant judgment is required in determining our annual effective tax rate and in evaluating our tax positions.

When projected taxable income for the full year is close to break-even, the annual effective tax rate becomes volatile and will distort the income tax provision for an interim period. When this happens, we calculate the interim income tax provision or benefit using the year-to-date effective tax rate in accordance with Accounting Standards Codification (ASC) 740-270-30-18. This cut-off method results in an income tax provision or benefit based solely on the year-to-date pretax income or loss as adjusted for permanent differences on a pro rata basis.

We recognize an income tax benefit associated with an uncertain tax position when, in our judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, we initially and subsequently measure the income tax benefit as the largest amount that we judge to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. 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 income tax benefits and subsequent adjustments as we consider appropriate.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets represent items to be used as a tax deduction or credit in future tax returns for which we have already properly recorded the tax benefit in the income statement. At least quarterly, we assess all positive and negative evidence to determine the likelihood that the deferred tax asset balance will be recovered from future taxable income. We take into account such factors as:

- cumulative losses in recent years
- taxable income in prior carryback years, if carryback is permitted under tax law
- future reversal of existing taxable temporary differences against deductible temporary differences
- future taxable income exclusive of reversing temporary differences
- the mix of taxable income in the jurisdictions in which we operate

## Edgar Filing: Vulcan Materials CO - Form 10-Q

### j tax planning strategies

Deferred tax assets are reduced by a valuation allowance if, based on an analysis of the factors above, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

We recorded income tax benefits from continuing operations of \$17,749,000 (51.1% effective tax rate) in the second quarter of 2012 using the cut-off method as described above, compared to \$40,341,000 (85.0% effective tax rate) in the second quarter of 2011. The decrease in our income tax benefit resulted largely from applying the year-to-date effective tax rate in the second quarter of 2012 versus the annual effective tax rate in the second quarter of 2011. A catch-up entry was required in the second quarter of 2011 to record the income tax benefit consistent with the annual effective tax rate.

**Table of Contents**

We recorded income tax benefits from continuing operations of \$56,145,000 (43.1% effective tax rate) for the six months ended June 30, 2012 compared to \$77,771,000 (52.0% effective tax rate) for the six months ended June 30, 2011. The decrease in our income tax benefit resulted largely from applying the year-to-date effective tax rate for the first six months of 2012 versus the annual effective tax rate for the first six months of 2011.

**NOTE 5: 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.

Derivative instruments are recognized at fair value in the accompanying Condensed Consolidated Balance Sheets. Fair values of derivative instruments designated as hedging instruments are as follows:

<i>in thousands</i>	<i>Balance Sheet Location</i>	<i>Fair Value</i> <sup>1</sup>	
		<i>December 31</i>	<i>June 30</i>
		<i>2011</i>	<i>2011</i>
<b>Liabilities</b>			
Interest rate swaps	Other noncurrent liabilities	\$0	\$7,419
Total hedging instrument liabilities		\$0	\$7,419

<sup>1</sup> See Note 6 for further discussion of the fair value determination.

**CASH FLOW HEDGES**

We use 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. In December 2007, we issued \$325,000,000 of floating-rate notes due in 2010 that bore interest at 3-month London Interbank Offered Rate (LIBOR) plus 1.25% per annum. Concurrently, we entered into a 3-year interest rate swap agreement in the stated amount of \$325,000,000. Under this agreement, we paid a fixed interest rate of 5.25% and received 3-month LIBOR plus 1.25% per annum. Concurrent with each quarterly interest payment, the portion of this swap related to that interest payment was settled and the associated realized gain or loss was recognized. This swap agreement terminated December 15, 2010, coinciding with the maturity of the notes due in 2010.

Additionally, 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. For the 12-month period ending June 30, 2013, we estimate that \$6,055,000 of the pretax loss in AOCI will be reclassified to earnings.



**Table of Contents**

The effects of changes in the fair values of derivatives designated as cash flow hedges on the accompanying Condensed Consolidated Statements of Comprehensive Income are as follows:

<i>in thousands</i>	<i>Location on Statement</i>	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
		<i>2012</i>	<i>June 30 2011</i>	<i>2012</i>	<i>June 30 2011</i>
<b>Cash Flow Hedges</b>					
Loss reclassified from AOCI (effective portion)	Interest expense	<b>(\$1,605)</b>	(\$6,678)	<b>(\$3,180)</b>	(\$8,672)
<b>FAIR VALUE HEDGES</b>					

We use interest rate swap agreements designated as fair value hedges to minimize exposure to changes in the fair value of fixed-rate debt that results from fluctuations in the benchmark interest rates for such debt. In June 2011, we issued \$500,000,000 of 6.50% fixed-rate notes due in 2016. Concurrently, we entered into interest rate swap agreements in the stated amount of \$500,000,000. Under these agreements, we paid 6-month LIBOR plus a spread of 4.05% and received a fixed interest rate of 6.50%. Additionally, in June 2011, we entered into interest rate swap agreements on our \$150,000,000 10.125% fixed-rate notes due in 2015. Under these agreements, we paid 6-month LIBOR plus a spread of 8.03% and received a fixed interest rate of 10.125%. In August 2011, we terminated and settled these interest rate swap agreements for \$25,382,000 of cash proceeds. The \$23,387,000 forward component of the settlement (cash proceeds less \$1,995,000 of accrued interest) was added to the carrying value of the related debt and is being amortized as a reduction to interest expense over the remaining lives of the related debt using the effective interest method. During the three and six months ended June 30, 2012, \$1,004,000 and \$1,992,000, respectively, was amortized to earnings as a reduction to interest expense.

The effects of changes in the fair values of derivatives designated as fair value hedges on the accompanying Condensed Consolidated Statements of Comprehensive Income are as follows:

<i>in thousands</i>	<i>Location on Statement</i>	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
		<i>2012</i>	<i>June 30 2011</i>	<i>2012</i>	<i>June 30 2011</i>
<b>Fair Value Hedges</b>					
Gain (loss) recognized in income - Interest rate swaps	Interest expense	<b>\$0</b>	(\$7,419)	<b>\$0</b>	(\$7,419)
Gain (loss) recognized in income - Fixed rate debt	Interest expense	<b>0</b>	7,419	<b>0</b>	7,419

Table of Contents**NOTE 6: 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 and liabilities subject to fair value measurements on a recurring basis are summarized below:

	<i>Level 1</i>		
	<i>June 30</i>	<i>December 31</i>	<i>June 30</i>
<i>in thousands</i>	<i>2012</i>	<i>2011</i>	<i>2011</i>
<b>Fair Value Recurring</b>			
Rabbi Trust			
Mutual funds	<b>\$14,404</b>	\$13,536	\$14,836
Equities	<b>7,726</b>	7,057	8,413
Total	<b>\$22,130</b>	\$20,593	\$23,249

	<i>Level 2</i>		
	<i>June 30</i>	<i>December 31</i>	<i>June 30</i>
<i>in thousands</i>	<i>2012</i>	<i>2011</i>	<i>2011</i>
<b>Fair Value Recurring</b>			
Interest rate swaps	<b>\$0</b>	\$0	(\$7,419)
Rabbi Trust			
Common/collective trust funds	<b>384</b>	2,192	1,368
Total	<b>\$384</b>	\$2,192	(\$6,051)

The Rabbi Trust investments provide funding for the executive nonqualified deferred compensation and excess benefit 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. Investments in Level 2 common/collective trust funds are stated at estimated fair value based on the underlying investments in those funds. The underlying investments are comprised of short-term, highly liquid assets in commercial paper, short-term bonds and treasury bills.

Interest rate swaps are measured at fair value using quoted market prices or pricing models using prevailing market interest rates as of the measurement date. These interest rate swaps are more fully described in Note 5.

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 5 and 10, respectively.

There were no assets or liabilities subject to fair value measurements on a nonrecurring basis in 2012 and 2011.

**Table of Contents****NOTE 7: OTHER COMPREHENSIVE INCOME (OCI)**

Comprehensive income includes charges and credits to equity from nonowner sources and comprises two subsets: net earnings and other comprehensive income. The components of other comprehensive income are presented in the accompanying Condensed Consolidated Statements of Comprehensive Income, net of applicable taxes.

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

<i>in thousands</i>	<i>June 30 2012</i>	<i>December 31 2011</i>	<i>June 30 2011</i>
<b>Accumulated Other Comprehensive Loss</b>			
Cash flow hedges	<b>(\$30,093)</b>	(\$31,986)	(\$33,685)
Pension and postretirement plans	<b>(178,689)</b>	(184,858)	(134,044)
Total	<b>(\$208,782)</b>	(\$216,844)	(\$167,729)

Amounts reclassified from accumulated other comprehensive income (loss) to earnings, are as follows:

<i>in thousands</i>	<i>Three Months Ended June 30</i>		<i>Six Months Ended June 30</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
<b>Reclassification Adjustment for Cash Flow Hedges</b>				
Interest expense	<b>\$1,585</b>	\$6,658	<b>\$3,140</b>	\$8,632
Benefit from income taxes	<b>(630)</b>	(2,655)	<b>(1,247)</b>	(3,179)
Total	<b>\$955</b>	\$4,003	<b>\$1,893</b>	\$5,453
<b>Amortization of Pension and Postretirement Plan Actuarial Loss and Prior Service Cost</b>				
Cost of goods sold	<b>\$4,039</b>	\$2,454	<b>\$7,974</b>	\$4,697
Selling, administrative and general expenses	<b>1,030</b>	761	<b>2,164</b>	1,545
Benefit from income taxes	<b>(1,985)</b>	(1,274)	<b>(3,970)</b>	(2,084)
Total	<b>\$3,084</b>	\$1,941	<b>\$6,168</b>	\$4,158
Total reclassifications from AOCI to earnings	<b>\$4,039</b>	\$5,944	<b>\$8,061</b>	\$9,611

**NOTE 8: EQUITY**

In February 2011, we issued 372,992 shares (368,527 shares net of acquired cash) of common stock in connection with a business acquisition as described in Note 13.

We periodically sell shares of common stock to the trustee of our 401(k) savings and retirement plan to satisfy the plan participants' elections to invest in our common stock. The resulting cash proceeds provide a means of improving cash flow, increasing equity and reducing leverage. Under this arrangement, the stock issuances and resulting cash proceeds were as follows:

• six months ended June 30, 2012    no shares issued

• twelve months ended December 31, 2011    issued 110,881 shares for cash proceeds of \$4,745,000

• six months ended June 30, 2011    issued 110,881 shares for cash proceeds of \$4,745,000

## Edgar Filing: Vulcan Materials CO - Form 10-Q

No shares were held in treasury as of June 30, 2012, December 31, 2011 and June 30, 2011. As of June 30, 2012, 3,411,416 shares may be repurchased under the current purchase authorization of our Board of Directors.

**Table of Contents****NOTE 9: BENEFIT PLANS**

The following tables set forth the components of net periodic benefit cost:

<b>PENSION BENEFITS</b>	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>June 30</i>		<i>June 30</i>	
<i>in thousands</i>	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
<b>Components of Net Periodic Benefit Cost</b>				
Service cost	<b>\$5,588</b>	\$5,191	<b>\$11,175</b>	\$10,381
Interest cost	<b>10,799</b>	10,650	<b>21,597</b>	21,192
Expected return on plan assets	<b>(12,195)</b>	(12,370)	<b>(24,390)</b>	(24,740)
Amortization of prior service cost	<b>68</b>	85	<b>137</b>	170
Amortization of actuarial loss	<b>4,881</b>	3,011	<b>9,763</b>	5,835
Net periodic pension benefit cost	<b>\$9,141</b>	\$6,567	<b>\$18,282</b>	\$12,838
Pretax reclassification from AOCI included in net periodic pension benefit cost	<b>\$4,949</b>	\$3,096	<b>\$9,900</b>	\$6,005

<b>OTHER POSTRETIREMENT BENEFITS</b>	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>June 30</i>		<i>June 30</i>	
<i>in thousands</i>	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
<b>Components of Net Periodic Benefit Cost</b>				
Service cost	<b>\$1,167</b>	\$1,198	<b>\$2,333</b>	\$2,395
Interest cost	<b>1,562</b>	1,612	<b>3,124</b>	3,225
Amortization of prior service credit	<b>(168)</b>	(168)	<b>(337)</b>	(337)
Amortization of actuarial loss	<b>288</b>	287	<b>575</b>	574
Net periodic postretirement benefit cost	<b>\$2,849</b>	\$2,929	<b>\$5,695</b>	\$5,857
Pretax reclassification from AOCI included in net periodic postretirement benefit cost	<b>\$120</b>	\$119	<b>\$238</b>	\$237

The reclassifications from AOCI noted in the tables above are related to amortization of prior service costs or credits and actuarial losses as shown in Note 7.

Prior contributions, along with the existing funding credits, should be sufficient to cover expected required contributions to the qualified plans through 2012.

**Table of Contents**

**NOTE 10: DEBT**

Debt is summarized as follows:

	<i>June 30</i>	<i>December 31</i>	<i>June 30</i>
<i>in thousands</i>	<i>2012</i>	<i>2011</i>	<i>2011</i>
<b>Short-term Borrowings</b>			
Bank line of credit			\$100,000
Total short-term borrowings			\$100,000
<b>Long-term Debt</b>			
Bank line of credit	<b>\$0</b>	\$0	
5.60% notes due 2012 <sup>1</sup>	<b>134,535</b>	134,508	\$134,483
6.30% notes due 2013 <sup>2</sup>	<b>140,382</b>	140,352	140,322
10.125% notes due 2015 <sup>3</sup>	<b>153,100</b>	153,464	149,628
6.50% notes due 2016 <sup>4</sup>	<b>516,701</b>	518,293	500,000
6.40% notes due 2017 <sup>5</sup>	<b>349,878</b>	349,869	349,861
7.00% notes due 2018 <sup>6</sup>	<b>399,711</b>	399,693	399,675
10.375% notes due 2018 <sup>7</sup>	<b>248,599</b>	248,526	248,457
7.50% notes due 2021 <sup>8</sup>	<b>600,000</b>	600,000	600,000
7.15% notes due 2037 <sup>9</sup>	<b>239,549</b>	239,545	239,717
Medium-term notes	<b>16,000</b>	16,000	21,000
Industrial revenue bonds	<b>14,000</b>	14,000	14,000
Other notes	<b>1,084</b>	1,189	1,349
Fair value adjustments <sup>10</sup>	<b>0</b>	0	(7,419)
Total long-term debt including current maturities	<b>\$2,813,539</b>	\$2,815,439	\$2,791,073
Less current maturities of long-term debt	<b>285,152</b>	134,762	5,230
Total long-term debt	<b>\$2,528,387</b>	\$2,680,677	\$2,785,843
Estimated fair value of long-term debt	<b>\$2,636,409</b>	\$2,796,504	\$2,857,684

<sup>1</sup> Includes decreases for unamortized discounts, as follows: June 30, 2012 \$22 thousand, December 31, 2011 \$49 thousand and June 30, 2011 \$74 thousand. The effective interest rate for these notes is 6.57%.

<sup>2</sup> Includes decreases for unamortized discounts, as follows: June 30, 2012 \$62 thousand, December 31, 2011 \$92 thousand and June 30, 2011 \$122 thousand. The effective interest rate for these notes is 7.48%.

<sup>3</sup> Includes an increase for the unamortized portion of the deferred gain realized upon the August 2011 settlement of interest rate swaps, as follows: June 30, 2012 \$3,402 thousand and December 31, 2011 \$3,802 thousand. Additionally, includes decreases for unamortized discounts, as follows: June 30, 2012 \$302 thousand, December 31, 2011 \$338 thousand, and June 30, 2011 \$372 thousand. The effective interest rate for these notes is 9.59%.

<sup>4</sup> Includes an increase for the unamortized portion of the deferred gain realized upon the August 2011 settlement of interest rate swaps, as follows: June 30, 2012 \$16,701 thousand and December 31, 2011 \$18,293 thousand. The effective interest rate for these notes is 6.02%.

<sup>5</sup> Includes decreases for unamortized discounts, as follows: June 30, 2012 \$122 thousand, December 31, 2011 \$131 thousand and June 30, 2011 \$139 thousand. The effective interest rate for these notes is 7.41%.

## Edgar Filing: Vulcan Materials CO - Form 10-Q

<sup>6</sup> Includes decreases for unamortized discounts, as follows: June 30, 2012 \$289 thousand, December 31, 2011 \$307 thousand and June 30, 2011 \$325 thousand. The effective interest rate for these notes is 7.87%.

<sup>7</sup> Includes decreases for unamortized discounts, as follows: June 30, 2012 \$1,401 thousand, December 31, 2011 \$1,474 thousand and June 30, 2011 \$1,543 thousand. The effective interest rate for these notes is 10.62%.

<sup>8</sup> The effective interest rate for these notes is 7.75%.

<sup>9</sup> Includes decreases for unamortized discounts, as follows: June 30, 2012 \$639 thousand, December 31, 2011 \$643 thousand and June 30, 2011 \$646 thousand. The effective interest rate for these notes is 8.05%.

<sup>10</sup> See Note 5 for additional information about our fair value hedging strategy.

Our long-term debt is presented in the table above net of unamortized discounts from par and unamortized deferred gains realized upon settlement of interest rate swaps. Discounts, deferred gains and debt issuance costs are being amortized using the effective interest method over the respective terms of the notes.

---

**Table of Contents**

The estimated fair value of long-term debt presented in the table above was determined by discounting expected future cash flows based on credit-adjusted interest rates on U.S. Treasury bills, notes or bonds, as appropriate. The fair value estimates were based on Level 2 information (as defined in Note 6) available to us as of the respective balance sheet dates. Although we are not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since those dates.

During 2011, we replaced our \$1,500,000,000 bank line of credit that was set to expire on November 16, 2012 with a \$600,000,000 bank line of credit. The \$600,000,000 bank line of credit expires on December 15, 2016 and is secured by certain domestic accounts receivable and inventory. Borrowing capacity fluctuates with the level of eligible accounts receivable and inventory and may be less than \$600,000,000 at any point in time.

Borrowings under the \$600,000,000 bank line of credit bear interest at a rate determined at the time of borrowing equal to the lower of LIBOR plus a margin ranging from 1.75% to 2.25% based on the level of utilization, or an alternative rate derived from the lender's prime rate. Borrowings bearing interest at LIBOR plus the margin are made for periods of 1, 2, 3 or 6 months, and may be extended. Borrowings bearing interest at the alternative rate are made on an overnight basis and may be extended each day. As of June 30, 2012, the applicable margin for LIBOR based borrowing was 1.75%.

Borrowings under the \$600,000,000 bank line of credit are classified as long-term debt due to our ability to extend borrowings at the end of each borrowing period. Prior to December 31, 2011, we classified bank line of credit borrowings as short-term debt based on our intent to pay outstanding borrowings within one year.

In June 2011, we issued \$1,100,000,000 of long-term notes in two series, as follows: \$500,000,000 of 6.50% notes due in 2016 and \$600,000,000 of 7.50% notes due in 2021. These notes were issued principally to:

- i repay and terminate our \$450,000,000 floating-rate term loan due in 2015
  
- i fund the purchase through a tender offer of \$165,443,000 of our outstanding 5.60% notes due in 2012 and \$109,556,000 of our outstanding 6.30% notes due in 2013
  
- i repay \$275,000,000 outstanding under our revolving credit facility
  
- i and for general corporate purposes

Unamortized deferred financing costs of \$2,423,000 associated with the terminated \$450,000,000 floating-rate term loan were recognized in June 2011 as a component of interest expense upon the termination of this floating-rate term loan.

The June 2011 purchases of the 5.60% and 6.30% notes cost \$294,533,000, including a \$19,534,000 premium above the \$274,999,000 face value of the notes. This premium primarily reflects the trading price of the notes at the time of purchase relative to par value. Additionally, \$4,711,000 of expense associated with a proportional amount of unamortized discounts, deferred financing costs and amounts accumulated in OCI was recognized in June 2011 upon the partial termination of the notes. The combined expense of \$24,245,000 was recognized as a component of interest expense in June 2011.



**Table of Contents****NOTE 11: STANDBY LETTERS OF CREDIT**

We provide certain third parties with irrevocable standby letters of credit in the normal course of business. We use commercial banks to issue such letters of credit to back our obligations to pay or perform when required to do so according to the requirements of an underlying agreement. The standby letters of credit listed below are cancelable only at the option of the beneficiaries who are authorized to draw drafts on the issuing bank up to the face amount of the standby letter of credit in accordance with its terms. Our standby letters of credit as of June 30, 2012 are summarized in the table below:

<i>in thousands</i>	<i>June 30 2012</i>
<b>Standby Letters of Credit</b>	
Risk management requirement for insurance claims	\$43,833
Payment surety required by utilities	100
Contractual reclamation/restoration requirements	7,522
Financial requirement for industrial revenue bond	14,230
Total	<b>\$65,685</b>

Since banks consider standby letters of credit as contingent extensions of credit, we are required to pay a fee until they expire or are canceled. Substantially all of our standby letters of credit have a one-year term and are automatically renewed unless cancelled with the approval of the beneficiary. All \$65,685,000 of our outstanding standby letters of credit as of June 30, 2012, is backed by our \$600,000,000 bank line of credit which expires December 15, 2016.

**NOTE 12: ASSET RETIREMENT OBLIGATIONS**

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

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

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

<i>in thousands</i>	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>June 30</i>		<i>June 30</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
<b>ARO Operating Costs</b>				
Accretion	\$ 1,998	\$ 2,124	\$ 4,017	\$ 4,296
Depreciation	1,863	1,853	3,727	3,395
Total	<b>\$ 3,861</b>	\$ 3,977	<b>\$ 7,744</b>	\$ 7,691

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

**Table of Contents**

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

<i>in thousands</i>	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>2012</i>	<i>June 30 2011</i>	<i>2012</i>	<i>June 30 2011</i>
<b>Asset Retirement Obligations</b>				
Balance at beginning of period	\$155,402	\$162,591	\$153,979	\$162,730
Liabilities incurred	45	278	45	278
Liabilities settled	(798)	(3,632)	(1,419)	(5,964)
Accretion expense	1,998	2,124	4,017	4,296
Revisions down, net	(6,234)	(628)	(6,209)	(607)
Balance at end of period	\$150,413	\$160,733	\$150,413	\$160,733

Revisions to our asset retirement obligations during 2012 relate primarily to extensions in the estimated settlement dates at numerous sites.

**NOTE 13: ACQUISITIONS AND DIVESTITURES**

During the first quarter of 2011, we acquired ten ready-mixed concrete facilities for 432,407 shares of common stock valued at the closing date price of \$42.85 per share (total consideration of \$18,529,000 net of acquired cash). We issued 372,992 shares to the seller at closing and retained the remaining shares to fulfill certain working capital adjustments and indemnification obligations. As a result of this acquisition, we recognized \$6,419,000 of amortizable intangible assets, none of which is expected to be deductible for income tax purposes. The amortizable intangible assets consist of contractual rights in place and are amortized over an estimated weighted-average period of 20 years.

**NOTE 14: GOODWILL**

Goodwill is recognized when the consideration paid for a business combination (acquisition) exceeds the fair value of the tangible and identifiable intangible assets acquired. Goodwill is allocated to reporting units for purposes of testing goodwill for impairment. There were no charges for goodwill impairment in the six month periods ended June 30, 2012 and 2011.

We have four reportable segments organized around our principal product lines: aggregates, concrete, asphalt mix and cement. Changes in the carrying amount of goodwill by reportable segment from December 31, 2011 to June 30, 2012 are summarized below:

**GOODWILL**

<i>in thousands</i>	<i>Aggregates</i>	<i>Concrete</i>	<i>Asphalt Mix</i>	<i>Cement</i>	<i>Total</i>
<b>Gross Carrying Amount</b>					
Total as of December 31, 2011	\$2,995,083	\$0	\$91,633	\$252,664	\$3,339,380
<b>Total as of June 30, 2012</b>	\$2,995,083	\$0	\$91,633	\$252,664	\$3,339,380
<b>Accumulated Impairment Losses</b>					
Total as of December 31, 2011	\$0	\$0	\$0	(\$252,664)	(\$252,664)
<b>Total as of June 30, 2012</b>	\$0	\$0	\$0	(\$252,664)	(\$252,664)
<b>Goodwill, net of Accumulated Impairment Losses</b>					
Total as of December 31, 2011	\$2,995,083	\$0	\$91,633	\$0	\$3,086,716
<b>Total as of June 30, 2012</b>	\$2,995,083	\$0	\$91,633	\$0	\$3,086,716



---

**Table of Contents**

We test goodwill for impairment on an annual basis or more frequently if events or circumstances change in a manner that would more likely than not reduce the fair value of a reporting unit below its carrying value. While we have not identified any events or changes in circumstances that indicate the fair value of any of our reporting units is below its carrying value, the timing of a sustained recovery in the construction industry may have a significant effect on the fair value of our reporting units. A decrease in the estimated fair value of one or more of our reporting units could result in the recognition of a material, noncash write-down of goodwill.

**NOTE 15: NEW ACCOUNTING STANDARDS**

**ACCOUNTING STANDARDS RECENTLY ADOPTED**

**AMENDMENTS ON FAIR VALUE MEASUREMENT REQUIREMENTS** As of and for the interim period ended March 31, 2012, we adopted Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The amendments in this ASU achieve the objectives of developing common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS) and improving their understandability. Some of the requirements clarify the Financial Accounting Standards Board's (FASB's) intent about the application of existing fair value measurement requirements while other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. Our adoption of this standard had no impact on our financial position, results of operations or liquidity.

**AMENDMENTS ON GOODWILL IMPAIRMENT TESTING** As of and for the interim period ended March 31, 2012, we adopted ASU No. 2011-08, Testing Goodwill for Impairment which amends the goodwill impairment testing guidance in Accounting Standards Codification 350-20, Goodwill. Under the amended guidance, an entity has the option of performing a qualitative assessment when testing goodwill for impairment. The two-step impairment test would be required only if, on the basis of the qualitative factors, an entity determines that the fair value of the reporting unit is more likely than not (a likelihood of more than 50%) less than the carrying amount. Additionally, this ASU revises the examples of events and circumstances that an entity should consider when determining if an interim goodwill impairment test is required. Our adoption of this standard had no impact on our financial position, results of operations or liquidity.

**ACCOUNTING STANDARD PENDING ADOPTION**

**NEW DISCLOSURE REQUIREMENTS ON OFFSETTING ASSETS AND LIABILITIES** In December 2011, the FASB issued ASU 2011-11, Disclosures About Offsetting Assets and Liabilities which creates new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its financial and derivative instruments. These new disclosures are designed to facilitate comparisons between financial statements prepared under U.S. GAAP and those prepared under IFRS. This ASU is effective for annual and interim reporting periods beginning on or after January 1, 2013, with retrospective application required. We will adopt this standard as of and for the interim period ending March 31, 2013. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

**Table of Contents****NOTE 16: SEGMENT REPORTING**

We have four operating segments organized around our principal product lines: aggregates, concrete, asphalt mix and cement. The vast majority of our activities are domestic. We sell a relatively small amount of products outside the United States. Transactions between our reportable segments are recorded at prices approximating market levels. Management reviews earnings from the product line reporting segments principally at the gross profit level.

**SEGMENT FINANCIAL DISCLOSURE**

<i>in millions</i>	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>2012</i>	<i>June 30 2011</i>	<i>2012</i>	<i>June 30 2011</i>
<b>Total Revenues</b>				
Aggregates <sup>1</sup>				
Segment revenues	<b>\$471.1</b>	\$478.4	<b>\$826.8</b>	\$810.1
Intersegment sales	<b>(39.2)</b>	(39.5)	<b>(70.4)</b>	(69.3)
Net sales	<b>431.9</b>	438.9	<b>756.4</b>	740.8
Concrete <sup>2</sup>				
Segment revenues	<b>103.0</b>	98.2	<b>195.5</b>	180.4
Intersegment sales	<b>(0.4)</b>	0.0	<b>(0.9)</b>	0.0
Net sales	<b>102.6</b>	98.2	<b>194.6</b>	180.4
Asphalt Mix				
Segment revenues	<b>103.7</b>	110.9	<b>175.0</b>	175.5
Intersegment sales	<b>0.0</b>	0.0	<b>0.0</b>	0.0
Net sales	<b>103.7</b>	110.9	<b>175.0</b>	175.5
Cement <sup>3</sup>				
Segment revenues	<b>20.3</b>	16.8	<b>40.8</b>	33.4
Intersegment sales	<b>(9.6)</b>	(7.3)	<b>(18.1)</b>	(16.3)
Net sales	<b>10.7</b>	9.5	<b>22.7</b>	17.1
Total				
Net sales	<b>648.9</b>	657.5	<b>1,148.7</b>	1,113.8
Delivery revenues	<b>45.2</b>	44.5	<b>81.3</b>	75.4
Total revenues	<b>\$694.1</b>	\$702.0	<b>\$1,230.0</b>	\$1,189.2
<b>Gross Profit</b>				
Aggregates	<b>\$111.8</b>	\$102.8	<b>\$145.9</b>	\$113.6
Concrete	<b>(9.0)</b>	(9.0)	<b>(21.3)</b>	(23.4)
Asphalt Mix	<b>5.1</b>	8.3	<b>4.5</b>	8.1
Cement	<b>(2.0)</b>	(1.3)	<b>(1.2)</b>	(4.6)
Total	<b>\$105.9</b>	\$100.8	<b>\$127.9</b>	\$93.7
<b>Depreciation, Depletion, Accretion and Amortization</b>				
Aggregates	<b>\$64.6</b>	\$71.1	<b>\$129.5</b>	\$141.2
Concrete	<b>11.4</b>	13.2	<b>23.5</b>	26.2
Asphalt Mix	<b>2.4</b>	2.0	<b>4.8</b>	3.9
Cement	<b>4.1</b>	4.7	<b>8.6</b>	9.1
Corporate and other unallocated	<b>1.6</b>	1.1	<b>2.9</b>	2.3
Total	<b>\$84.1</b>	\$92.1	<b>\$169.3</b>	\$182.7

<sup>1</sup> Includes crushed stone, sand and gravel, sand, other aggregates, as well as transportation and service revenues associated with the aggregates business.

<sup>2</sup> Includes ready-mixed concrete, concrete block, precast concrete, as well as building materials purchased for resale.

<sup>3</sup> Includes cement and calcium products.



**Table of Contents****NOTE 17: SUPPLEMENTAL CASH FLOW INFORMATION**

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

<i>in thousands</i>	<i>Six Months Ended</i>	
	<i>2012</i>	<i>June 30</i> <i>2011</i>
<b>Cash Payments (Refunds)</b>		
Interest (exclusive of amount capitalized)	<b>\$103,626</b>	\$102,984
Income taxes	<b>9,074</b>	(33,070)
<b>Noncash Investing and Financing Activities</b>		
Accrued liabilities for purchases of property, plant & equipment	<b>3,890</b>	6,414
Amounts referable to business acquisition (Note 13)		
Liabilities assumed	<b>0</b>	13,774
Fair value of equity consideration	<b>0</b>	18,529

**NOTE 18: COMMITMENTS AND CONTINGENCIES**

In September 2001, we were named a defendant in a suit brought by the Illinois Department of Transportation (IDOT) alleging damage to a 0.9-mile section of Joliet Road that bisects our McCook quarry in McCook, Illinois, a Chicago suburb. In 2010, we settled this lawsuit for \$40,000,000 and recognized the full charge pending arbitration with our insurers. In the first and third quarters of 2011, we were awarded \$25,546,000 and \$24,111,000, respectively, in payment of the insurers' share of the settlement amount, attorneys' fees and interest.

In December 2011, Martin Marietta made public an unsolicited exchange offer to acquire Vulcan and subsequently commenced an exchange offer for all outstanding shares of our common stock and initiated a proxy fight to elect a slate of directors to our Board. We have been involved in a number of legal proceedings related to Martin Marietta's unsolicited exchange offer as described in Part II, Item 4, Legal Proceedings.

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

In addition to these lawsuits in which we are involved in the ordinary course of business, certain other legal proceedings are specifically described below. At this time, we cannot determine the likelihood or reasonably estimate a range of loss pertaining to these matters.

**SHAREHOLDER LITIGATION**

**CLASS-ACTION COMPLAINTS** Four putative class-action complaints challenging Vulcan's response to the Martin Marietta exchange offer have been filed against Vulcan and its directors. Three of these complaints were filed in the United States District Court for the District of New Jersey: *City of Southfield Police & Fire Retirement Systems v. Carroll, et al.*, No. 11-cv-07416 (the "Southfield Action"); *Louisiana Municipal Police Employees' Retirement System v. Carroll, et al.*, No. 11-cv-7571 (the "Louisiana Municipal Action"); and *Stationary Engineers Local 39 Pension Trust Fund v. Carroll, et al.*, No. 12-cv-00349 (the "Stationary Engineers Action"). The fourth complaint was filed in the United States District Court for the Northern District of Alabama, Southern Division: *KBC Asset Management NV v. James, et al.*, No. 11-cv-04323 (the "KBC Action"). The Southfield and Louisiana Municipal Actions were voluntarily dismissed without prejudice by the plaintiffs on July 19, 2012. Thus we will not report on these matters further.

The Stationary Engineers and KBC Actions were brought on behalf of a putative class of Vulcan shareholders and allege that the Company's directors breached their fiduciary duties in connection with their response to the exchange offer. The complaints also purport to assert claims derivatively on behalf of Vulcan. Both complaints seek, among other things, an injunction barring the named defendants from adopting any defensive measures in connection with the exchange offer, as well as attorneys' fees and costs.

---

**Table of Contents**

On February 1, 2012, Vulcan filed a motion to transfer venue in the KBC Action to the District of New Jersey. On February 15, 2012, on stipulation of the parties, the New Jersey court ordered plaintiffs to file a consolidated complaint within a reasonable time after the actions were consolidated. On February 28, 2012, the Alabama court granted Vulcan's motion and transferred the KBC Action to the District of New Jersey.

Various motions and related items (whether procedural, discovery-related and/or substantive in nature) occur from time to time with respect to these matters.

Vulcan and its directors believe the lawsuits are meritless.

• IRELAND LITIGATION On May 25, 2012, another shareholder lawsuit was filed in state court in Jefferson County, Alabama, styled *Glenn Ireland II, and William C. Ireland, Jr., Derivatively on behalf of Vulcan Materials Company v. Donald M. James, et al.*, Case No. CV-2012-901655. The lawsuit was amended to add the *Charles Byron Ireland Trust*. This lawsuit is brought as a derivative action against the current Board of Directors and two former directors. It makes claims of breaches of fiduciary duty and mismanagement by the defendants based primarily upon (i) Vulcan's merger with Florida Rock, (ii) the compensation of the CEO of Vulcan, and (iii) the Martin Marietta hostile takeover bid. The Company and its directors believe the lawsuit is meritless and filed a motion to dismiss the complaint on July 20, 2012.

**PERCHLOROETHYLENE CASES**

We are a defendant in cases involving perchloroethylene (perc), which was a product manufactured by our former Chemicals business. Perc is a cleaning solvent used in dry cleaning and other industrial applications. These cases involve various allegations of groundwater contamination or exposure to perc allegedly resulting in personal injury. Vulcan is vigorously defending all of these cases, which are listed below:

• CALIFORNIA WATER SERVICE COMPANY On June 6, 2008, we were served in an action styled *California Water Service Company v. Dow, et al.*, now pending in the San Mateo County Superior Court, California. According to the complaint, California Water Service Company owns and/or operates public drinking water systems, and supplies drinking water to hundreds of thousands of residents and businesses throughout California. The complaint alleges that water wells in a number of communities have been contaminated with perc. The plaintiff is seeking compensatory damages and punitive damages. As a result of the discovery to date, which has focused principally on issues such as legal injury (as defined by the maximum contaminant level for perc) and the statute of limitations, the number of wells at issue has been reduced from 244 to 13. Discovery has commenced on dry cleaners in the vicinity of the wells. At this time, plaintiffs have not established that we are liable for any alleged contamination of a specific well.

• CITY OF SUNNYVALE CALIFORNIA On January 6, 2009, we were served in an action styled *City of Sunnyvale v. Legacy Vulcan Corporation, f/k/a Vulcan Materials Company*, filed in the San Mateo County Superior Court, California. The plaintiffs are seeking cost recovery and other damages for alleged environmental contamination from perc and its breakdown products at the Sunnyvale Town Center Redevelopment Project. Based on the discovery to date, we do not believe that plaintiffs can meet their burden of proof to establish that our perc was used at sites in a redevelopment project area or that we are liable for any alleged contamination. Discovery is ongoing. Trial is scheduled for May 6, 2013.

• SUFFOLK COUNTY WATER AUTHORITY On July 29, 2010, we were served in an action styled *Suffolk County Water Authority v. The Dow Chemical Company, et al.*, in the Supreme Court for Suffolk County, State of New York. The complaint alleges that the plaintiff owns and/or operates drinking water systems and supplies drinking water to thousands of residents and businesses, in Suffolk County, New York. The complaint alleges that perc and its breakdown products have been and are contaminating and damaging Plaintiff's drinking water supply wells. The plaintiff is seeking compensatory and punitive damages. The court recently ruled that any detectable amount of perc in a well constitutes a legal injury. Discovery is ongoing. At this time, plaintiffs have not established that our perc was used at any specific dry cleaner, or that we are liable for any alleged contamination.

• WEST VIRGINIA COAL SINK LAB LITIGATION This is a mass tort action consisting of over 100 cases filed in 17 different counties in West Virginia from September 1 to October 13, 2010, for medical monitoring and personal injury damages for exposure to perc and carbon tetrachloride used in coal sink labs. The West Virginia Supreme Court of Appeals, in an order entered January 19, 2011, transferred all of



## Edgar Filing: Vulcan Materials CO - Form 10-Q

these cases (referred to as *Jeffrey Blount v. Arkema, Inc., et al.*) to the West Virginia Mass Litigation Panel. The Court has entered a dismissal of all plaintiffs' claims, with prejudice, in this case. All cross-claims against Vulcan have also been dismissed. Therefore, we will not report on this matter further.

---

**Table of Contents**

i SANTARSIERO This is a case styled *Robert Santarsiero v. R.V. Davies, et al.*, pending in Supreme Court, New York County, New York. We were brought in as a third-party defendant by original defendant R.V. Davies. The plaintiff, who was alleging perc exposure, is now deceased. The case has been stayed pending further information about this development. In light of the fact that this matter has been dormant for more than a year, we will not report on this matter further until such time as there is a development.

i R.R. STREET INDEMNITY Street, a former distributor of perc manufactured by us, alleges that we owe Street, and its insurer (National Union), a defense and indemnity in several of these litigation matters, as well as some prior litigation which we have now settled. National Union alleges that we are obligated to contribute to National Union's share of defense fees, costs and any indemnity payments made on Street's behalf. We have had discussions with Street about the nature and extent of indemnity obligations, if any, and to date there has been no resolution of these issues.

**LOWER PASSAIC RIVER MATTERS**

i NJDEP LITIGATION In 2009, Vulcan and over 300 other parties were named as third-party defendants in *New Jersey Department of Environmental Protection, et al. v. Occidental Chemical Corporation, et al.*, a case originally brought by the New Jersey Department of Environmental Protection (NJDEP) in the New Jersey Superior Court. Vulcan was brought into the suit due to alleged discharges to the Lower Passaic River (River) from the former Chemicals Division - Newark Plant. This suit by the NJDEP seeks recovery of past and future clean-up costs, as well as unspecified economic damages, punitive damages, penalties and a variety of other forms of relief. This case is in the discovery stage, and a liability trial is scheduled for April 2013, and a separate damages trial, if required, is scheduled for January 2014. At this time, we cannot reasonably estimate our liability related to this case because it is unclear what contaminants and legal issues will be presented at trial and the extent to which the Newark operation may have impacted the River.

i LOWER PASSAIC RIVER STUDY AREA (SUPERFUND SITE) Vulcan and approximately 70 other companies are parties to a May 2007 Administrative Order on Consent (AOC) with the U.S. Environmental Protection Agency (EPA) to perform a Remedial Investigation/Feasibility Study (RI/FS) of the lower 17 miles of the River. Separately, the EPA issued a draft Focused Feasibility Study (FFS) that evaluated early action remedial alternatives for a portion of the River. The EPA's range of estimated cost for these alternatives was between \$0.9 billion and \$2.3 billion, although estimates of the cost and timing of future environmental remediation requirements are inherently imprecise. The EPA has not released the final FFS. As an interim step related to the 2007 AOC, Vulcan and sixty-nine (69) other companies voluntarily entered into an Administrative Settlement Agreement and Order on Consent on June 18, 2012 with the EPA for remediation actions focused at River Mile 10.9 in the lower Passaic River. Estimated costs related to this focused remediation action are immaterial and have been accrued. On June 25, 2012, the EPA issued a Unilateral Administrative Order for Removal Response Activities to Occidental Chemical Corporation ordering Occidental to participate and cooperate in this remediation action at River Mile 10.9. At this time, we cannot reasonably estimate our liability related to this matter because the RI/FS is ongoing; the ultimate remedial approach and associated cost has not been determined; and the parties that will participate in funding the remediation and their respective allocations are not yet known.

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

**Table of Contents**

ITEM 2

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

## GENERAL COMMENTS

### OVERVIEW

Vulcan provides the basic materials for the infrastructure needed to expand the U.S. economy. We are the nation's largest producer of construction aggregates, primarily crushed stone, sand and gravel. We also are a major producer of asphalt mix and ready-mixed concrete as well as a leading producer of cement in Florida.

Demand for our products is dependent on construction activity. The primary end uses include public construction, such as highways, bridges, airports, schools and prisons, as well as private nonresidential (e.g., manufacturing, retail, offices, industrial and institutional) and private residential construction (e.g., single-family houses, duplexes, apartment buildings and condominiums). Customers for our products include heavy construction and paving contractors; commercial building contractors; concrete products manufacturers; residential building contractors; state, county and municipal governments; railroads and electric utilities.

We operate primarily in the United States and our principal product aggregates is used in virtually all types of public and private construction projects and in the production of asphalt mix and ready-mixed concrete. Aggregates have a high weight-to-value ratio and, in most cases, must be produced near where they are used; if not, transportation can cost more than the materials. Exceptions to this typical market structure include areas along the U.S. Gulf Coast and the Eastern Seaboard where there are limited supplies of locally available high quality aggregates. We serve these markets from inland quarries shipping by barge and rail and from our quarry on Mexico's Yucatan Peninsula. We transport aggregates from Mexico to the U.S. principally on our three Panamax-class, self-unloading ships.

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

While aggregates is our primary business, we believe vertical integration between aggregates and downstream products, such as asphalt mix and concrete, can be managed effectively in certain markets to generate acceptable financial returns. We produce and sell asphalt mix and ready-mixed concrete primarily in our mid-Atlantic, Georgia, Florida, southwestern and western markets. Aggregates comprise approximately 95% of asphalt mix by weight and 78% of ready-mixed concrete by weight. In all of these downstream businesses, we supply virtually all of the required aggregates from our own operations.

### SEASONALITY AND CYCLICAL NATURE OF OUR BUSINESS

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

---

**Table of Contents**

**EXECUTIVE SUMMARY**

**FINANCIAL HIGHLIGHTS FOR SECOND QUARTER 2012**

- ┆ Aggregates segment gross profit improved \$9.0 million, or 9%, reflecting lower unit cost of sales due to improved productivity and cost reduction initiatives. All key labor and energy efficiency metrics for this segment improved for the quarter
    - ┆ On a same-store basis, aggregates shipments increased slightly from the prior year period, notwithstanding the pull-forward effect of seasonally favorable weather conditions during the first quarter and the effects of Tropical Storm Debby in Florida in June. Overall, shipments decreased 1% due to the 2011 sale of operations in Indiana
    - ┆ Aggregates pricing increased slightly, offsetting some of the earnings effect of lower volumes and a less favorable geographic mix
  - ┆ Gross profit from non-aggregates segments decreased by \$3.9 million, due principally to higher costs for liquid asphalt
  - ┆ Selling, administrative and general (SAG) expenses in the second quarter decreased \$12.1 million, or 16%, from the prior year due mainly to cost reduction and restructuring initiatives
  - ┆ Adjusted EBITDA was \$127.3 million in the second quarter of 2012, an increase of \$9.9 million, or 8%, over the second quarter of last year. The second quarter 2012 Adjusted EBITDA excludes charges related to the unsolicited exchange offer by Martin Marietta, a gain on the sale of mitigation credits in California and restructuring charges associated with implementation of the Profit Enhancement Plan
- The improvement in our second quarter operating results demonstrates the continuing benefits of our ongoing focus on reducing overhead costs and maximizing operating efficiency across the organization. Despite weaker volumes in several of our most profitable markets, Aggregates segment gross profit margin improved by 2.2 percentage points (220 basis points). This improvement reflects our cost reduction efforts and demonstrates the earnings potential of our aggregates business, particularly as volume across our geographic markets recovers.

Trends in both the private and public sector construction markets remain positive. In particular, we are encouraged by the passage of the new multi-year highway bill by Congress in late June, which should provide state departments of transportation with funding certainty they need to move forward on infrastructure programs.

We remain focused on executing our initiatives and aggressively managing other items under our control. This will enable us to continue to generate higher levels of earnings and cash flow, further improve our operating leverage, reduce overhead costs and strengthen our credit profile. As previously announced, the Profit Enhancement Plan includes cost reductions and other profit enhancement initiatives intended to improve our run-rate profitability, as measured by EBITDA, by more than \$100 million annually at current volumes. The Profit Enhancement Plan is focused on three areas – sourcing, general & administrative costs and transportation/logistics.

Employees throughout Vulcan are implementing actions that are contributing to our results. Thanks to their continued efforts, we expect to achieve our goal for 2012. Through the first half of 2012, we have been keenly focused on managing costs and have reduced total controllable costs by \$55 million. This includes the benefit of our previously announced restructuring as well as the initial results of our Profit Enhancement Plan. The largest portion of restructuring and implementation costs associated with the Profit Enhancement Plan, approximately \$4.5 million, was incurred in the second quarter. We expect to incur an additional \$2.9 million in restructuring charges as work is completed in the second half of 2012.

Execution of the Profit Enhancement Plan initiatives remains a top management priority. The majority of these actions build on previously announced restructuring and ERP investments. Although the business remains inherently local and decentralized, we will continue to leverage the benefits of our national scale and operating expertise while consolidating certain support functions.

## Edgar Filing: Vulcan Materials CO - Form 10-Q

In addition, we continue to make progress with our Planned Asset Sales, which are designed to strengthen our balance sheet, unlock capital for more productive uses and create value for shareholders. We have maintained active discussions and negotiations with multiple potential purchasers. The discussions involve potential sales and other transactions involving a broad range of assets. While the ultimate composition and timing of transactions remains difficult to project, our objective is \$500 million in net after-tax proceeds from asset sales.

Table of Contents

## RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

Generally Accepted Accounting Principles (GAAP) does not define free cash flow and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). Thus, free cash flow should not be considered as an alternative to net cash provided by operating activities or any other liquidity measure defined by GAAP and EBITDA should not be considered as an alternative to earnings measures defined by GAAP. We present these metrics for the convenience of investment professionals who use such metrics in their analysis, and for shareholders who need to understand the metrics we use to assess performance and to monitor our cash and liquidity positions. The investment community often uses these metrics as indicators of a company's ability to incur and service debt. We use free cash flow, EBITDA and other such measures to assess the operating performance of our various business units and the consolidated company. We do not use these metrics as a measure to allocate resources. Reconciliations of these metrics to their nearest GAAP measures are presented below:

**FREE CASH FLOW**

Free cash flow deducts purchases of property, plant & equipment from net cash provided by operating activities.

<i>in millions</i>	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>June 30</i>		<i>June 30</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Net cash provided by (used for) operating activities	<b>(\$32.2)</b>	(\$37.0)	<b>(\$3.1)</b>	\$7.0
Purchases of property, plant & equipment	<b>(14.7)</b>	(27.3)	<b>(33.5)</b>	(51.5)
Free cash flow	<b>(\$46.9)</b>	(\$64.3)	<b>(\$36.6)</b>	(\$44.5)

**EBITDA AND ADJUSTED EBITDA**

EBITDA is an acronym for Earnings Before Interest, Taxes, Depreciation and Amortization.

<i>in millions</i>	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>June 30</i>		<i>June 30</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Net loss	<b>(\$18.3)</b>	(\$8.1)	<b>(\$70.3)</b>	(\$62.9)
Benefit from income taxes	<b>(17.7)</b>	(40.3)	<b>(56.1)</b>	(77.8)
Interest expense, net	<b>53.7</b>	70.9	<b>106.0</b>	113.2
(Earnings) loss on discontinued operations, net of taxes	<b>1.3</b>	1.0	<b>(3.7)</b>	(8.9)
Depreciation, depletion, accretion and amortization	<b>84.1</b>	92.1	<b>169.2</b>	182.8
EBITDA	<b>\$103.1</b>	\$115.6	<b>\$145.1</b>	\$146.4
Gain on sale of real estate and mitigation credits	<b>(\$12.3)</b>	\$0.0	<b>(\$18.3)</b>	\$0.0
Recovery from legal settlement	<b>0.0</b>	0.0	<b>0.0</b>	(25.5)
Restructuring charges	<b>4.5</b>	1.8	<b>5.9</b>	2.1
Exchange offer costs	<b>32.0</b>	0.0	<b>42.1</b>	0.0
Adjusted EBITDA	<b>\$127.3</b>	\$117.4	<b>\$174.8</b>	\$123.0

**Table of Contents****RESULTS OF OPERATIONS**

Net sales and cost of goods sold exclude intersegment sales and delivery revenues and cost. This presentation is consistent with the basis on which we review results of operations. We discuss separately our discontinued operations, which consist of our former Chemicals business.

The following table shows net earnings in relationship to net sales, cost of goods sold, operating earnings, EBITDA and Adjusted EBITDA.

**CONSOLIDATED OPERATING RESULTS**

<i>in millions, except per share data</i>	<i>Three Months Ended June 30</i>		<i>Six Months Ended June 30</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Net sales	<b>\$648.9</b>	\$657.5	<b>\$1,148.7</b>	\$1,113.8
Cost of goods sold	<b>543.0</b>	556.7	<b>1,020.8</b>	1,020.1
Gross profit	<b>\$105.9</b>	\$100.8	<b>\$127.9</b>	\$93.7
Operating earnings (loss)	<b>\$19.7</b>	\$23.5	<b>(\$26.6)</b>	(\$37.7)
Loss from continuing operations before income taxes	<b>(\$34.7)</b>	(\$47.4)	<b>(\$130.2)</b>	(\$149.5)
Loss from continuing operations	<b>(\$17.0)</b>	(\$7.1)	<b>(\$74.0)</b>	(\$71.7)
Earnings (loss) on discontinued operations, net of taxes	<b>(1.3)</b>	(1.0)	<b>3.7</b>	8.8
Net loss	<b>(\$18.3)</b>	(\$8.1)	<b>(\$70.3)</b>	(\$62.9)
Basic earnings (loss) per share				
Continuing operations	<b>(\$0.13)</b>	(\$0.05)	<b>(\$0.57)</b>	(\$0.55)
Discontinued operations	<b>(0.01)</b>	(0.01)	<b>0.03</b>	0.06
Basic net loss per share	<b>(\$0.14)</b>	(\$0.06)	<b>(\$0.54)</b>	(\$0.49)
Diluted earnings (loss) per share				
Continuing operations	<b>(\$0.13)</b>	(\$0.05)	<b>(\$0.57)</b>	(\$0.55)
Discontinued operations	<b>(0.01)</b>	(0.01)	<b>0.03</b>	0.06
Diluted net loss per share	<b>(\$0.14)</b>	(\$0.06)	<b>(\$0.54)</b>	(\$0.49)
EBITDA	<b>\$103.1</b>	\$115.6	<b>\$145.1</b>	\$146.4
Adjusted EBITDA	<b>\$127.3</b>	\$117.4	<b>\$174.8</b>	\$123.0

**SECOND QUARTER 2012 COMPARED TO SECOND QUARTER 2011**

Second quarter net sales were \$648.9 million, down 1% from the second quarter of 2011. Shipping volumes increased/decreased as follows: aggregates -1%, ready-mixed concrete +6%, asphalt mix -8% and cement +29%. The average unit sales prices were relatively flat in all major products with all increases/decreases under 1%.

## Edgar Filing: Vulcan Materials CO - Form 10-Q

Results for the second quarter were a net loss of \$18.3 million or \$0.14 per diluted share compared to a net loss of \$8.1 million or \$0.06 per diluted share in the second quarter of 2011. Gross profit improved \$5.1 million as improved productivity and lower production costs in the Aggregates segment offset the 1% decrease in net sales. The current quarter's results include a pretax charge of \$32.1 million related to the unsolicited exchange offer, a pretax charge of \$4.5 million related to restructuring charges and a \$12.3 million gain related to the sale of mitigation credits while the second quarter 2011 results include additional interest expense charges of \$26.5 million referable to our tender offer and debt retirement completed in June 2011, and a pretax charge of \$1.8 million related to restructuring charges.



**Table of Contents**

CONTINUING OPERATIONS Changes in the loss from continuing operations before income taxes for the second quarter of 2012 versus the second quarter of 2011 are summarized below:

**LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES**

*in millions*

Second quarter 2011	(\$47.4)
Higher aggregates earnings due to	
Lower volumes	(3.1)
Higher selling prices	1.0
Lower costs and other items	11.1
Steady concrete earnings	0.0
Lower asphalt mix earnings	(3.2)
Lower cement earnings	(0.7)
Lower selling, administrative and general expenses	12.1
Higher gain on sale of property, plant & equipment and businesses	10.2
Higher restructuring charges	(2.7)
Exchange offer costs - 2012	(32.1)
Lower interest expense	17.2
All other	2.9

**Second quarter 2012** **(\$34.7)**

Second quarter Aggregates segment gross profit increased \$9.0 million from the prior year reflecting lower cost of sales. Improved production efficiency and lower unit cost across most major cost categories more than offset the earnings effect of a 1% decline in aggregates shipments. All key labor productivity and energy efficiency metrics improved from the prior year. Unit cost for diesel fuel decreased 4%, accounting for \$1.5 million of the increase in gross profit. We achieved double-digit growth in shipments in a number of key states, including Alabama, Florida, Illinois and Texas. Shipments in Virginia and California continued to show improvement as compared to the prior year. These year-over-year increases in aggregates shipments were due mainly to large infrastructure project work primarily highways and increased private construction activity. While volume growth was strong in Florida, severe wet weather in June as a result of Tropical Storm Debby limited the quarterly gain. Aggregates volumes declined by double-digit percentages in Georgia, North Carolina and South Carolina, which are some of our most profitable markets. These declines reflected demand weakness as well as the effect of favorable weather conditions that accelerated shipments into the first quarter from the second quarter. Collectively, on a same-store basis, aggregates shipments in these three states declined 15% while volume elsewhere increased 4% versus the prior year. The average sales price for aggregates increased slightly from the prior year's second quarter.

For the second quarter of 2012, Concrete segment gross profit was a loss of \$9 million, in line with the prior year. Ready-mixed concrete volumes increased 6% from the prior year. The earnings effect of higher volumes was offset by an unfavorable geographic mix.

Asphalt Mix segment gross profit was \$5.1 million compared with \$8.3 million in the prior year's second quarter. The unit cost for liquid asphalt increased 7%, reducing segment earnings by \$3.3 million. The average sales price for asphalt mix increased slightly from the prior year, offsetting most of the earnings effect of an 8% decline in volumes.

Cement segment gross profit was a loss of \$2.0 million versus a loss of \$1.3 million in the prior year's second quarter. The current year's results were negatively affected by a planned maintenance outage at our cement plant in Florida, as well as costs related to a production disruption due to heavy rain and power outages from Tropical Storm Debby.

SAG expenses in the second quarter were down \$12.1 million from the prior year benefitting from the cost reduction and restructuring initiatives.

## Edgar Filing: Vulcan Materials CO - Form 10-Q

Gain on sale of property, plant & equipment and businesses was \$13.2 million in the second quarter of 2012 compared to \$2.9 million in the second quarter of 2011. This increase in the current year resulted primarily from the sale of mitigation credits in California for a \$12.3 million gain.

The \$4.5 million of restructuring charges in the second quarter of 2012 related to the implementation of the Profit Enhancement Plan. The \$1.8 million of restructuring charges in the prior year relate to the cost reduction and restructuring initiative undertaken in 2011. For additional details, see Note 1 to the condensed consolidated financial statements.

---

## **Table of Contents**

The \$32.1 million of exchange offer costs in the current year's second quarter results reflects legal, profession, and other costs incurred in response to the unsolicited exchange offer by Martin Marietta. For additional details, see Note 1 to the condensed consolidated financial statements.

Net interest expense was \$53.7 million in the second quarter of 2012 compared to \$70.9 million in the second quarter of 2011. This decrease resulted from \$26.5 million of charges incurred in the second quarter of 2011 in connection with our debt refinancing (tender offer and debt retirement) partially offset by higher interest rates, and somewhat to a higher level of debt, stemming from the debt refinancing. In June 2011, we replaced \$725.0 million of debt accruing interest at a floating rate based on LIBOR with debt accruing interest at a weighted-average fixed rate of 7.05%.

We recorded income tax benefits from continuing operations of \$17.7 million (51.1% effective tax rate) in the second quarter of 2012 compared to \$40.3 million (85.0% effective tax rate) in the second quarter of 2011. The decrease in our income tax benefit resulted largely from applying the year-to-date effective tax rate in the second quarter of 2012 versus the annual effective tax rate in the second quarter of 2011. A catch-up entry was required in the second quarter of 2011 to record the income tax benefit consistent with the annual effective tax rate.

Results from continuing operations were a loss of \$0.13 per diluted share compared to a loss of \$0.05 per diluted share in the second quarter of 2011.

**DISCONTINUED OPERATIONS** Second quarter 2012 pretax loss on discontinued operations was \$2.1 million in 2012 and \$1.7 million in 2011. The losses primarily reflect charges related to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business. For additional details, see Note 2 to the condensed consolidated financial statements.

## **YEAR-TO-DATE JUNE 30, 2012 COMPARED TO YEAR-TO-DATE JUNE 30, 2011**

First half 2012 net sales were \$1,148.7 million, an increase of 3% versus \$1,113.8 million in the first half of 2011. Shipments were up in all major product lines with the exception of asphalt mix while pricing was up in all major product lines with the exception of aggregates where pricing remained essentially flat.

Results for the first six months of 2012 were a net loss of \$70.3 million or \$0.54 per diluted share compared to a net loss of \$62.9 million or \$0.49 per diluted share in the first half of 2011. Gross profit increased \$34.2 million reflecting improved profitability in the Aggregates segment (gross profit up \$32.3 million) due to higher volumes (shipments up 3%) and lower costs. Additionally, each period's results were impacted by discrete items, as follows:

- j The 2012 first half results include a pretax charge of \$42.1 million related to the unsolicited exchange offer, an \$18.3 million gain related to the sale of real estate and mitigation credits, and \$5.9 million of restructuring charges.
- j The 2011 first half results include a pretax gain of \$25.5 million related to the recovery from legal settlement (see Note 18 to the condensed consolidated financial statements), additional interest expense charges of \$26.5 million referable to our tender offer and debt retirement completed in June 2011 and \$2.1 million of restructuring charges.

**Table of Contents**

CONTINUING OPERATIONS Changes in the loss from continuing operations before income taxes for year-to-date June 30, 2012 versus year-to-date June 30, 2011 are summarized below:

**LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES**

*in millions*

Year-to-date June 30, 2011	(\$149.5)
Higher aggregates earnings due to	
Higher volumes	13.3
Lower selling prices	(1.6)
Lower costs and other items	20.6
Higher concrete earnings	2.1
Lower asphalt mix earnings	(3.6)
Higher cement earnings	3.4
Lower selling, administrative and general expenses	24.4
Higher gain on sale of property, plant & equipment and businesses	16.3
Legal settlement recovery - 2011	(25.5)
Higher restructuring charges	(3.8)
Exchange offer costs - 2012	(42.1)
Lower interest expense	7.2
All other	8.6

**Year-to-date June 30, 2012** **(\$130.2)**

Gross profit for the Aggregates segment was \$145.9 million for the first six months of 2012 versus \$113.6 million in 2011. As noted in the table above, this \$32.3 million increase in earnings resulted from lower costs and higher volumes slightly offset by a decrease in pricing. All key labor productivity and energy efficiency metrics improved from the prior year, more than offsetting a 2% increase in the unit cost for diesel fuel. For the first half of 2012, we experienced double-digit percentage increases in aggregates shipments for several states, most notably Alabama, California, Florida, Texas and Virginia.

The Concrete segment gross profit was a loss of \$21.3 million, an improvement of \$2.1 million from the prior year. Ready-mixed concrete shipments increased 9% from the prior year as pricing remained essentially flat.

Asphalt Mix segment gross profit of \$4.5 million was \$3.6 million below the first half 2011 level. The average sales price for asphalt mix increased 2% from the 2011 level, offsetting some of the earnings effect of a 4% decline in volumes. The unit cost for liquid asphalt increased 10%, reducing segment earnings by \$8.1 million.

The Cement segment gross profit was a loss of \$1.2 million, an improvement of \$3.4 million from the prior year. Shipments and pricing were up 26% and 1%, respectively, from the prior year.

SAG expenses in the first half of 2012 were down \$24.4 million, or 16%, from the prior year benefitting from the cost reduction initiatives.

Gain on sale of property, plant & equipment and businesses was \$19.7 million for the first six months of 2012 compared to \$3.4 million in the first half of 2011. This increased gain resulted primarily from the sale of real estate and mitigation credits in California.

The \$25.5 million in recovery from a legal settlement included in the prior year's first half results reflects an arbitration award from insurers related to the lawsuit settled in 2010 with the Illinois Department of Transportation (IDOT). For additional details, see Note 18 to the condensed consolidated financial statements.

## Edgar Filing: Vulcan Materials CO - Form 10-Q

The \$5.9 million of restructuring charges in the first half of 2012 relates to the implementation of the Profit Enhancement Plan. The \$2.1 million of restructuring charges in the prior year relate to the cost reduction and restructuring initiative undertaken in 2011. For additional details, see Note 1 to the condensed consolidated financial statements.

The \$42.1 million of exchange offer costs in the current year's first half reflects legal, professional and other costs incurred in response to an unsolicited exchange offer. For additional details, see Note 1 to the condensed consolidated financial statements.

---

## Table of Contents

Net interest expense was \$106.0 million in the first six months of 2012 compared to \$113.2 million in 2011. This decrease resulted from the aforementioned \$26.5 million of charges incurred in 2011 in connection with our debt refinancing (tender offer and debt retirement) partially offset by higher interest rates, and somewhat to a higher level of debt, stemming from the debt refinancing.

We recorded income tax benefits from continuing operations of \$56.1 million (43.1% effective tax rate) for the six months ended June 30, 2012 compared to \$77.8 million (52.0% effective tax rate) for the six months ended June 30, 2011. The decrease in our income tax benefit resulted largely from applying the year-to-date effective tax rate for the first six months of 2012 versus the annual effective tax rate for the first six months of 2011.

Results from continuing operations were a loss of \$0.57 per diluted share compared to a loss of \$0.55 per diluted share in the first half of 2011.

**DISCONTINUED OPERATIONS** Year-to-date June pretax earnings on discontinued operations were \$6.1 million in 2012 and \$14.6 million in 2011. The 2012 earnings include a \$10.2 million 5CP earn-out gain (net of transaction costs) while the 2011 earnings include an \$11.1 million 5CP earn-out gain and \$7.5 million of gains related to litigation settlements. These gains were partially offset by charges related to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business. For additional details, see Note 2 to the condensed consolidated financial statements.

## LIQUIDITY AND CAPITAL RESOURCES

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

- cash contractual obligations

- capital expenditures

- debt service obligations

- potential future acquisitions

- dividend payments

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

- maintain substantial bank line of credit borrowing capacity

- use the bank line of credit only for seasonal working capital requirements and other temporary funding requirements

- proactively manage our long-term debt maturity schedule such that repayment/refinancing risk in any single year is low

## Edgar Filing: Vulcan Materials CO - Form 10-Q

- avoid financial and other covenants that limit our operating and financial flexibility
- opportunistically access the capital markets when conditions and terms are favorable

**Table of Contents****CASH**

Included in our June 30, 2012 cash and cash equivalents balance of \$158.3 million is \$50.0 million of cash held at one of our foreign subsidiaries. The large majority of this \$50.0 million of cash relates to earnings prior to January 1, 2012 that are permanently reinvested offshore.

**CASH FROM OPERATING ACTIVITIES**

Net cash provided by operating activities is derived primarily from net earnings before deducting noncash charges for depreciation, depletion, accretion and amortization.

<i>in millions</i>	<i>Six Months Ended</i>	
	<i>2012</i>	<i>June 30</i> <i>2011</i>
Net loss	<b>(\$70.3)</b>	(\$62.9)
Depreciation, depletion, accretion and amortization	<b>169.3</b>	182.7
Net gain on sale of property, plant & equipment and businesses	<b>(31.0)</b>	(15.7)
Changes in assets and liabilities before initial effects of business acquisitions and dispositions	<b>(20.0)</b>	(37.6)
Other operating cash flows, net	<b>(51.1)</b>	(59.5)
Net cash provided by (used for) operating activities	<b>(\$3.1)</b>	\$7.0

As noted in the table above, net cash provided by operating activities was down \$10.1 million for the six months ended June 30, 2012 compared to the same period of 2011. At \$99.0 million, net earnings before noncash deductions for depreciation, depletion, accretion and amortization for the first half of 2012 was down \$20.8 million compared to \$119.8 million in the first half of 2011. The 2011 operating cash flows include proceeds of \$25.5 million from a legal settlement while the 2012 operating cash flows include exchange offer cash outflows of \$8.1 million these discrete items more than account for the year-over-year decrease in operating cash flows.

**CASH FLOWS FROM INVESTING ACTIVITIES**

Net cash provided by investing activities was \$4.4 million during the six months ended June 30, 2012, a \$35.5 million increase compared to the same period in the prior year. This increase in investing cash flow resulted largely from \$19.4 million of higher proceeds from the sale of non-strategic property, plant & equipment and a \$17.9 million reduction in purchases of property, plant & equipment.

**CASH FLOWS FROM FINANCING ACTIVITIES**

Net cash provided by financing activities was \$1.2 million during the six months ended June 30, 2012, a decrease of \$82.2 million compared to the same period of 2011. Operating cash flows for the six months ended June 30, 2011 include net proceeds of \$139.7 from a debt restructuring that included the issuance of \$1.1 billion of long-term notes and debt retirements, including related costs, of \$960.3 million. Partially offsetting the net proceeds from the debt restructuring were \$64.6 million in dividends paid during the first half of 2011 compared to \$2.6 million during the first half of 2012 (a quarterly dividend rate of \$0.25 per share in 2011 vs. \$0.01 per share in 2012).



**Table of Contents**

**DEBT**

Our weighted-average interest rates, total debt as a percentage of total capital and percentage of floating and fixed rate debt are summarized below:

<i>dollars in millions</i>	<i>June 30 2012</i>	<i>December 31 2011</i>	<i>June 30 2011</i>
<b>Debt</b>			
Current maturities of long-term debt	<b>\$285.2</b>	\$134.8	\$5.2
Short-term borrowings	<b>0.0</b>	0.0	100.0
Long-term debt	<b>2,528.4</b>	2,680.7	2,785.8
Total debt	<b>\$2,813.6</b>	\$2,815.5	\$2,891.0
<b>Capital</b>			
Total debt	<b>\$2,813.6</b>	\$2,815.5	\$2,891.0
Equity <sup>1</sup>	<b>3,742.9</b>	3,791.6	3,872.1
Total capital	<b>\$6,556.5</b>	\$6,607.1	\$6,763.1
<b>Weighted-average Interest Rates</b>			
Bank line of credit	<b>n/a</b>	n/a	0.53%
Long-term debt excluding bank line of credit	<b>7.30%</b>	7.30%	7.44%
<b>Total Debt as a Percentage of Total Capital</b>			
	<b>42.9%</b>	42.6%	42.7%
<b>Total Debt Percentage of</b>			
Floating-rate debt	<b>0.5%</b>	0.5%	26.2%
Fixed-rate debt	<b>99.5%</b>	99.5%	73.8%

<sup>1</sup> As restated for June 30, 2011, see Note 1 to the condensed consolidated financial statements.

Our \$285.2 million of current maturities of long-term debt as of June 30, 2012 is due as follows:

<i>in millions</i>	<i>Current Maturities</i>
Third quarter 2012	\$0.0
Fourth quarter 2012	134.7
First quarter 2013	10.0
Second quarter 2013	140.5

We expect to retire the current maturities using existing cash, cash generated from operations or by drawing on our bank line of credit.

During the fourth quarter of 2011, we replaced our \$1.5 billion bank line of credit that was due to expire on November 16, 2012 with a \$600.0 million bank line of credit. We proactively reduced the size of the bank line of credit to match the current and expected needs of the business. The \$1.5 billion bank line of credit was established in connection with the acquisition of Florida Rock and the initial borrowings were largely

## Edgar Filing: Vulcan Materials CO - Form 10-Q

refinanced with other debt instruments.

The \$600.0 million bank line of credit expires on December 15, 2016 and is secured by certain domestic accounts receivable and inventory. Borrowing capacity fluctuates with the level of eligible accounts receivable and inventory and may be less than \$600.0 million at any point in time.

Utilization of the borrowing capacity under our bank line of credit as of June 30, 2012:

i none was drawn

i \$65.7 million was used to support outstanding standby letters of credit

---

## **Table of Contents**

Borrowings under the \$600.0 million bank line of credit bear interest at a rate determined at the time of borrowing equal to the lower of the London Interbank Offered Rate (LIBOR) plus a margin ranging from 1.75% to 2.25% based on the level of utilization, or an alternative rate derived from the lender's prime rate. Borrowings bearing interest at LIBOR plus the margin are made for periods of 1, 2, 3 or 6 months, and may be extended. Borrowings bearing interest at an alternative rate are made on an overnight basis and may be extended each day. Letters of credit issued under the \$600.0 million bank line of credit are charged a fee equal to the applicable margin for borrowings. As of June 30, 2012, the applicable margin was 1.75%.

Borrowings under the \$600.0 million bank line of credit are classified as long-term debt due to our ability to extend borrowings at the end of each borrowing period. Prior to December 31, 2011, we classified bank line of credit borrowings as short-term debt based on our intent to pay outstanding borrowings within one year.

In June 2011, we issued \$1.1 billion of long-term notes in two series, as follows: \$500.0 million of 6.50% notes due in 2016 and \$600.0 million of 7.50% notes due in 2021. These notes were issued principally to:

- i repay and terminate our \$450.0 million floating-rate term loan due in 2015
  
- i fund the purchase through a tender offer of \$165.4 million of our outstanding 5.60% notes due in 2012 and \$109.6 million of our outstanding 6.30% notes due in 2013
  
- i repay \$275.0 million outstanding under our bank line of credit

- i and for general corporate purposes

This debt issuance and retirement transaction lengthens our debt maturity profile and provides financial flexibility to continue investing in our business as the economy recovers.

## **DEBT RATINGS**

Our short-term debt rating/outlook as of June 30, 2012 was:

- i *Moody's* not prime/negative (rating dated September 16, 2011; outlook changed from stable to negative)

In October 2011, Standard and Poor's withdrew our short-term debt rating/outlook at our request. The rating (B/negative) was deemed unnecessary as we had no outstanding commercial paper and access to the commercial paper market was unavailable at the current credit rating.

Our long-term debt ratings/outlooks as of June 30, 2012 were:

- i *Standard and Poor's* BB/stable (rating dated June 11, 2012; outlook changed from watch positive to stable)

- i *Moody's* Ba2/negative (rating dated September 16, 2011; downgraded from Ba1/stable)

Subsequent to the December 2011 unsolicited exchange offer from Martin Marietta, *Moody's* placed our ratings under review with direction uncertain. On July 12, 2012, *Moody's* downgraded our long-term debt ratings to Ba3/negative from Ba2/negative.



**Table of Contents****EQUITY**

Our common stock issuances are summarized below:

<i>in thousands</i>	<i>June 30 2012</i>	<i>December 31 2011</i>	<i>June 30 2011</i>
Common stock shares at beginning of year issued and outstanding	<b>129,245</b>	128,570	128,570
<b>Common Stock Issuances</b>			
Acquisition	<b>0</b>	373	373
401(k) savings and retirement plan	<b>0</b>	111	111
Share-based compensation plans	<b>148</b>	191	170
Common stock shares at end of period issued and outstanding	<b>129,393</b>	129,245	129,224

In the first quarter of 2011, we issued 0.4 million shares of common stock in connection with a business acquisition as explained in Note 13 to the condensed consolidated financial statements.

We periodically sell shares of common stock to the trustee of our 401(k) savings and retirement plan to satisfy the plan participants' elections to invest in our common stock. This arrangement provides a means of improving cash flow, increasing equity and reducing leverage. Under this arrangement, the stock issuances and resulting cash proceeds for the periods presented were:

• six months ended June 30, 2012    no shares issued

• twelve months ended December 31, 2011    issued 0.1 million shares for cash proceeds of \$4.7 million

• six months ended June 30, 2011    issued 0.1 million shares for cash proceeds of \$4.7 million

There were no shares held in treasury as of June 30, 2012, December 31, 2011 and June 30, 2011. There were 3,411,416 shares remaining under the current purchase authorization of the Board of Directors as of June 30, 2012.

**OFF-BALANCE SHEET ARRANGEMENTS**

We did not enter into any new material off-balance sheet arrangements during the first six months of 2012.

**STANDBY LETTERS OF CREDIT**

For a discussion of our standby letters of credit see Note 11 to the condensed consolidated financial statements.

**CASH CONTRACTUAL OBLIGATIONS**

Our obligation to make future payments under contracts is presented in our most recent Annual Report on Form 10-K.

## CRITICAL ACCOUNTING POLICIES

We follow certain significant accounting policies when preparing our consolidated financial statements. A summary of these policies is included in our Annual Report on Form 10-K for the year ended December 31, 2011 (Form 10-K).

We prepare these financial statements to conform with accounting principles generally accepted in the United States of America. These principles require us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses, and the related disclosures of contingent assets and contingent liabilities at the date of the financial statements. We base our estimates on historical experience, current conditions and various other assumptions we believe

## Table of Contents

reasonable under existing circumstances and evaluate these estimates and judgments on an ongoing basis. The results of these estimates form the basis for our judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Our actual results may differ from these estimates.

We believe that the accounting policies described in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Form 10-K require the most significant judgments and estimates used in the preparation of our financial statements, so we consider these to be our critical accounting policies. There have been no changes to our critical accounting policies during the six months ended June 30, 2012.

## NEW ACCOUNTING STANDARDS

For a discussion of the accounting standards recently adopted or pending adoption and the affect such accounting changes will have on our results of operations, financial position or liquidity, see Note 15 to the condensed consolidated financial statements.

## FORWARD-LOOKING STATEMENTS

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

- cost reductions, profit enhancements and asset sales, as well as streamlining and other strategic actions we adopted, will not be able to be realized to the desired degree or within the desired time period and that the results thereof will differ from those anticipated or desired
- uncertainties as to the timing and valuations that may be realized or attainable with respect to intended asset sales;
- general economic and business conditions
- the timing and amount of federal, state and local funding for infrastructure
- the impact of a prolonged economic recession on our industry, business and financial condition and access to capital markets
- changes in the level of spending for private residential and nonresidential construction
- the highly competitive nature of the construction materials industry
- the impact of future regulatory or legislative actions
- the outcome of pending legal proceedings
- pricing of our products

- weather and other natural phenomena
  
- energy costs
  
- costs of hydrocarbon-based raw materials
  
- healthcare costs
  
- the amount of long-term debt and interest expense we incur
  
- changes in interest rates
  
- the impact of our below investment grade debt rating on our cost of capital
  
- volatility in pension plan asset values which may require cash contributions to the pension plans
  
- the impact of environmental clean-up costs and other liabilities relating to previously divested businesses
  
- our ability to secure and permit aggregates reserves in strategically located areas
  
- our ability to manage and successfully integrate acquisitions



## Table of Contents

- the potential of goodwill impairment
  
- the potential impact of future legislation or regulations relating to climate change or greenhouse gas emissions or the definition of minerals
  
- other assumptions, risks and uncertainties detailed from time to time in our periodic reports

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

## INVESTOR INFORMATION

We make available on our website, [www.vulcanmaterials.com](http://www.vulcanmaterials.com), free of charge, copies of our:

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

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

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

We have a:

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

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

Our Board of Directors has also adopted:

- Corporate Governance Guidelines

## Edgar Filing: Vulcan Materials CO - Form 10-Q

┆ Charters for its Audit, Compensation and Governance Committees

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

Each of these documents is available on our website under the heading, Corporate Governance, or you may request a copy of any of these documents by writing to Jerry F. Perkins Jr., Secretary, Vulcan Materials Company, 1200 Urban Center Drive, Birmingham, Alabama 35242.

**Table of Contents**

ITEM 3

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

We are exposed to interest rate risk due to our various credit facilities and long-term debt instruments. At times, we use interest rate swap agreements to manage this risk.

At June 30, 2012, the estimated fair value of our long-term debt instruments including current maturities was \$2,921.6 million compared to a book value of \$2,813.5 million. The estimated fair value was determined by discounting expected future cash flows based on credit-adjusted interest rates on U.S. Treasury bills, notes or bonds, as appropriate. The fair value estimate is based on information available as of the measurement date. Although we are not aware of any factors that would significantly affect the estimated fair value amount, it has not been comprehensively revalued since the measurement date. The effect of a decline in interest rates of 1 percentage point would increase the fair value of our liability by \$148.0 million.

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

ITEM 4

**CONTROLS AND PROCEDURES**

**DISCLOSURE CONTROLS AND PROCEDURES**

We maintain a system of controls and procedures designed to ensure that information required to be disclosed in reports we file with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. These disclosure controls and procedures (as defined in the Securities and Exchange Act of 1934 Rules 13a - 15(e) and 15d - 15(e)), include, without limitation, controls and procedures designed to ensure that information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer, with the participation of other management officials, evaluated the effectiveness of the design and operation of the disclosure controls and procedures as of June 30, 2012. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

We are in the process of replacing our legacy information technology systems and have substantially completed the implementation of new financial reporting software, which is a major component of the replacement. We are also in the process of implementing a new quote to cash software system, which is another significant component of the replacement. The new information technology systems were a source for most of the information presented in this Quarterly Report on Form 10-Q. We are continuing to work towards the full implementation of the new information technology systems.

No other changes were made to our internal controls over financial reporting or other factors that could materially affect these controls during the second quarter of 2012.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1****LEGAL PROCEEDINGS**

Certain legal proceedings in which we are involved are discussed in Note 12 to the consolidated financial statements and Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2011, and in Note 18 to the condensed consolidated financial statements and Part II, Item 3 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012. See Note 18 to the condensed consolidated financial statements of this Form 10-Q for a discussion of certain recent developments concerning our legal proceedings.

In addition, we were involved in a number of legal proceedings related to Martin Marietta's unsolicited exchange offer as described below.

**LITIGATION IN CONNECTION WITH MARTIN MARIETTA'S OFFER AND PROXY SOLICITATION**

In December 2011, Martin Marietta commenced an exchange offer for all outstanding shares of our common stock and initiated a proxy fight to elect a slate of directors to our Board. This takeover attempt was subsequently enjoined by the Delaware courts and terminated during the quarter ended June 30, 2012. In that quarter, we were involved in a number of legal proceedings related to Martin Marietta's takeover attempt.

**DELAWARE LITIGATION** On December 12, 2011, Martin Marietta commenced litigation in the Delaware Court of Chancery against Vulcan seeking declaratory and injunctive relief. The action was captioned *Martin Marietta Materials, Inc. v. Vulcan Materials Co., C.A. No. 7102-CS* (Del. Ch.). In its complaint, Martin Marietta asked the Court to issue a declaration that the May 3, 2010 letter agreement covering confidentiality, use restrictions and other terms between Martin Marietta and Vulcan did not prohibit (1) the exchange offer launched by Martin Marietta on December 12, 2011 or (2) Martin Marietta's anticipated nomination of candidates for Vulcan's board of directors at the 2012 annual meeting. Martin Marietta also sought an injunction prohibiting Vulcan from prosecuting any action under the May 3, 2010 letter agreement covering confidentiality, use restrictions and other terms in any jurisdiction other than Delaware.

On May 14, 2012, the Court enjoined Martin Marietta for a period of four months from, among other things, prosecuting a proxy contest, making an exchange or tender offer, or otherwise taking steps to acquire control of Vulcan shares or assets. On May 31, 2012, the Delaware Supreme Court affirmed the decision of the Court of Chancery. Since this matter has been decided, we will not report on it further.

**NEW JERSEY LITIGATION** On December 12, 2011, Martin Marietta commenced litigation in the Superior Court of New Jersey's Chancery Division for Mercer County against Vulcan seeking declaratory and injunctive relief. The action is captioned *Martin Marietta Materials, Inc. v. Vulcan Materials Co.*, No. C-83-11 (N.J. Super. Ct.). In its complaint, Martin Marietta alleged that it had launched an exchange offer and, if the offer were successful, intended to effect a merger between itself and Vulcan. Martin Marietta asked the Court to issue declarations and/or injunctive orders that: (1) the New Jersey Shareholders Protection Act would not apply to the proposed merger; (2) simple majority approval (and not an 80% standard) of the Vulcan shareholders was all that was required under Article VIII of Vulcan's Certificate of Incorporation with respect to the proposed merger, if either approved by a majority of the continuing directors or the offer price satisfied the price requirements set forth in the charter; (3) Vulcan would not use certain provisions of its bylaws to hinder or frustrate Martin Marietta's anticipated nomination of candidates for the board of directors at Vulcan's 2012 annual meeting; and (4) Martin Marietta's December 12, 2011 Registration Statement complied with the requirements of the Securities Act of 1933.

Following the decision of the Delaware Supreme Court in the Delaware litigation, this case was dismissed without prejudice by agreement of the parties. Thus, we will not report on it further.

**ALABAMA LITIGATION** On December 19, 2011, Vulcan commenced litigation in the United States District Court for the Northern District of Alabama, Southern Division, seeking declaratory and injunctive relief. The action is captioned *Vulcan Materials Company v. Martin Marietta Materials, Inc.*, CV-11-CO-4248-S (N.D. Ala.). Vulcan subsequently voluntarily dismissed this case without prejudice. Thus, we will not report on this matter further.



**Table of Contents**

**ITEM 1A  
RISK FACTORS**

As a result of the passage of the new multi-year highway bill by Congress in late June, we are removing the risk factor titled, Lack of a multi-year federal highway bill and changes to the funding mechanism for highway funding could cause states to spend less on roads which may negatively impact our revenue as noted in Item 1A of Part 1 in our Form 10-K for the year ended December 31, 2011.

Additionally, as a result of the rulings of the Delaware Chancery and Supreme Courts in May 2012 (see Note 1 to the Condensed Consolidated Financial Statements), we are removing the risk factor titled Martin Marietta's unsolicited exchange offer and proxy contest may require us to incur significant additional costs and otherwise cause disruption to our business as noted in Item 1A of Part 1 in our Form 10-K for the year ended December 31, 2011.

There were no other material changes to the risk factors disclosed in Item 1A of Part 1 in our Form 10-K for the year ended December 31, 2011.

**ITEM 4  
MINE SAFETY DISCLOSURES**

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

**ITEM 6  
EXHIBITS**

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

**Table of Contents**

SIGNATURES

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

**VULCAN MATERIALS COMPANY**

Date August 8, 2012

/s/ Ejaz A. Khan

Ejaz A. Khan

Vice President, Controller and Chief

Information Officer

(Principal Accounting Officer)

Date August 8, 2012

/s/ Daniel F. Sansone

Daniel F. Sansone

Executive Vice President, Chief Financial

Officer

(Principal Financial Officer)