

Vulcan Materials CO  
Form 10-Q  
August 04, 2010

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**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, 2010**

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**

(State or other jurisdiction of incorporation)

**20-8579133**

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

**1200 Urban Center Drive, Birmingham, Alabama**

(Address of principal executive offices)

**35242**

(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. (Check one):

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Shares outstanding at June 30, 2010
Common Stock, \$1 Par Value	128,269,559

**VULCAN MATERIALS COMPANY**  
**FORM 10-Q**  
**QUARTER ENDED June 30, 2010**  
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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1 Financial Statements****Condensed Consolidated Balance Sheets***Vulcan Materials Company and Subsidiary Companies*

	<b>June 30 2010</b>	December 31 2009	June 30 2009
Unaudited, except for December 31			
Amounts in thousands, except per share data			As restated see Note 1
<b>Assets</b>			
Cash and cash equivalents	<b>\$42,173</b>	\$22,265	\$43,711
Restricted cash	<b>3,746</b>	0	0
Medium-term investments	<b>3,910</b>	4,111	6,755
Accounts and notes receivable			
Accounts and notes receivable, gross	<b>398,613</b>	276,746	394,938
Less: Allowance for doubtful accounts	<b>(9,290)</b>	(8,722)	(9,437)
Accounts and notes receivable, net	<b>389,323</b>	268,024	385,501
Inventories			
Finished products	<b>246,956</b>	261,752	290,451
Raw materials	<b>23,114</b>	21,807	32,035
Products in process	<b>3,784</b>	3,907	5,133
Operating supplies and other	<b>37,486</b>	37,567	35,964
Inventories	<b>311,340</b>	325,033	363,583
Deferred income taxes	<b>59,525</b>	57,967	69,080
Prepaid expenses	<b>42,422</b>	50,817	58,425
Assets held for sale	<b>14,864</b>	15,072	0
Total current assets	<b>867,303</b>	743,289	927,055
Investments and long-term receivables	<b>34,078</b>	33,283	30,614
Property, plant & equipment			
Property, plant & equipment, cost	<b>6,632,580</b>	6,653,261	6,672,394
Reserve for depr., depl. & amort.	<b>(2,915,565)</b>	(2,778,590)	(2,644,146)
Property, plant & equipment, net	<b>3,717,015</b>	3,874,671	4,028,248
Goodwill	<b>3,093,979</b>	3,093,979	3,093,979
Other intangible assets, net	<b>681,059</b>	682,643	683,092
Other assets	<b>101,610</b>	105,085	87,339
Total assets	<b>\$8,495,044</b>	\$8,532,950	\$8,850,327
<b>Liabilities</b>			
Current maturities of long-term debt	<b>\$425,300</b>	\$385,381	\$60,417
Short-term borrowings	<b>320,000</b>	236,512	412,300
Trade payables and accruals	<b>168,269</b>	121,324	145,744
Other current liabilities	<b>160,151</b>	113,109	130,103
Liabilities of assets held for sale	<b>409</b>	369	0

Total current liabilities	<b>1,074,129</b>	856,695	748,564
Long-term debt	<b>2,001,180</b>	2,116,120	2,521,190
Deferred income taxes	<b>836,702</b>	887,268	928,687
Other noncurrent liabilities	<b>538,929</b>	620,845	617,651
Total liabilities	<b>4,450,940</b>	4,480,928	4,816,092

Other commitments and contingencies (Notes 13 & 19)

**Shareholders' equity**

Common stock, \$1 par value	<b>128,270</b>	125,912	124,989
Capital in excess of par value	<b>2,477,672</b>	2,368,228	2,316,507
Retained earnings	<b>1,625,620</b>	1,752,240	1,774,113
Accumulated other comprehensive loss	<b>(187,458)</b>	(194,358)	(181,374)
Shareholders' equity	<b>4,044,104</b>	4,052,022	4,034,235

Total liabilities and shareholders' equity	<b>\$8,495,044</b>	\$8,532,950	\$8,850,327
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See accompanying Notes to Condensed Consolidated Financial Statements

**Table of Contents****Condensed Consolidated Statements of Earnings***Vulcan Materials Company and Subsidiary Companies*

Unaudited	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
Amounts and shares in thousands, except per share data				
Net sales	<b>\$692,758</b>	\$681,380	<b>\$1,157,293</b>	\$1,249,275
Delivery revenues	<b>43,394</b>	40,479	<b>72,122</b>	72,878
Total revenues	<b>736,152</b>	721,859	<b>1,229,415</b>	1,322,153
Cost of goods sold	<b>570,423</b>	535,546	<b>1,034,063</b>	1,025,834
Delivery costs	<b>43,394</b>	40,479	<b>72,122</b>	72,878
Cost of revenues	<b>613,817</b>	576,025	<b>1,106,185</b>	1,098,712
Gross profit	<b>122,335</b>	145,834	<b>123,230</b>	223,441
Selling, administrative and general expenses	<b>83,376</b>	79,353	<b>169,872</b>	159,070
Gain on sale of property, plant & equipment and businesses, net	<b>1,362</b>	654	<b>49,734</b>	3,157
Charge for legal settlement	<b>40,000</b>	0	<b>40,000</b>	0
Other operating income (expense), net	<b>889</b>	(1,451)	<b>1,347</b>	(3,170)
Operating earnings (loss)	<b>1,210</b>	65,684	<b>(35,561)</b>	64,358
Other income (expense), net	<b>(1,233)</b>	2,895	<b>144</b>	1,820
Interest income	<b>481</b>	687	<b>971</b>	1,482
Interest expense	<b>44,204</b>	44,073	<b>87,987</b>	87,992
Earnings (loss) from continuing operations before income taxes	<b>(43,746)</b>	25,193	<b>(122,433)</b>	(20,332)
Provision (benefit) for income taxes	<b>(21,231)</b>	9,632	<b>(55,444)</b>	(3,638)
Earnings (loss) from continuing operations	<b>(22,515)</b>	15,561	<b>(66,989)</b>	(16,694)
Earnings (loss) on discontinued operations, net of tax (Note 2)	<b>(1,477)</b>	6,651	<b>4,250</b>	6,125
Net earnings (loss)	<b>(\$23,992)</b>	\$22,212	<b>(\$62,739)</b>	(\$10,569)
Basic earnings (loss) per share				
Continuing operations	<b>(\$0.18)</b>	\$0.14	<b>(\$0.53)</b>	(\$0.15)
Discontinued operations	<b>(0.01)</b>	0.06	<b>0.04</b>	0.06
Net earnings (loss) per share	<b>(\$0.19)</b>	\$0.20	<b>(\$0.49)</b>	(\$0.09)

Diluted earnings (loss) per share				
Continuing operations	<b>(\$0.18)</b>	\$0.14	<b>(\$0.53)</b>	(\$0.15)
Discontinued operations	<b>(0.01)</b>	0.06	<b>0.04</b>	0.06
Net earnings (loss) per share	<b>(\$0.19)</b>	\$0.20	<b>(\$0.49)</b>	(\$0.09)
Weighted-average common shares outstanding				
Basic	<b>128,168</b>	113,477	<b>127,452</b>	112,045
Assuming dilution	<b>128,168</b>	113,829	<b>127,452</b>	112,045
Cash dividends declared per share of common stock	<b>\$0.25</b>	\$0.49	<b>\$0.50</b>	\$0.98
Depreciation, depletion, accretion and amortization	<b>\$97,280</b>	\$99,600	<b>\$191,476</b>	\$198,915
Effective tax rate from continuing operations	<b>48.5%</b>	38.2%	<b>45.3%</b>	17.9%

See accompanying Notes to Condensed Consolidated Financial Statements

**Table of Contents****Condensed Consolidated Statements of Cash Flows***Vulcan Materials Company and Subsidiary Companies*

	<b>Six Months Ended June 30</b>	
	<b>2010</b>	<b>2009</b>
Unaudited		
Amounts in thousands		
<b>Operating Activities</b>		
Net loss	<b>(\$62,739)</b>	<b>(\$10,569)</b>
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation, depletion, accretion and amortization	<b>191,476</b>	198,915
Net gain on sale of property, plant & equipment and businesses	<b>(58,527)</b>	(3,880)
Contributions to pension plans	<b>(21,075)</b>	(2,242)
Share-based compensation	<b>10,524</b>	14,010
Deferred tax provision	<b>(54,755)</b>	5,671
Changes in assets and liabilities before initial effects of business acquisitions and dispositions	<b>2,585</b>	(35,850)
Other, net	<b>11,167</b>	3,347
Net cash provided by operating activities	<b>18,656</b>	169,402
<b>Investing Activities</b>		
Purchases of property, plant & equipment	<b>(42,158)</b>	(60,101)
Proceeds from sale of property, plant & equipment	<b>3,224</b>	4,051
Proceeds from sale of businesses, net of transaction costs	<b>50,954</b>	11,537
Payment for businesses acquired, net of acquired cash	<b>0</b>	(36,980)
Increase in restricted cash	<b>(3,746)</b>	0
Redemption of medium-term investments	<b>22</b>	30,590
Other, net	<b>(305)</b>	714
Net cash provided by (used for) investing activities	<b>7,991</b>	(50,189)
<b>Financing Activities</b>		
Net short-term borrowings (payments)	<b>83,488</b>	(672,176)
Payment of current maturities and long-term debt	<b>(75,188)</b>	(281,461)
Proceeds from issuance of long-term debt, net of discounts	<b>0</b>	397,660
Debt issuance costs	<b>0</b>	(3,033)
Proceeds from issuance of common stock	<b>35,314</b>	578,237
Dividends paid	<b>(63,600)</b>	(108,752)
Proceeds from exercise of stock options	<b>12,597</b>	3,697
Other, net	<b>650</b>	132
Net cash used for financing activities	<b>(6,739)</b>	(85,696)
Net increase in cash and cash equivalents	<b>19,908</b>	33,517



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Cash and cash equivalents at beginning of year	<b>22,265</b>	10,194
Cash and cash equivalents at end of period	<b>\$42,173</b>	\$43,711

See accompanying Notes to Condensed Consolidated Financial Statements

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**Table of Contents****Notes to Condensed Consolidated Financial Statements*****Vulcan Materials Company and Subsidiary Companies*****Note 1 Basis of Presentation**

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. 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, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010. For further information, refer to the consolidated financial statements and footnotes included in our most recent Annual Report on Form 10-K.

We disaggregated our asphalt mix and concrete operating segments for reporting purposes as of January 1, 2010 (see Note 17).

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 Earnings.

**Restricted Cash** We identified a portion of the proceeds from the disposition of three aggregates facilities during the first quarter of 2010 (see Note 14) for potential use in IRS Section 1031 like-kind exchange transactions. This cash is restricted from withdrawal or usage as of June 30, 2010. The restriction expires in the third quarter of 2010.

**Correction of Prior Period Financial Statements** During the third quarter of 2009, we completed a comprehensive analysis of our deferred income tax balances and concluded that our deferred income tax liabilities were overstated. The errors arose during the fourth quarter of 2008 and during periods prior to January 1, 2006, and were not material to previously issued financial statements. However, correcting the errors in 2009 would have materially impacted that year's deferred tax provision. As a result, we restated all affected prior period financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009.

A summary of the effects of the correction of the errors on our Condensed Consolidated Balance Sheet as of June 30, 2009 is presented in the table below (in thousands of dollars):

		June 30, 2009	
	As Reported	Corrections	As Restated
Goodwill	\$3,091,524	\$2,455	\$3,093,979
Total assets	\$8,847,872	\$2,455	\$8,850,327
Deferred income taxes	\$957,248	(\$28,561)	\$928,687
Total liabilities	\$4,844,653	(\$28,561)	\$4,816,092
Retained earnings	\$1,743,097	\$31,016	\$1,774,113
Shareholders' equity	\$4,003,219	\$31,016	\$4,034,235
	\$8,847,872	\$2,455	\$8,850,327

Total liabilities and  
shareholders' equity

**Note 2 Discontinued Operations**

In June 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.

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Proceeds under the second earn-out agreement are determined 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). Under this earn-out agreement, cash plant margin for 5CP, as defined in the Asset Purchase Agreement, in excess of an annual threshold amount is shared equally between Vulcan and Basic Chemicals. The primary determinant of the value for this earn-out is the level of growth in 5CP sales volume. At the June 7, 2005 closing date, the value assigned to the 5CP earn-out was limited to an amount that resulted in no gain on the sale of the business, as the gain was contingent in nature. A gain on disposal of the Chemicals business is recognized to the extent cumulative cash receipts under the 5CP earn-out exceed the initial value recorded.

In March 2010, we received a payment of \$8,794,000 (recorded as gain on disposal of discontinued operations) under the 5CP earn-out related to performance during the year ended December 31, 2009. Any future payments received pursuant to the 5CP earn-out will be recorded as additional gain on disposal of discontinued operations. During 2009, we received \$11,625,000 under the 5CP earn-out related to the year ended December 31, 2008. These 2009 receipts resulted in a gain on disposal of discontinued operations of \$812,000 for 2009. Through June 30, 2010, we have received a total of \$42,707,000 under the 5CP earn-out, a total of \$9,606,000 in excess of the receivable recorded on the date of disposition.

We are liable for a cash transaction bonus payable to certain former key Chemicals employees. This transaction bonus is payable if cash receipts realized from the two earn-out agreements described above exceed an established minimum threshold. The bonus is payable annually based on the prior year's results. We expect the 2010 payout will be approximately \$882,000 and have accrued this amount as of June 30, 2010. In comparison, we had accrued approximately \$728,000 as of June 30, 2009.

There were no net sales or revenues from discontinued operations during the six month periods ended June 30, 2010 or 2009. Results from discontinued operations are as follows (in thousands of dollars):

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
<b>Discontinued operations</b>				
Earnings (loss) from results	<b>(\$1,821)</b>	\$11,121	<b>(\$860)</b>	\$9,721
Gain on disposal, net of transaction bonus	<b>(2)</b>	(28)	<b>7,912</b>	495
Income tax (provision) benefit	<b>346</b>	(4,442)	<b>(2,802)</b>	(4,091)
Earnings (loss) on discontinued operations, net of tax	<b>(\$1,477)</b>	\$6,651	<b>\$4,250</b>	\$6,125

The 2010 pretax losses from results of discontinued operations of (\$1,821,000) for the second quarter and (\$860,000) for the six months ended June 30, 2010 are due primarily to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business. The pretax earnings from results of discontinued operations in 2009 of \$11,121,000 for the second quarter and \$9,721,000 for the six months ended June 30, 2009 relate primarily to a settlement during the second quarter with one of our insurers in the Modesto case (lawsuit settled in October 2007 involving the perchloroethylene product) resulting in a \$12,238,000 pretax gain, after deducting legal fees and other expenses. The insurance proceeds and associated gain represent a partial recovery of legal and settlement costs recognized in prior periods.

**Table of Contents****Note 3 Earnings Per Share (EPS)**

We report two earnings per share numbers: basic and diluted. These are computed by dividing net earnings (loss) by the weighted-average common shares outstanding (basic EPS) or weighted-average common shares outstanding assuming dilution (diluted EPS) as set forth below (in thousands of shares):

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
Weighted-average common shares outstanding	<b>128,168</b>	113,477	<b>127,452</b>	112,045
Dilutive effect of				
Stock options/SOSARs	<b>0</b>	144	<b>0</b>	0
Other stock compensation plans	<b>0</b>	208	<b>0</b>	0
Weighted-average common shares outstanding, assuming dilution	<b>128,168</b>	113,829	<b>127,452</b>	112,045

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. Because we operated at a loss for the three and six month periods ended June 30, 2010 and the six month period ended June 30, 2009, 513,000 shares, 533,000 shares and 464,000 shares, respectively, that otherwise would have been included in our diluted weighted-average common shares outstanding computation, were excluded.

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

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
Antidilutive common stock equivalents	<b>4,067</b>	5,104	<b>4,254</b>	3,823

**Note 4 Income Taxes**

Our effective tax rate is based on expected income, statutory tax rates and tax planning opportunities 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 tax rate based on projected taxable income for the full year and record a quarterly tax provision in accordance with the anticipated annual 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 expected 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 provision reflects the expected annual tax rate. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions.

When application of the estimated annual effective tax rate distorts the financial results of an interim period, we calculate the income tax provision or benefit using an alternative methodology as prescribed by accounting standards. This alternative methodology results in an income tax provision or benefit based solely on the year-to-date pretax loss as adjusted for permanent differences on a pro rata basis.

We recognize a 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 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

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law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. Our effective tax rate includes the net impact of changes in the liability for unrecognized tax benefits and subsequent adjustments as we consider appropriate.

We applied the alternative methodology discussed above in the determination of the income tax benefit from continuing operations for the three and six month periods ending June 30, 2010. We recognized a tax benefit from continuing operations of \$21,231,000 for the second quarter and \$55,444,000 for the six months ended June 30, 2010. In 2009, we recognized tax expense from continuing operations of \$9,632,000 for the second quarter and a tax benefit from continuing operations of \$3,638,000 for the six months ended June 30, 2009. The increase in our income tax benefit, after recording the effect of the pretax loss at the statutory rate, resulted largely from applying the alternative methodology in 2010.

### **Note 5 Medium-term Investments**

We held investments in money market and other money funds at The Reserve, an investment management company specializing in such funds, as follows: June 30, 2010 \$5,532,000, December 31, 2009 \$5,554,000 and June 30, 2009 \$8,247,000. The substantial majority of our investment was held in the Reserve International Liquidity Fund, Ltd. On September 15, 2008, Lehman Brothers Holdings Inc. filed for bankruptcy protection. In the following days, The Reserve announced that it was closing all of its money funds, some of which owned Lehman Brothers securities, and was suspending redemptions from and purchases of its funds, including the Reserve International Liquidity Fund. As a result of the temporary suspension of redemptions and the uncertainty as to the timing of such redemptions, we changed the classification of our investments in The Reserve funds from cash and cash equivalents to medium-term investments and reduced the carrying value of our investment to its estimated fair value, as follows: June 30, 2010 \$3,910,000, December 31, 2009 \$4,111,000 and June 30, 2009 \$6,755,000. See Note 7 for further discussion of the fair value determination.

The Reserve redeemed \$22,000 of our investment during the six months ended June 30, 2010 and \$30,590,000 during the six months ended June 30, 2009. Based on public statements issued by The Reserve and the maturity dates of the underlying investments, we believe that proceeds from the liquidation of the money funds in which we have investments will be received within twelve months of June 30, 2010, and therefore, such investments are classified as current.

### **Note 6 Derivative Instruments**

During the normal course of operations, we are exposed to market risks including fluctuations in interest rates, fluctuations in foreign currency exchange rates and changes in 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 interest rate swap agreements described below were designated as cash flow hedges of future interest payments.

In December 2007, we issued \$325,000,000 of 3-year floating (variable) rate notes that bear 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 (notional) amount of \$325,000,000. Under this agreement, we pay a fixed interest rate of 5.25% and receive 3-month LIBOR plus 1.25% per annum. Concurrent with each quarterly interest payment, the portion of this swap related to that interest payment is settled and the associated realized gain or loss is recognized. The pretax loss of \$5,614,000 accumulated in Other Comprehensive Income (OCI) related to this interest rate swap will be reclassified to earnings by the end of the current year in conjunction with the retirement of the related debt. Additionally, during 2007, we entered into fifteen forward starting interest rate swap agreements for a total notional amount of \$1,500,000,000. On December 11, 2007, upon the issuance of the related fixed-rate debt, we terminated and settled for a cash payment of \$57,303,000 a portion of these forward starting swaps with an aggregate notional amount of \$900,000,000 (\$300,000,000 5-year, \$350,000,000

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10-year and \$250,000,000 30-year). In December 2007, the remaining forward starting swaps on an aggregate notional amount of \$600,000,000 were extended to August 29, 2008. On June 20, 2008, upon the issuance of \$650,000,000 of related fixed-rate debt, we terminated and settled for a cash payment of \$32,474,000 the remaining forward starting swaps. Amounts accumulated in other comprehensive loss are being amortized to interest expense over the term of the related debt. For the 12-month period ending June 30, 2011, we estimate that \$7,908,000 of the pretax loss accumulated in OCI will be reclassified to earnings.

Derivative instruments are recognized at fair value in the accompanying Condensed Consolidated Balance Sheets. Fair values