

VULCAN MATERIALS CO
Form 11-K
June 27, 2003

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

FORM 11-K

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

For the Fiscal Year Ended December 31, 2002

Commission file number: 1-4033

**VULCAN MATERIALS COMPANY
CHEMICALS DIVISION HOURLY EMPLOYEES SAVINGS PLAN**
(full title of the plan)

VULCAN MATERIALS COMPANY
(Name of issuer of the securities held pursuant to the plan)

**1200 Urban Center Drive
Birmingham, Alabama 35242**
(Address of issuer's principal executive offices and address of the plan)

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INDEPENDENT AUDITORS' REPORT

**To the Administrative Committee of Vulcan Materials Company
Chemicals Division Hourly Employees Savings Plan:**

We have audited the accompanying statements of net assets available for benefits of the Vulcan Materials Company Chemicals Division Hourly

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Employees Savings Plan (the "Plan") as of December 31, 2002 and 2001, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2002 and 2001, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP

Birmingham, Alabama
June 13, 2003

VULCAN MATERIALS COMPANY CHEMICALS DIVISION HOURLY EMPLOYEES SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS DECEMBER 31, 2002 AND 2001

ASSETS	2002	2001
INVESTMENTS [Cost of \$32,138,224 (2002) and \$30,208,146 (2001)]:		
Collective short-term investments		
Guaranteed investment contracts	\$449,007	\$371,258
Commingled funds holding principally common stock	10,883,261	9,150,347
Common stock of Vulcan Materials Company	4,864,194	5,773,264
Loans to participants	13,365,506	17,795,280
	<u>1,528,125</u>	<u>1,507,263</u>
Total investments	_31,090,093	_34,597,412
RECEIVABLE FROM VULCAN MATERIALS COMPANY - Employer contributions	___21,812	___38,282
	<u>\$31,111,905</u>	<u>\$34,635,694</u>
NET ASSETS AVAILABLE FOR BENEFITS		

See notes to financial statements.

VULCAN MATERIALS COMPANY CHEMICALS DIVISION HOURLY EMPLOYEES SAVINGS PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

ADDITIONS (DEDUCTIONS) TO NET ASSETS
ATTRIBUTED TO:

2001

2002

INVESTMENT INCOME:

Interest		
Dividends	\$668,812	\$669,206
Net investment gains (losses):	346,795	329,113
Realized	195,260	1,674,770
Unrealized	<u>(5,437,397)</u>	<u>(2,482,002)</u>
Net investment income (loss)	<u>(4,226,530)</u>	<u>191,087</u>

CONTRIBUTIONS:

Participants	1,937,488	1,837,407
Vulcan Materials Company	<u>671,884</u>	<u>702,464</u>
Total contributions	<u>2,609,372</u>	<u>2,539,871</u>

NET LOAN ACTIVITY

(8,643) (114,438)

REDISTRIBUTION OF PARTICIPANTS' INVESTMENT
OPTIONS BETWEEN PLANS

(340,459) (704,832)

993 17,038

OTHER, net

(1,965,267) 1,928,726

TOTAL ADDITIONS (DEDUCTIONS), net

DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:

WITHDRAWALS BY PARTICIPANTS:

Cash	1,558,522	2,666,021
Common stock of Vulcan Materials Company		<u>109,212</u>
Total withdrawals	<u>1,558,522</u>	<u>2,775,233</u>

NET DECREASE

(3,523,789) (846,507)

NET ASSETS AVAILABLE FOR BENEFITS:
BEGINNING OF YEAR34,635,694 35,482,201

END OF YEAR

\$31,111,905 \$34,635,694

See notes to financial statements.

VULCAN MATERIALS COMPANY
CHEMICALS DIVISION HOURLY EMPLOYEES SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

- The financial statements of the Vulcan Materials Company Chemicals Division Hourly Employees Savings Plan (the "Plan") have been prepared on the accrual basis of accounting. All assets of the Plan are held by the Northern Trust Company of Chicago, Illinois (the "Trustee"). Vulcan Materials Company (the "Company") pays the administrative costs of the Plan, including the Trustee's fees and charges.

Valuation of Investments - Investments other than guaranteed investment contracts are reported at fair value. Investments in securities traded on national and over-the-counter exchanges are valued at the closing bid price of the security as of the last day of the year. Loans to participants are valued at cost plus accrued interest which approximates fair value. The average cost of securities sold or distributed is used to determine net investment gains or losses realized. Security transactions are recorded on the settlement date. Distributions of common stock, if any, to participants are recorded at the market value of such stock at the time of distribution. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment manager fees are netted against Plan investment income. Expenses incurred in connection with the transfer of securities, such as brokerage commissions and transfer taxes, are added to the cost of such securities or deducted from the proceeds thereof.

Valuation of Investments (Insurance Contracts) - Guaranteed investment contracts are included in the financial statements at contract value (which represents contributions made under the contract, plus earnings, less withdrawals and administrative expenses), because they are fully benefit responsive.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Risk and Uncertainties - The Plan invests in various securities, including U.S. Government securities, corporate debt instruments, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for plan benefits.

2. DESCRIPTION OF THE PLAN

General

- The Plan, established effective January 1, 1972 and most recently restated effective July 1, 1997 to provide for additional investment options and daily valuation of individual account balances, is a

defined contribution employee benefit plan. The purpose of the Plan is to provide for accumulation of savings for qualifying hourly paid employees of the Chemicals Division of the Company who are represented by collective bargaining units which have specifically adopted the Plan.

Participation and Vesting - Chemicals Division Hourly employees, with one year of service covered by a collective bargaining unit which has adopted the Plan, are eligible for participation. Participants are fully vested at all times.

Funding - The Plan is funded through participants' and Company contributions. Participants contribute to the Plan through weekly payroll deductions at a rate dependent upon the participant's years of service. A participant may make weekly matched contributions in multiples of \$1 up to a maximum weekly matched contribution as stated in the plan document for the participants' collective bargaining unit. Company contributions equal a percentage of participants' contributions, such percentage being defined in the plan document for the collective bargaining unit covering the participant. In addition to the matched contributions, participants may make weekly-unmatched contributions in multiples of \$1 up to a maximum as stated in the applicable plan document for the participants' collective bargaining agreement.

Investment Options - Participants' contributions are invested in the thirteen separate investment funds (see Note 5) of the Plan in proportions elected by the participant. The Company's matching contributions are invested in the fund which invests primarily in the Company's common stock.

Allocation and Determination of Accounts - Separate accounts are maintained for each participant for matched, unmatched, deductible supplemental, and Company contributions and accumulated earnings on each. Additionally, subaccounts are maintained for matched and unmatched accounts for the portion of each account that is attributable to pre-tax contributions and the portion attributable to after-tax contributions. Earnings are allocated to each participant's account daily in the ratio of the participant's account balance to total participants' account balances.

Distributions and Withdrawals - A participant's total account is distributed upon retirement, disability, death or termination of employment unless the account value is greater than \$5,000, in which case the participant may defer until age 70-1/2. As of December 31, 2002 and 2001, benefits of \$2,384,771 and \$1,598,095, respectively, were due to individuals who were separated from the Plan. Prior to a termination of employment, participants may make partial withdrawals or may withdraw their total account, except that if a participant has not maintained a participant contribution account for the 60 months immediately preceding the voluntary withdrawal, no Company contributions which have been on deposit less than 24 months will be distributed until 24 months after the earlier of the employee's withdrawal date or the employee's termination of employment. In addition, any in-service distribution from a participant's pre-tax contributions must meet the requirements of a "hardship withdrawal," as set forth in the plan document.

Loans - Participants covered by certain collective bargaining unit agreements may apply for up to three loans at any time. The amount of the loans cannot exceed the lesser of 50% of the participant's total account or \$50,000. If a loan is made, the participant shall execute a note payable to the Trustee in the amount of the loan and bearing interest at the prime interest rate plus 1%. The average rate of interest on loans approximated 8% and 9% in 2002 and 2001, respectively. A loan will be considered as an investment of the participant. The participant's investment accounts will be reduced pro rata by the amount of the loan. Any repayment made will be allocated to the participant's investment accounts in accordance with his current investment direction. Loans must be repaid in monthly installments through payroll deductions. The maximum number of monthly installments is 60.

Plan Termination - In the event it becomes necessary to terminate the Plan, participants will receive a distribution of the amounts held for their accounts.

3. NET REALIZED INVESTMENT GAINS

	Aggregate Cost	Aggregate Proceeds	Net Realized Gain (Loss)
2002			
Fund holding principally intermediate-term fixed income investments	\$4,658	\$4,838	\$180
Commingled funds holding principally common stock	2,438,984	2,119,508	(319,476)
Commingled funds holding principally international equity instruments	704,552	654,443	(50,109)
Fund holding Vulcan Materials Company common stock	<u>4,043,369</u>	<u>4,608,034</u>	<u>564,665</u>
	<u>\$7,191,563</u>	<u>\$7,386,823</u>	<u>\$195,260</u>
	\$23,214	\$24,746	\$1,532
	7,050,135	7,423,241	373,106
	89,066	73,965	(15,101)
Total	<u>3,496,602</u>	<u>4,811,835</u>	<u>1,315,233</u>
	<u>\$10,659,017</u>	<u>\$12,333,787</u>	<u>\$ 1,674,770</u>

2001

Fund holding principally intermediate-term fixed income investments
 Commingled funds holding principally common stock
 Commingled funds holding principally international equity instruments
 Fund holding Vulcan Materials Company common stock
 Total

4. INVESTMENTS

The Plan's investment assets consist of an interest in one of the investment accounts of the Vulcan Materials Company Master Trust ("Master Trust") administered by Northern Trust Company. Use of the Master Trust permits the commingling of investment assets of a number of employee benefit plans of the participating companies. Although the assets are commingled, the Company maintains supporting records for the purpose of allocating the investment assets and the related net earnings to

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the various participating employee benefit plans.

The investment accounts of the Master Trust at December 31, 2002 and 2001 are summarized as follows:

		2002	2001
Pension Investment Account	\$388,945,708	\$468,970,898	
Thrift Plan Investment Account	331,857,156	404,199,810	
Chemicals Savings Account	31,111,905	34,635,694	
Construction Savings Account	<u>51,915,949</u>	<u>52,206,236</u>	
Net assets	<u>\$803,830,718</u>	<u>\$960,012,638</u>	

The net assets of the Master Trust at December 31, 2002 and 2001 are summarized as follows:

		2002	2001
Commingled fund holding principally short-term fixed income investments and loans to participants			
Guaranteed investment contracts	\$84,073,537	\$107,473,764	
Fund holding principally real estate investments	73,599,023	80,719,631	
Fund holding principally venture capital and partnership investments	44,924	83,975	
Fund holding principally intermediate-term fixed income investments	25,860,144	31,967,603	
U.S. government securities			
Commingled funds holding principally common stock	84,268,199	102,242,204	
Commingled funds holding principally international equity instruments	72,113,206	52,094,193	
Fund holding Vulcan Materials Company common stock	159,226,818	202,120,878	
Derivatives	87,312,885	98,628,742	
Other equities			
Net assets	213,065,685	281,318,440	
	325,300	833,275	
	<u>3,940,997</u>	<u>2,529,933</u>	
	<u>\$803,830,718</u>	<u>\$960,012,638</u>	

The total investment income (loss) by type of the Master Trust for the years ended December 31, 2002 and 2001 is summarized as follows:

		2002	2001
Interest, net			
Dividends	\$12,045,779	\$15,518,683	
Other	6,319,623	7,115,588	
Net investment gains (losses):	260,289	1,927,259	
Realized			
Unrealized	(2,008,576)	146,036,813	
Total	<u>(148,282,806)</u>	<u>(237,933,944)</u>	

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\$(131,665,691)

\$(67,335,601)

Investments held by the Plan at December 31, 2002 and 2001 and changes in unrealized appreciation (depreciation) of investments for the years then ended are summarized below:

	Cost	Market Value	Appreciation (Depreciation)
Totals at December 31, 2001			
Totals at December 31, 2002:	<u>\$30,208,146</u>	<u>\$34,597,412</u>	<u>\$4,389,266</u>
Loans to Participants			
Managed Funds:	1,528,125	1,528,125	
6,107 units - fixed income investments	86,385	88,331	
181,493 units - common stocks	5,779,093	4,679,907	
10,777 units - international equity instruments	104,052	95,956	
\$10,883,261 par - guaranteed investment contracts	10,883,261	10,883,261	
\$449,007 par - money market investments	449,007	449,007	
360,083 shares of Vulcan Materials Company common stock	<u>13,308,301</u>	<u>13,365,506</u>	
Total	<u>32,138,224</u>	<u>31,090,093</u>	<u>(1,048,131)</u>
Net change in 2002	<u>\$28,523,305</u>	<u>\$35,394,573</u>	<u>\$6,871,268</u>
	1,507,263	1,507,263	
	22,630	24,095	
Totals at December 31, 2000	5,640,179	5,617,593	
Totals at December 31, 2001:			
Loans to Participants	170,394	131,576	
Managed Funds:			
1,677 units - fixed income investments	9,150,347	9,150,347	
145,297 units - common stocks	371,258	371,258	
12,097 units - international equity instruments	<u>13,346,075</u>	<u>17,795,280</u>	
\$9,150,347 par - guaranteed investment contracts	<u>30,208,146</u>	<u>34,597,412</u>	<u>4,389,266</u>
\$371,258 par - money market	<u>1,684,841</u>	<u>\$(797,161)</u>	<u>\$(2,482,002)</u>

investments
 371,199 shares of Vulcan
 Materials
 Company common stock

Total

Net change in 2001

The guaranteed investment contracts were established in 1991 with Metropolitan Life with a guaranteed rate, net of insurance company charges, of 6.20% and an annual maturity date of May 1. Upon maturity, the Company renegotiates new terms on these contracts. The interest rate was 6.00% from January 1 - April 30, 2001; 5.75% from May 1 - December 31, 2001; 5.50% from January 1 - April 30, 2002; and 5.50% from May 1 - December 31, 2002.

5. INVESTMENT PROGRAM

All contributions of the Company are invested in the fund which consists of the Company's common stock, except that retired or active employees over age 55 or disabled employees may transfer Company matching funds to the other investment funds. With respect to investment alternatives (1) the guaranteed investment contracts fund, (2) S&P 500 index fund, (3) the large-cap value index fund, (4) small-cap value index fund, (5) large-cap growth index fund, (6) small-cap growth index fund, (7) the international equity fund, (8) the Vulcan Materials Company common stock fund, and (9) through (13) the balanced funds, investment managers have been appointed whose duty it is to advise the Trustee as to particular investments to be made. At December 31, 2002, the investment managers were as follows:

- | | |
|--|---|
| (1) Guaranteed investment contracts fund | Metropolitan Life Insurance Company
Pensions
P.O. Box 740278
Atlanta, GA 30374 |
| (2) S&P 500 index fund | State Street Global Advisors
One International Place
Boston, MA 02110 |
| (3) Large-cap value index fund | State Street Global Advisors
One International Place
Boston, MA 02110 |
| (4) Small-cap value index fund | State Street Global Advisors
One International Place
Boston, MA 02110 |
| (5) Large-cap growth index fund | State Street Global Advisors
One International Place
Boston, MA 02110 |
| (6) Small-cap growth index fund | State Street Global Advisors
One International Place |

Boston, MA 02110

(7) International equity fund

State Street Global Advisors
One International Place
Boston, MA 02110

(8) Vulcan Materials Company common stock fund

The Northern Trust Company
50 South LaSalle Street
Chicago, IL 60675

(9) through (13) Balanced funds

State Street Global Advisors
One International Place
Boston, MA 02110

6. TAX STATUS

The Plan obtained its latest determination letter on January 10, 2003, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

SIGNATURES

THE PLAN. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustee (or other person who administers the employee benefit plan) has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

VULCAN MATERIALS COMPANY
Chemicals Division Hourly
Employees Savings Plan

Date: June 27, 2003

by: /s/Charles D. Lockhart
Charles D. Lockhart
Chairman of the Administrative Committee