

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
CONSTRUCTION MATERIALS DIVISIONS
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
Construction Materials Divisions Hourly Employees Savings Plan:

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We have audited the accompanying statements of net assets available for benefits of the Vulcan Materials Company Construction Materials Divisions Hourly 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
CONSTRUCTION MATERIALS DIVISIONS HOURLY EMPLOYEES SAVINGS PLAN

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

ASSETS	2002	2001
INVESTMENTS [Cost of \$53,449,493 (2002) and \$47,996,519 (2001)]:		
Collective short-term investments	\$474,347	\$490,254
Guaranteed investment contracts	23,609,589	21,493,651
Commingled funds holding principally common stock	7,676,958	8,377,261
Common stock of Vulcan Materials Company	16,558,429	18,438,587
Loans to participants	<u>3,567,951</u>	<u>3,406,483</u>
Total investments	<u>51,887,274</u>	<u>52,206,236</u>
RECEIVABLE FROM VULCAN MATERIALS COMPANY - Employee contributions	<u>28,675</u>	<u> </u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$51,915,949</u>	<u>\$52,206,236</u>

See notes to financial statements.

VULCAN MATERIALS COMPANY
CONSTRUCTION MATERIALS DIVISIONS 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:

	2002	2001
INVESTMENT INCOME:		
Interest	\$1,485,025	\$1,445,924
Dividends	388,506	326,053
Net investment losses:		
Realized	(119,193)	(76,209)
Unrealized	<u>(5,771,936)</u>	<u>(660,404)</u>
Net investment income (loss)	<u>(4,017,598)</u>	<u>1,035,364</u>
CONTRIBUTIONS:		
Participants	6,334,722	8,503,509
Vulcan Materials Company	<u>1,779,883</u>	<u>2,095,185</u>
Total contributions	<u>8,114,605</u>	<u>10,598,694</u>
NET LOAN ACTIVITY	(186,257)	315,962
REDISTRIBUTION OF PARTICIPANTS' INVESTMENT OPTIONS BETWEEN PLANS	237,252	(890,381)
OTHER, net	<u>8,450</u>	<u>13,354</u>
TOTAL ADDITIONS, net	<u>4,156,452</u>	<u>11,072,993</u>
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:		
WITHDRAWALS BY PARTICIPANTS:		
Cash	4,445,463	3,392,425
Common stock of Vulcan Materials Company	<u>1,276</u>	<u>5,081</u>
Total withdrawals	<u>4,446,739</u>	<u>3,397,506</u>
NET INCREASE (DECREASE)	(290,287)	7,675,487
NET ASSETS AVAILABLE FOR BENEFITS:		
BEGINNING OF YEAR	<u>52,206,236</u>	<u>44,530,749</u>
END OF YEAR	<u>\$51,915,949</u>	<u>\$52,206,236</u>

See notes to financial statements.

VULCAN MATERIALS COMPANY
CONSTRUCTION MATERIALS DIVISIONS 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 Construction Materials Divisions 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 ("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 October 1, 1983 and most recently restated effective October 1, 2002 provides for additional investment options and daily valuation of individual account balances, and is defined contribution employee benefit plan. The purpose of the Plan is to provide for accumulation of

savings for qualifying non-union hourly employees of the Company's Southeast, Mideast, Midsouth, Southwest, Western, Southern and Midwest Divisions and its wholly owned subsidiaries, Vulcan Gulf Coast Materials and RECO Transportation, LLC, (collectively, the "Participating Companies").

Effective October 1, 2002, the Company amended and restated the Plan. In connection with the amended and restated Plan, the Company designated a portion of the Plan consisting of Vulcan Materials Company common stock fund as an Employee Stock Ownership Plan ("ESOP"). The Vulcan ESOP fund allows a Participant to elect to have the dividends paid on Vulcan Materials Company common stock reinvested in the Company's common stock or paid to the Participant in cash.

Participation and Vesting - Generally, hourly employees qualify to participate on the first of the month following completion of two months of employment service. Participants are fully vested at all times.

Funding - The Plan is funded through contributions by participants and the Participating Companies. The Plan provides for two types of employee contributions to the Plan: pay conversion contributions (pre-tax) and after-tax contributions. An employee may designate multiples of 1%, ranging from 1% to 35%, of earnings as either pay conversion contributions, after-tax contributions, or any combination of the two.

Participating Companies expect to make matching contributions out of current and accumulated earnings and profits to match that portion of an employee's contribution (whether pre-tax, after-tax or both) amounting up to 4% of the employee's earnings. Matching contributions by Participating Companies are determined by their boards of directors and normally range from 50% to 75% depending on a participant's completed years of matching service. Pay conversion contributions, which are subject to annual increases pursuant to federal regulations, are limited to a maximum dollar amount of \$11,000. Certain additional limits may be imposed on the amount of contributions by or on behalf of certain higher-paid employees.

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 Participating Companies matching contributions are invested in the fund which invests primarily in the Company's common stock.

Allocations and Determination of Accounts - Separate accounts are maintained for each participant for matched, unmatched, and Participating Companies 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. Monthly net earnings are allocated to each participant's account 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 \$4,025,071 and \$2,797,961, 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 may apply for up to one loan at any time. The amount of the loan 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	\$427,063 1,802,358 96,856	\$427,109 1,555,443 77,040	\$46 (246,915) (19,816)
Commingled funds holding principally common stock	<u>1,099,791</u> <u>\$3,426,068</u>	<u>1,247,283</u> <u>\$3,306,875</u>	<u>147,492</u> <u>\$(119,193)</u>
Commingled funds holding principally international equity instruments	\$420,386	\$424,011	\$3,625
Fund holding Vulcan Materials Company common stock	7,139,993 98,039	6,648,600 88,125	(491,393) (9,914)
Total	<u>1,337,300</u>	<u>1,758,773</u>	<u>421,473</u>
2001	<u>\$8,995,718</u>	<u>\$8,919,509</u>	<u>\$(76,209)</u>
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 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	\$84,073,537	\$107,473,764
Guaranteed investment contracts	73,599,023	80,719,631
Fund holding principally real estate investments	44,924	83,975
Fund holding principally venture capital and partnership investments	25,860,144	31,967,603
Fund holding principally intermediate- term fixed income investments	84,268,199	102,242,204
U.S. government securities	72,113,206	52,094,193
Commingled funds holding principally common stock	159,226,818	202,120,878
Commingled funds holding principally international equity instruments	87,312,885	98,628,742
Fund holding Vulcan Materials Company common stock		
Derivatives		
Other equities		

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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
	<u>(148,282,806)</u>	<u>(237,933,944)</u>
Total	<u>\$(131,665,691)</u>	<u>\$(67,335,601)</u>

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 as follows:

	Cost	Market Value	Appreciation (Depreciation)
Totals at December 31, 2001			
Totals at December 31, 2002:	<u>\$47,996,519</u>	<u>\$52,206,236</u>	<u>\$4,209,717</u>
Loans to Participants			
Managed Funds:	3,567,951	3,567,951	
160,490 units - fixed income investments	2,268,147	2,281,346	
208,043 units - common stocks	6,462,114	5,133,848	
29,398 units - international equity instruments	346,043	261,764	
\$23,609,589 par - guaranteed investment contracts	23,609,589	23,609,589	
\$473,347 par - money market investments	474,347	474,347	
443,925 shares of Vulcan Materials Company common stock	<u>16,721,302</u>	<u>16,558,429</u>	
	<u>53,449,493</u>	<u>51,887,274</u>	<u>(1,562,219)</u>
	<u>\$5,452,974</u>	<u>\$(318,962)</u>	<u>\$(5,771,936)</u>
Total	Cost	Market Value	Appreciation
Net change in 2002	<u>\$39,512,390</u>	<u>\$44,382,511</u>	<u>\$4,870,121</u>

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	3,406,483	3,406,483	
	2,220,852	2,272,011	
Totals at December 31, 2000	5,917,051	5,844,886	
Totals at December 31, 2001:			
Loans to Participants	310,028	260,364	
Managed Funds:			
157,649 units - fixed income	21,493,651	21,493,651	
investments	490,254	490,254	
155,762 units - common			
stocks	<u>14,158,200</u>	<u>18,438,587</u>	
23,937 units - international			
equity	<u>47,996,519</u>	<u>52,206,236</u>	<u>4,209,717</u>
instruments			
\$21,493,651 par - guaranteed	<u>\$8,484,129</u>	<u>\$7,823,725</u>	<u>\$(660,404)</u>
investment			
contracts			
\$490,254 par - money market			
investments			
384,618 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 5.75% from May 1 - December 31, 2002.

5. INVESTMENT PROGRAM

All contributions of Participating Companies are invested in the fund which consists of the Company's common stock. With respect to investment alternatives (1) the guaranteed investment contracts fund, (2) the S&P 500 index fund, (3) the large-cap value index fund, (4) the small-cap value index fund, (5) the large-cap growth index fund, (6) the 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
CONSTRUCTION MATERIALS DIVISIONS
HOURLY EMPLOYEES SAVINGS PLAN

Date: June 27, 2003

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