Vulcan Materials CO
Form 10-K
February 28, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2012

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 or organization)	(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No __

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes __ No X .

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 X No __

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

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

Large accelerated filer X	Accelerated filer ___
Non-accelerated filer ___	Smaller reporting company ___

(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes __ No X

Aggregate market value of voting and non-voting common stock held by non-affiliates as of June 30, 2012:	$ 5,118,918,572
Number of shares of common stock, $1.00 par value, outstanding as of February 14, 2013:	129,872,017

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s annual proxy statement for the annual meeting of its shareholders to be held on May 10, 2013, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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VULCAN MATERIALS COMPANY

ANNUAL REPORT ON FORM 10-K

FISCAL YEAR ENDED DECEMBER 31, 2012

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Unless otherwise stated or the context otherwise requires, references in this report to Vulcan, the company, we, our, or us refer to Vulcan Materials Company and its consolidated subsidiaries.

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PART I

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES

LITIGATION REFORM ACT OF 1995

Certain of the matters and statements made herein or incorporated by reference into this report constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. All such statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements reflect our intent, belief or current expectation. Often, forward-looking statements can be identified by the use of words such as anticipate, may, believe, estimate, project, expect, intend and words of similar addition to the statements included in this report, we may from time to time make other oral or written forward-looking statements in other filings under the Securities Exchange Act of 1934 or in other public disclosures. Forward-looking statements are not guarantees of future performance, and actual results could differ materially from those indicated by the forward-looking statements. All forward-looking statements involve certain assumptions, risks and uncertainties that could cause actual results to differ materially from those included in or contemplated by the statements. 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 planned asset sales

§ general economic and business conditions

§ the timing and amount of federal, state and local funding for infrastructure

§ changes in our effective tax rate that can adversely impact results

§ the increasing reliance on information technology infrastructure for our ticketing, procurement, financial statements and other processes can adversely effect operations in the event that the infrastructure does not work as intended or experiences technical difficulties

§ the impact of the state of the global economy on our business and financial condition and access to capital markets

§ changes in the level of spending for residential and private 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 and liabilities which may require cash contributions to our 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

§ the potential of goodwill or long-lived asset impairment

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§ the potential impact of future legislation or regulations relating to climate change, greenhouse gas emissions or the definition of minerals

§ the risks set forth in Item 1A Risk Factors, Item 3 Legal Proceedings, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, and Note 12 Other Commitments and Contingencies to the consolidated financial statements in Item 8 Financial Statements and Supplementary Data, all as set forth in this report

§ other assumptions, risks and uncertainties detailed from time to time in our filings made with the Securities and Exchange Commission

All forward-looking statements are made as of the date of filing or publication. 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.

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ITEM 1
BUSINESS

Vulcan Materials Company is a New Jersey corporation and the nation s largest producer of construction aggregates: primarily crushed stone, sand, and gravel. We have 341 active aggregates facilities. We also are a major producer of asphalt mix and ready-mixed concrete as well as a leading producer of cement in Florida.

VULCAN S VALUE PROPOSITION

We are the leading construction materials business in the country with superior aggregates operations. Our leading position is based upon:

§ being the largest aggregates producer in the U.S.

§ having a favorable geographic footprint that provides attractive long-term growth prospects

§ having the largest proven and probable reserve base

§ having operational expertise and pricing discipline which provides attractive unit profitability

STRATEGY FOR EXISTING AND NEW MARKETS

§ Our aggregates reserves are strategically located throughout the United States in high-growth areas that are projected to grow faster than the national average and that require large amounts of aggregates to meet construction demand. Vulcan-served states are estimated to generate 75% of the total growth in U.S. population and 70% of the total growth in U.S. household formations between 2010 and 2020. Our top ten revenue producing states in 2012 were Alabama, California, Florida, Georgia, Illinois, North Carolina, South Carolina, Tennessee, Texas and Virginia.

U.S. DEMOGRAPHIC GROWTH 2010 TO 2020, TOP 10 BY STATE

	POPULATION		**HOUSEHOLDS**		**EMPLOYMENT**	
		Share of Total		Share of Total		Share of Total
Rank	State	U.S. Growth	State	U.S. Growth	State	U.S. Growth
1	**Texas**	**16%**	**Texas**	**13%**	**Texas**	**14%**
2	**California**	**14%**	**Florida**	**13%**	**California**	**10%**
3	**Florida**	**13%**	**California**	**12%**	**Florida**	**8%**
4	**North Carolina**	**6%**	**North Carolina**	**5%**	New York	6%
5	**Georgia**	**6%**	**Arizona**	**5%**	**Georgia**	**4%**
6	**Arizona**	**5%**	**Georgia**	**5%**	**North Carolina**	**4%**
7	Nevada	3%	**Virginia**	**3%**	**Arizona**	**3%**
8	**Virginia**	**3%**	Washington	3%	Ohio	3%
9	Washington	3%	Colorado	2%	**Pennsylvania**	**3%**

10	Colorado	2%	Oregon	2%	**Virginia**	**3%**
Top10 Subtotal		70%		62%		58%
Vulcan States in Top 10:		**62%**		**55%**		**49%**
Al l States Served by Vulcan:		75%		70%		63%

Notes: Vulcan-served states shown in bolded blue text. Due to rounding, subtotals may not equal the sum of individual states.

Source: Moody s Analytics as of November 12, 2012

§ We take a disciplined approach to strengthening our footprint by increasing our presence in metropolitan areas that are expected to grow most rapidly and divesting assets that are no longer considered part of our long-term growth strategy.

§ Where practical, we have operations located close to our local markets because the cost of trucking materials long distances is prohibitive. Approximately 81% of our total aggregates shipments are delivered exclusively from the producing location to the customer by truck, and another 12% are delivered by truck after reaching a sales yard by rail or water.

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COMPETITORS

We operate in an industry that generally is fragmented with a large number of small, privately-held companies. We estimate that the ten largest aggregates producers account for approximately 30% to 35% of the total U.S. aggregates production. Despite being the industry leader, Vulcan s total U.S. market share is less than 10%. Other publicly traded companies among the ten largest U.S. aggregates producers include the following:

§ Cemex S.A.B. de C.V.

§ CRH plc

§ HeidelbergCement AG

§ Holcim Ltd.

§ Lafarge

§ Martin Marietta Materials, Inc.

§ MDU Resources Group, Inc.

Because the U.S. aggregates industry is highly fragmented, with over 5,000 companies managing almost 10,000 operations, many opportunities for consolidation exist. Therefore, companies in the industry tend to grow by acquiring existing facilities to enter new markets or by enhancing their existing market positions.

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BUSINESS STRATEGY

Vulcan provides the basic materials for the infrastructure needed to expand the U.S. economy. Our strategy is based on our strength in aggregates. Aggregates are used in all types of construction and in the production of asphalt mix and ready-mixed concrete. Our materials are used to build the roads, tunnels, bridges, railroads and airports that connect us, and to build the hospitals, churches, shopping centers, and factories that are essential to our lives and the economy. The following graphs illustrate the relationship of our four operating segments to sales.

AGGREGATES-LED VALUE CREATION   2012 NET SALES

** Represents sales to external customers of our aggregates and our downstream products that use our aggregates.*

Our business strategies include: 1) aggregates focus, 2) coast-to-coast footprint, 3) profitable growth, 4) tightly managed operational and overhead costs, and 5) effective land management.

1. AGGREGATES FOCUS

Aggregates are used in virtually all types of public and private construction projects and practically no substitutes for quality aggregates exist. Our focus on aggregates allows us to:

§ **BUILD AND HOLD SUBSTANTIAL RESERVES**: The locations of our reserves are critical to our long-term success because of barriers to entry created in many metropolitan markets by zoning and permitting regulations and high transportation costs. Our reserves are strategically located throughout the United States in high-growth areas that will require large amounts of aggregates to meet future construction demand. Aggregates operations have flexible production capabilities and, other than energy inputs required to process the materials, require virtually no other raw material other than aggregates reserves which we own or control by leases. Our downstream businesses (asphalt mix and concrete) use Vulcan-produced aggregates almost exclusively.

§ **TAKE ADVANTAGE OF BEING THE LARGEST PRODUCER**: Each aggregates operation is unique because of its location within a local market with particular geological characteristics. Every operation, however, uses a similar group of assets to produce saleable aggregates and provide customer service. Vulcan is the largest aggregates company in the U.S., whether measured by production or by revenues. Our 341 active aggregates facilities provide opportunities to standardize operating practices and procure equipment (fixed and mobile), parts, supplies and services in an efficient and cost-effective manner, both regionally and nationally. Additionally, we are able to share best practices across the organization and leverage our size for administrative support, customer service, accounting, accounts receivable and accounts payable, technical support and engineering.

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2. COAST-TO-COAST FOOTPRINT

Demand for construction aggregates correlates positively with changes in population growth, household formation and employment. We have pursued a strategy to increase our presence in metropolitan areas that are expected to grow the most rapidly.

3. PROFITABLE GROWTH

Our growth is a result of acquisitions, cost management and investment activities.

§ **STRATEGIC ACQUISITIONS:** Since becoming a public company in 1956, Vulcan has principally grown by mergers and acquisitions. For example, in 1999 we acquired CalMat Co., thereby expanding our aggregates operations into California and Arizona and making us one of the nation s leading producers of asphalt mix and ready-mixed concrete.

In 2007, we acquired Florida Rock Industries, Inc., the largest acquisition in our history. This acquisition expanded our aggregates business in Florida and other southeastern and Mid-Atlantic states, as well as adding to our ready-mixed concrete business and added cement manufacturing and distribution facilities in Florida.

In addition to these large acquisitions, we have completed many smaller acquisitions that have contributed significantly to our growth.

§ **REINVESTMENT OPPORTUNITIES WITH HIGH RETURNS:** During this decade, Moody s Analytics projects that 75% of the U.S. population growth will occur in Vulcan-served states. The close proximity of our production facilities and our aggregates reserves to this projected population growth creates many opportunities to invest capital in high-return projects projects that will add reserves, increase production capacity and improve costs.

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4. TIGHTLY MANAGED OPERATIONAL AND OVERHEAD COSTS

In a business where aggregates sell, on average, for approximately $10.00 per ton, we are accustomed to rigorous cost management throughout economic cycles. Small savings per ton add up to significant cost reductions. We are able to adjust production levels to meet varying market conditions without jeopardizing our ability to take advantage of future increased demand.

Our knowledgeable and experienced workforce and our flexible production capabilities have allowed us to manage operational and overhead costs aggressively during the prolonged recession. In addition to cost reduction steps taken in previous years, in 2012 we continued to control costs aggressively in our operations which improved our per-ton margins. As a result, our cash earnings for each ton of aggregates sold in 2012 was 27% higher than at the peak of demand in 2005 (refer to Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations for Non-GAAP disclosures). In 2012, we also reorganized our company structure enabling us to make significant reductions in our Selling, Administrative and General (SAG) expense.

5. EFFECTIVE LAND MANAGEMENT

We believe that effective land management is both a business strategy and a social responsibility that contributes to our success. Good stewardship requires the careful use of existing resources as well as long-term planning because mining, ultimately, is an interim use of the land. Therefore, we strive to achieve a balance between the value we create through our mining activities and the value we create through effective post-mining land management. We continue to expand our thinking and focus our actions on wise decisions regarding the life cycle management of the land we currently hold and will hold in the future.

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PRODUCT LINES

We have four reporting segments organized around our principal product lines:

§ aggregates

§ concrete

§ asphalt mix

§ cement

1. AGGREGATES

A number of factors affect the U.S. aggregates industry and our business including markets, reserves and demand cycles.

§ **LOCAL MARKETS:** 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 rendering such material uncompetitive compared to locally produced 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.

§ **DIVERSE MARKETS:** Large quantities of aggregates are used in virtually all types of public- and private-sector construction projects such as highways, airports, water and sewer systems, industrial manufacturing facilities, residential and nonresidential buildings. Aggregates also are used widely as railroad track ballast.

§ **LOCATION AND QUALITY OF RESERVES:** We currently have 15.0 billion tons of permitted and proven or probable aggregates reserves. The bulk of these reserves are located in areas where we expect greater than average rates of growth in population, jobs and households, which require new infrastructure, housing, offices, schools and other development. Such growth requires aggregates for construction. Zoning and permitting regulations in some markets have made it increasingly difficult for the aggregates industry to expand existing quarries or to develop new quarries. These restrictions could curtail expansion in certain areas, but they also could increase the value of our reserves at existing locations.

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§ **DEMAND CYCLES:** Long-term growth in demand for aggregates is largely driven by growth in population, jobs and households. While short- and medium-term demand for aggregates fluctuates with economic cycles, declines have historically been followed by strong recoveries, with each peak establishing a new historical high. In comparison to all other recent demand cycles, the current downturn has been unusually steep and long, making it difficult to predict the timing or strength of future recovery.

However, there are signs the current cyclical downturn is drawing to a close and a recovery in private construction is taking hold. Residential construction, as measured by housing starts, has bottomed out, and a sustained recovery appears to be underway. Since October 2011, year-over-year growth in trailing twelve month housing starts has been increasing. This is significant because housing contributes to Gross Domestic Product (GDP) in two basic ways: through fixed investment and through consumption spending and housing services. Residential investment, which includes construction of both new single-family and multi-family structures, has the most direct impact on construction activity. During the last four housing recoveries after economic downturns, increased construction activity in other end markets has followed growth in housing starts.

The diagram below depicts how housing starts can have a direct and indirect impact on the overall economy and construction end markets. Housing starts lead to growth in demand for private investment as well as initial and ongoing sources of tax revenue, both of which drive increased construction activity. Historically, housing has contributed 17% to 18% of GDP, according to the National Association of Home Builders.

In addition, the following factors influence the aggregates market:

§ **HIGHLY FRAGMENTED INDUSTRY:** The U.S. aggregates industry is composed of over 5,000 companies that manage almost 10,000 operations. This fragmented structure provides many opportunities for consolidation. Companies in the industry commonly enter new markets or expand positions in existing markets through the acquisition of existing facilities.

§ **RELATIVELY STABLE DEMAND FROM THE PUBLIC SECTOR:** Publicly funded construction activity has historically been more stable and less cyclical than privately funded construction, and generally requires more aggregates per dollar of construction spending. Private construction (primarily residential and nonresidential buildings) typically is more affected by general economic cycles than publicly funded projects (particularly highways, roads and bridges) which tend to receive more consistent levels of funding throughout economic cycles.

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- § **LIMITED PRODUCT SUBSTITUTION:** There are limited substitutes for quality aggregates. In urban locations, recycled concrete and asphalt have applications as a lower-cost alternative to virgin aggregates. However, many types of construction projects cannot be served by recycled concrete or asphalt but require the use of virgin aggregates to meet specifications and performance-based criteria for durability, strength and other qualities.

- § **WIDELY USED IN DOWNSTREAM PRODUCTS:** In the production process, aggregates are processed for specific applications or uses. Two products that use aggregates as a raw material are asphalt mix and ready-mixed concrete. By weight, aggregates comprise approximately 95% of asphalt mix and 78% of ready-mixed concrete.

- § **FLEXIBLE PRODUCTION CAPABILITIES:** The production of aggregates is a mechanical process in which stone is crushed and, through a series of screens, separated into various sizes depending on how it will be used. Production capacity can be flexible by adjusting operating hours to meet changing market demand.

- § **RAW MATERIAL INPUTS LARGELY UNDER OUR CONTROL:** Unlike typical industrial manufacturing industries, the aggregates industry does not require the input of raw material beyond owned or leased aggregates reserves. Stone, sand and gravel are naturally occurring resources. However, production does require the use of explosives, hydrocarbon fuels and electric power.

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OUR MARKETS

We focus on the U.S. markets with the greatest expected population growth and where construction is expected to expand. Because transportation is a significant part of the delivered cost of aggregates, our facilities are typically located in the markets they serve or with access to economical transportation to their markets. We serve both the public and the private sectors.

PUBLIC SECTOR

Public sector construction includes spending by federal, state, and local governments for highways, bridges and airports as well as other infrastructure construction for sewer and waste disposal systems, water supply systems, dams, reservoirs and other public construction projects. Construction for power plants and other utilities is funded from both public and private sources. In 2012, publicly funded construction accounted for approximately 54% of our total aggregates shipments.

¡ **PUBLIC SECTOR FUNDING:** Generally, public sector construction spending is more stable than private sector construction because public sector spending is less sensitive to interest rates and has historically been supported by multi-year legislation and programs. For example, the federal transportation bill is a principal source of funding for public infrastructure and transportation projects. For over two decades, a portion of transportation projects has been funded through a series of multi-year bills. The long-term aspect of these bills is critical because it provides state departments of transportation with the ability to plan and execute long-term and complex highway projects. Federal highway spending is governed by multi-year authorization bills and annual budget appropriations using funds largely from the Federal Highway Trust Fund. This Trust Fund receives funding from taxes on gasoline and other levies. The level of state spending on infrastructure varies across the United States and depends on individual state needs and economies. In 2012, approximately 30% of our aggregates sales by volume were used in highway construction projects.

¡ **FEDERAL HIGHWAY FUNDING:** In June 2012, Congress passed MAP-21, a new multi-year highway bill. There was overwhelming bipartisan support for this legislation in both the House and the Senate, and it was signed into law by the President on July 6, 2012. This bill provides state departments of transportation with the funding certainty to move forward on infrastructure programs, and it helps rebuild America s aging infrastructure by modernizing and reforming our current transportation system, while also protecting millions of jobs.

MAP-21 maintains essentially level funding for the next two fiscal years, with approximately $105 billion for total funding through Fiscal Year 2014. It extends the Highway Trust Fund and tax collections through Fiscal Year 2016 adding additional stability to the Federal Highway Program. The bill s substantial highway provisions are more reform-focused than previous bills, with a strong emphasis on improving project delivery and eliminating red tape that has slowed the construction of highway projects. Funding directly for highways provides a floor of $82 billion for Fiscal Years 2013 and 2014. On top of this, there is a very significant increase in the Transportation Infrastructure Finance & Innovation Act (TIFIA) program. Funding for this program will increase to $1.75 billion over the next two-year period from $122 million per year under the previous multi-year highway bill known as SAFETEA-LU. TIFIA funding is typically leveraged by a factor of 10, so that there is the potenti