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Schedule II

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
For the Years Ended December 31, 2006, 2005, and 2004

Column A Description	Column B Balance at Beginning of Period	Column C Additions Charged to Costs and Expenses	Column D Additions Charged to Other Accounts	Column E Deductions	Column F Balance at End of Period
			Amounts in thousands		
2006					
Accrued Environmental Costs	$ 9,544	$ 3,937		$ 87	$ 13,394
Asset Retirement Obligations	105,774	5,499	$ 20,362(2)	16,806(1)	114,829
Doubtful Receivables	4,359	1,338		2,342(3)	3,355
Self-Insurance Reserves	42,508	24,950		22,261(4)	45,197
All Other(6)	10,769	5,560		9,561(5)	6,768
2005					
Accrued Environmental Costs	$ 20,126	$ 3,278		$ 13,860	$ 9,544
Asset Retirement Obligations	108,408	5,273	$ 4,658(2)	12,565(1)	105,774
Doubtful Receivables	7,545	676		3,862(3)	4,359
Self-Insurance Reserves	45,557	18,774		21,823(4)	42,508
All Other(6)	13,260	5,203		7,694(5)	10,769
2004					
Accrued Environmental Costs	$ 21,149	$ 2,456		$ 3,479	$ 20,126
Asset Retirement Obligations	107,683	5,375	$ 4,402(2)	9,052(1)	108,408
Doubtful Receivables	8,718	1,815		2,988(3)	7,545
Self-Insurance Reserves	38,809	49,720		42,972(4)	45,557
All Other(6)	11,906	6,400		5,046(5)	13,260

(1) Expenditures on environmental remediation projects. Additionally, the 2005 amount includes a deduction of $10,282,000 related to certain environmental liabilities included in the sale of our former Chemicals business.

(2) New liabilities incurred and net up/down revisions to asset retirement obligations. Additionally, the 2005 amount includes a reduction of $17,949,000 due to the sale of our former Chemicals business.

(3) Expenditures and liability reductions related to settlements of asset retirement obligations.

(4) Write-offs of uncollected accounts and worthless notes, less recoveries. Additionally, the 2005 amount includes a deduction of $1,206,000 related to certain doubtful receivables included in the sale of our former Chemicals business.

(5) Expenditures on self-insurance reserves.

(6) Valuation and qualifying accounts and reserves for which additions, deductions and balances are individually insignificant.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 26, 2007.

VULCAN MATERIALS COMPANY

By /s/ Donald M. James
Donald M. James
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Donald M. James Donald M. James	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2007
/s/ Daniel F. Sansone Daniel F. Sansone	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2007
/s/ Ejaz A. Khan Ejaz A. Khan	Vice President, Controller and Chief Information Officer (Principal Accounting Officer)	February 26, 2007

The following directors:

Philip J. Carroll, Jr.	Director
Livio D. DeSimone	Director
Phillip W. Farmer	Director
H. Allen Franklin	Director
Douglas J. McGregor	Director
James V. Napier	Director
Donald B. Rice	Director
Orin R. Smith	Director

Vincent J. Trosino	Director	
By /s/ By William F. Denson, III		February 26, 2007

William F. Denson, III
Attorney-in-Fact

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EXHIBIT INDEX

Exhibit (3)(a)	Certificate of Incorporation (Restated 1988) as amended in 1989 and 1999 filed as Exhibit 3(a) to the Company s Annual Report on Form 10-K for the year ended December 31, 1989 filed on March 30, 1990 and Exhibit 3(i) to the Company s Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 28, 2000.(1)
Exhibit (3)(b)	By-laws, as restated February 2, 1990, and as last amended October 14, 2005, filed as Exhibit 3(a) to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 filed October 28, 2005.(1)
Exhibit (4)(a)	Distribution Agreement dated as of May 14, 1991, by and among the Company, Goldman, Sachs & Co., Lehman Brothers and Salomon Brothers Inc., filed as Exhibit 1 to the Form S-3 filed on May 2, 1991 (Registration No. 33-40284).(1)
Exhibit (4)(b)	Indenture dated as of May 1, 1991, by and between the Company and First Trust of New York (as successor trustee to Morgan Guaranty Trust Company of New York) filed as Exhibit 4 to the Form S-3 on May 2, 1991 (Registration No. 33-40284).(1)
Exhibit (4)(c)	Senior Debt Indenture between the Company and The Bank of New York as trustee, dated as of August 31, 2001 filed as Exhibit 4.1 to the Company s Registration Statement on Form S-3A filed on September 5, 2001 (Registration No. 333-67586).(1)
Exhibit (4)(d)	Subordinated Debt Indenture between the Company and The Bank of New York as trustee, dated August 31, 2001 filed as Exhibit 4.3 to the Company s Registration Statement on Form S-3A filed on September 5, 2001 (Registration No. 333-67586).(1)
Exhibit (10)(a)	The Management Incentive Plan of the Company, as amended filed as Exhibit 10(a) to the Company s Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 28, 2003.(1,2)
Exhibit (10)(b)	The Unfunded Supplemental Benefit Plan for Salaried Employees filed as Exhibit 10(d) to the Company s Annual Report on Form 10-K for the year ended December 31, 1989 filed on March 30, 1990.(1,2)
Exhibit (10)(c)	Amendment to the Unfunded Supplemental Benefit Plan for Salaried Employees filed as Exhibit 10(c) to the Company s Annual Report on Form 10-K for the year ended December 31, 2001 filed on March 27, 2002.(1,2)
Exhibit (10)(d)	The Amendment and Restatement of the Deferred Compensation Plan for Directors Who Are Not Employees of the Company filed as Exhibit 10(d) to the Company s Annual Report on Form 10-K for the year ended December 31, 2001 filed on March 27, 2002.(1,2)
Exhibit (10)(e)	The 2006 Omnibus Long-Term Incentive Plan of the Company filed as Appendix C to the Company s 2006 Proxy Statement on Schedule 14A filed on April 13, 2006.(1,2)
Exhibit (10)(f)	The Deferred Stock Plan for Nonemployee Directors of the Company filed as Exhibit 10(f) to the Company s Annual Report on Form 10-K for the year ended December 31, 2001 filed on March 27, 2002.(1,2)
Exhibit (10)(g)	The Restricted Stock Plan for Nonemployee Directors of the Company, as amended and restated filed as Appendix C to the Company s 2004 Proxy Statement on Schedule 14A filed on April 14, 2004.(1,2)
Exhibit (10)(h)	Executive Deferred Compensation Plan, as amended filed as Exhibit 10(h) to the Company s Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 28, 2003.(1,2)
Exhibit (10)(i)	Change of Control Employment Agreement Form filed as Exhibit 10(a) to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 filed on July 30, 2004.(1,2)
Exhibit (10)(j)	Change of Control Employment Agreement Form filed as Exhibit 10(j) to the Company s Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 28, 2003.(1,2)

Exhibit (10)(k)	Executive Incentive Plan of the Company filed as Exhibit 10(n) to the Company s Annual Report on Form 10-K for the year ended December 31, 2000 filed on March 30, 2001.(1,2)
Exhibit (10)(l)	Supplemental Executive Retirement Agreement filed as Exhibit 10 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 filed on November 2, 2001.(1,2)

Exhibit (10)(m)	Rights Agent Agreement dated October 19, 1998 between Vulcan Materials Company and The Bank of New York, as amended July 15, 2002, filed as Exhibit 10(m) to the Company s Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 28, 2003.(1)
Exhibit (10)(n)	Form Stock Option Award Agreement filed as Exhibit 10(o) to the Company s Report on Form 8-K filed December 20, 2005.(1,2)
Exhibit (10)(o)	Form Director Stock Unit Award Agreement filed as Exhibit 10(p) to the Company s Form 8-K filed July 21, 2006.(1,2)
Exhibit (10)(p)	Form Performance Share Unit Award Agreement.(2)
Exhibit (10)(q)	Form Stock Only Stock Appreciation Rights Agreement.(2)
Exhibit (10)(r)	Form Employee Deferred Stock Unit Award Amended Agreement.(2)
Exhibit (10)(s)	2007 Compensation Arrangements.(2)
Exhibit (10)(t)	Asset Purchase Agreement dated October 11, 2004 among Vulcan Materials Company, Vulcan Chloralkali, LLC and Basic Chemicals Company, LLC, as amended, filed as Exhibit 99.1 to the Company s Current Report on Form 8-K dated October 15, 2004.(1)
Exhibit (12)	Computation of Ratio of Earnings to Fixed Charges for the five years ended December 31, 2006.
Exhibit (13)	The Company s 2006 Annual Report to Shareholders, portions of which are incorporated by reference in this Form 10-K. Those portions of the 2006 Annual Report to Shareholders that are not incorporated by reference shall not be deemed to be filed as part of this report.
Exhibit (18)	Letter dated February 28, 2006 of Deloitte & Touche LLP, Independent Registered Public Accounting Firm for Vulcan Materials Company and its subsidiary companies regarding a change in accounting principles, filed as Exhibit 18 to the Company s 2005 Form 10-K Annual Report filed on February 28, 2006.(1)
Exhibit (21)	List of the Company s subsidiaries as of December 31, 2006.
Exhibit (23)	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
Exhibit (24)	Powers of Attorney.
Exhibit (31)(a)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
Exhibit (31)(b)	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
Exhibit (32)(a)	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
Exhibit (32)(b)	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.

(1) Incorporated by reference.

(2) Management contract or compensatory plan.

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Annex H

April 11, 2007

Dear Fellow Shareholder:

You are cordially invited to attend the Annual Meeting of the Shareholders of Vulcan Materials Company, which will be held at The Wynfrey Hotel in Birmingham, Alabama, on Friday, May 11, 2007, at 9:00 a.m., Central Daylight Time. The formal Notice of the annual meeting, the proxy statement and a proxy accompany this letter.

We hope that you will attend the meeting. However, whether or not you plan to attend the meeting, we encourage you to vote by proxy. For your convenience, you can also vote your proxy in one of the following ways:

Use the Internet at the web address shown on your proxy card;

Use the touch-tone telephone number shown on your proxy card; or

Complete, sign, date and return the enclosed proxy card in the postage-paid envelope provided.

Instructions regarding each method of voting are contained in the proxy statement and on the enclosed proxy card. If you attend the Annual Meeting and desire to vote your shares personally rather than by proxy, you may withdraw your proxy at any time before it is exercised. **Your vote is important. Whether you own one share or many, your prompt vote is greatly appreciated.**

Our Annual Report to Shareholders for 2006 is enclosed. We trust you will find it interesting and informative.

Sincerely yours,

DONALD M. JAMES
Chairman and
Chief Executive Officer

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 11, 2007

To our Shareholders:

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of Vulcan Materials Company will be held at The Wynfrey Hotel, 1000 Riverchase Galleria, Birmingham, Alabama, on Friday, May 11, 2007, at 9:00 a.m., Central Daylight Time, for the following purposes:

1. To elect three directors to serve three-year terms;

2. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2007; and

3. To conduct such other business as may properly come before the meeting or any postponements thereof.

Shareholders who owned stock at the close of business on March 16, 2007 can vote at the meeting.

By Order of the Board of Directors,

WILLIAM F. DENSON, III
Secretary

1200 Urban Center Drive
Birmingham, Alabama 35242
April 11, 2007

NOTE WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, TO ASSURE THE PRESENCE OF A QUORUM, PLEASE VOTE YOUR PROXY BY INTERNET, TELEPHONE OR BY COMPLETING, DATING, SIGNING AND MAILING THE ENCLOSED PROXY AS SOON AS POSSIBLE.

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VULCAN MATERIALS COMPANY
1200 URBAN CENTER DRIVE, BIRMINGHAM, ALABAMA 35242

PROXY STATEMENT FOR
ANNUAL MEETING OF SHAREHOLDERS
MAY 11, 2007

GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Why am I receiving these materials?

This proxy statement is being sent to all shareholders of record as of the close of business on March 16, 2007 in connection with the solicitation of proxies by Vulcan Materials Company (the company or Vulcan) for use at the Annual Meeting of Shareholders. This proxy statement, the enclosed proxy card and Vulcan s 2006 Annual Report to Shareholders are being first mailed to our shareholders on or about April 11, 2007. The meeting will be held at The Wynfrey Hotel, 1000 Riverchase Galleria, Birmingham, Alabama on May 11, 2007, at 9:00 a.m., Central Daylight Time.

Who can attend the Annual Meeting?

Only shareholders of our company as of the record date, March 16, 2007, their authorized representatives and invited guests of our company will be able to attend the annual meeting.

Who is entitled to vote?

All Vulcan shareholders as of the record date, March 16, 2007, will be entitled to vote at the 2007 annual meeting. On the record date there were 94,921,132 shares outstanding. Each share is entitled to one vote on each matter properly brought before the meeting.

What is the difference between a registered shareholder and a beneficial holder of shares?

If your common stock is registered directly in your name with our transfer agent, The Bank of New York, you are considered a registered shareholder with respect to those shares. If this is the case, the proxy materials have been sent or provided directly to you by our company.

If your common stock is held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial holder of the shares held for you in what is known as street name. If this is the case, the proxy materials have been forwarded to you by your brokerage firm, bank or other nominee, or their agent which is considered the shareholder of record with respect to these shares.

How do I vote if I am a registered shareholder?

Proxies are solicited to give all shareholders who are entitled to vote on the matters that come before the meeting the opportunity to vote their shares whether or not they attend the meeting in person. You can vote in one of the following manners:

Via Internet;

By telephone;

By mail; or

In person at the annual meeting.

Shareholders are encouraged to vote their proxies by Internet, telephone or completing, signing, dating and returning the enclosed proxy card, but not by more than one method. Choosing to vote via the Internet or calling the toll-free number listed on the proxy card will save our company expense. Internet and telephone voting information is provided on the proxy card. A control number, located on the upper right of the proxy card, is used to verify your identity when voting via the Internet or by telephone. If you vote via the Internet or by telephone, please do not

return a signed proxy card. If you vote by more than one method, only the last vote that is submitted will be counted, and each previous vote will be disregarded.

If you choose to vote by mail, mark your proxy card enclosed with the proxy statement, date and sign it, and mail it in the postage-paid envelope.

If you wish to vote in person, you can do so by ballot at the meeting.

How do I specify how I want my shares voted?

You can specify how you want your shares voted on each proposal by marking the appropriate boxes on the proxy card or indicating your vote on each proposal via the telephone or Internet. Please review the voting instructions on the proxy card and read the entire text concerning the proposals in this proxy statement prior to voting. If your signed proxy card or your telephone or Internet instructions do not specify how your shares are to be voted on a proposal, your shares will be voted (a) FOR the election of the nominees for directors described in the proxy statement, (b) FOR ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm and (c) in accordance with the recommendation of our Board of Directors on any other proposal that may properly come before the meeting or any postponement or adjournment thereof.

How do I vote if I am a beneficial shareholder?

If you are a beneficial shareholder, meaning you hold your Vulcan shares in street name, you have the right to direct your bank, broker or nominee on how to vote the shares. You should complete a voting instruction card provided to you by your bank, broker or nominee or provide your voting instructions by Internet or telephone, if made available by your bank, broker or other nominee. If you wish to vote in person at the meeting, you must first obtain from the holder of record a proxy issued in your name.

How are my shares voted if I am a beneficial holder and I do not return voting instructions?

Your shares may be voted if they are held in the name of a brokerage firm, even if you do not provide the brokerage firm with voting instructions. Brokerage firms have the authority, under the listing standards of the New York Stock Exchange, to vote shares on certain routine matters for which their customers do not provide voting instructions by the tenth day before the meeting. The election of directors and the ratification of the independent registered public accounting firm are considered routine matters.

What items will be voted upon at the Annual Meeting?

There are two proposals that will be presented at the meeting:

- election of three directors to serve three-year terms; and
- ratification of appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2007.

These proposals have been submitted on behalf of Vulcan s Board of Directors. We know of no other matters that may be brought before the meeting. However, if any other matters are properly presented for action, it is the intention of the proxies named on the proxy card to vote on them according to their best judgment.

What are the Board of Directors voting recommendations?

For the reasons set forth in more detail later in this proxy statement, the Board recommends a vote FOR the election of each of the director nominees and FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2007.

What constitutes a quorum for the Annual Meeting?

A majority of the shares of Common Stock entitled to vote, represented in person or by proxy, is required to constitute a quorum. If a quorum is not present at the time of the Annual Meeting of Shareholders, the shareholders

entitled to vote, present in person or by proxy, shall have the power to adjourn the Annual Meeting until a quorum shall be present or represented by proxy.

How many votes are needed to have the proposals pass?

The affirmative vote of a majority of the votes cast is required to elect each of the director nominees and to ratify the appointment of Deloitte & Touche LLP. Director nominees who do not receive the required majority are required to tender their resignations to the Board for consideration.

How are the votes counted?

For purposes of determining the number of votes cast with respect to a particular matter, only those cast For or Against and, with respect to the election of directors, Withheld are included. Abstentions and broker non-votes are counted only for purposes of determining whether a quorum is present at the meeting, are not considered votes cast, and thus will not affect the outcome of the vote.

How can I revoke my Proxy?

You may revoke your proxy at any time before it is voted at the meeting by taking one of the following actions:

- by giving timely written notice of the revocation to the Secretary of our company;
- by executing and delivering a proxy with a later date;
- by voting by telephone or via Internet at a later date (in which case only the last vote is counted); or
- by voting in person at the annual meeting.

If you vote by more than one method, only the last vote that is submitted will be counted, and each previous vote will be disregarded.

Who counts the votes?

Tabulation of the votes cast at the meeting is conducted by The Bank of New York, independent inspectors of election.

Is my vote confidential?

All proxies are held in confidence, unless (i) the shareholder writes comments or requests disclosure on the proxy card, (ii) disclosure may be required by law, or (iii) where the proxy solicitation is made by a party other than the Board.

Who will pay for the costs involved in the solicitation of proxies?

Our company will pay all costs of preparing, assembling, printing and distributing the proxy materials. Management has retained Georgeson Shareholder Communications Inc. to assist in soliciting proxies for a fee of $7,000.00, plus reasonable out-of-pocket expenses. Our company will, upon request, reimburse brokerage firms and others for their reasonable expenses incurred for forwarding this proxy material to beneficial owners of such shares.

What is householding and how does it affect me?

Some banks and brokers may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of this proxy statement or our Annual Report to Shareholders may have been sent to multiple shareholders in your household. We will promptly deliver a separate copy of either or both documents to you if you write or call us at the following address or phone number: Vulcan Materials Company, P.O. Box 385014, Birmingham, Alabama 35238-5014, Attention: Mark D. Warren, Director, Investor Relations, phone: (205) 298-3220. If you want to receive separate copies of our Annual Report to Shareholders and proxy statement in

the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank or broker, or you may contact us at the above address and phone number.

Can I view the Proxy Statement and Annual Report over the Internet instead of receiving them in the mail?

You also may access our company s proxy statement and Annual Report on Form 10-K for the year ended December 31, 2006, which includes our annual report to shareholders, via the Internet at *www.vulcanmaterials.com* under the heading Investor Relations. For next year s shareholders meeting, you can help us save significant printing and mailing expenses by consenting to access the proxy statement, proxy card and annual report to shareholders electronically over the Internet. If you hold your shares in your own name (instead of through a bank, broker or other nominee), you can choose this option by following the instructions at the Internet voting website at *https://www.proxypush.com/vmc*, which has been established for you to vote your shares for the meeting. If you choose to receive your proxy materials and annual report to shareholders electronically, then prior to next year s shareholders meeting you will receive an e-mail notification when the proxy materials and annual report to shareholders are available for on-line review over the Internet, as well as the instructions for voting electronically over the Internet. Your choice for electronic distribution will remain in effect for subsequent meetings unless you revoke it prior to future meetings by sending a written request to: Secretary, Vulcan Materials Company, 1200 Urban Center Drive, Birmingham, Alabama 35242 or revoking your request online.

A copy of our Annual Report on Form 10-K for the year ended December 31, 2006 will be provided to you without charge (except for exhibits) upon written request to Mark D. Warren, Director, Investor Relations, Vulcan Materials Company, 1200 Urban Center Drive, Birmingham, Alabama 35242.

PROPOSAL 1. ELECTION OF DIRECTORS

Our company s Board is divided into three classes for purposes of election. One class is elected at each annual meeting to serve a three-year term.

The Board has nominated three persons for election as directors to serve three-year terms expiring in 2010. Unless otherwise directed, proxies will be voted in favor of these three nominees. Should any of the nominees be unable to accept election, the proxies will be voted for the election of such other person or persons who is nominated by the Board on the recommendation of the Governance Committee. Each of the nominees has consented to serve if elected, and the Board has no reason to believe that any of the persons nominated will be unable to serve as a director.

NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

Douglas J. McGregor
Age: 66. Director since 1992.
Blue Point Capital Partners, Cleveland, Ohio (a national private equity firm), since January 2003; retired President and Chief Operating Officer, Burlington Industries, Inc., Greensboro, North Carolina (a leading soft goods manufacturer with interests in apparel, home fashions, carpets and rugs), from June 2000 until December 2002.

Committee memberships: Audit; Finance and Pension Funds; Safety, Health and Environmental Affairs.

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Donald B. Rice
Age: 67. Director since 1986.(*)
Chairman (since 2002), President and Chief Executive Officer of Agensys, Inc., Santa Monica, California (a biotechnology company developing monoclonal antibody therapeutics for cancer), since 1996.

Committee memberships: Audit; Executive; Finance and Pension Funds; Governance.
(*)Dr. Rice was first elected a director in 1986, and served until May 1989, when he was appointed Secretary of the Air Force. He was reelected a director of Vulcan by the Board of Directors on February 12, 1993.
Vincent J. Trosino
Age: 66. Director since 2003.
Retired President, Vice Chairman of the Board and Chief Operating Officer of State Farm Mutual Automobile Insurance Company, Bloomington, Illinois (a mutual insurance company), from 1998 until December 2006.

Committee memberships: Finance and Pension Funds; Safety, Health and Environmental Affairs.

The Board of Directors of our company recommends a vote FOR each of the nominees named above.

DIRECTORS CONTINUING IN OFFICE

TERM EXPIRING IN 2008

Philip J. Carroll, Jr.
Age: 69. Director since 1999.
Retired Chairman and Chief Executive Officer of Fluor Corporation, Aliso Viejo, California (an engineering, construction and diversified services company), from July 1998 to February 2002.

Other directorships: BAE Systems; Texas Medical Center; Envirofuels, LLC.

Committee memberships: Compensation; Executive; Governance; Safety, Health and Environmental Affairs.
Donald M. James
Age: 58. Director since 1996.
Chairman and Chief Executive Officer of Vulcan since May 1997.

Other directorships: The Southern Company; Wachovia Corporation.

Committee memberships: Executive.
Orin R. Smith
Age: 71. Director since 1983.
Retired Chairman and Chief Executive Officer of Engelhard Corporation, Iselin, New Jersey (provider of environmental technologies, performance products, engineered

materials and related services), from January 1995 to December 2000.

Other directorships: Applera Corporation; Ingersoll-Rand Company.

Committee memberships: Compensation; Executive; Governance; Safety, Health and Environmental Affairs.

TERMS EXPIRING IN 2009

Phillip W. Farmer
Age: 68. Director since 1999.
Retired Chairman of the Board of Harris Corporation, Melbourne, Florida (an international communications equipment company) from February 2003 until June 2003; Chairman and Chief Executive Officer from July 1995 to February 2003.

Other directorships: George Weston, Limited.

Committee memberships: Audit; Finance and Pension Funds; Governance.

H. Allen Franklin
Age: 62. Director since 2001.
Retired Chairman and Chief Executive Officer of Southern Company, Atlanta, Georgia (a super-regional energy company in the Southeast and a leading U.S. producer of energy) from April 2004 until July 2004; Chairman, President and Chief Executive Officer from April 2001 to March 2004.

Committee memberships: Audit; Compensation; Safety, Health and Environmental Affairs.

James V. Napier
Age: 70. Director since 1983.
Retired Chairman of the Board of Scientific-Atlanta, Inc., Atlanta, Georgia (a manufacturer and designer of telecommunication systems, satellite-based communications networks, and instrumentation for industrial, telecommunications and government applications) from 1992 to 2000.

Other directorships: Intelligent Systems, Inc.; McKesson Corporation; WABTEC, Corp.

Committee memberships: Audit; Compensation; Executive; Finance and Pension Funds.

Mr. Livio D. DeSimone has served as a director since 1987. His current term ends May 11, 2007, and he has decided not to stand for re-election.

CORPORATE GOVERNANCE OF OUR COMPANY AND PRACTICES OF THE BOARD OF DIRECTORS

Our company takes its corporate governance responsibilities very seriously and has adopted Corporate Governance Guidelines which provide a framework for the governance of our company. The Guidelines build on practices which we have followed for many years and, we believe, demonstrate our continuing commitment to corporate governance excellence.

In addition, we have a Business Conduct Policy that applies to all of our employees and deals with a variety of corporate compliance issues, including conflicts of interest, compliance with laws, confidentiality of company information, fair dealing and use of company assets. All employees are required to fill out a questionnaire annually regarding their personal compliance with the Business Conduct Policy and are encouraged to report any illegal or unethical behavior of which they become aware.

The Board has adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers. The Code of Ethics defines Senior Financial Officers to include the Chief Financial Officer, Controller and principal accounting officer. The Code of Ethics covers such topics as financial reporting, conflicts of interest and compliance with laws. If we make any amendment to, or waiver of, any provision of the Code of Ethics, we will disclose such information on our website. As discussed in this proxy statement, our Governance Committee regularly reviews corporate governance developments and adopts appropriate practices as warranted. You can access our by-laws, Corporate Governance Guidelines, Business Conduct Policy and Code of Ethics at our website *www.vulcanmaterials.com* or you can obtain a printed copy free of charge by writing to us at: Corporate Secretary,

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Vulcan Materials Company, 1200 Urban Center Drive, Birmingham, Alabama 35242. Please note that the information contained on our website is not incorporated by reference in, nor considered to be a part of, this proxy statement.

Board of Directors and Committees

Director Independence

The Board believes that all of the non-management directors are independent under the New York Stock Exchange listing standards, the Board s Director Independence Criteria, and the applicable Securities and Exchange rules and regulations. The New York Stock Exchange listing standards provide that a director does not qualify as independent unless the Board affirmatively determines that the director has no material relationship with our company (either directly or as a partner, shareholder or officer of an organization that has a relationship with our company). The New York Stock Exchange rules require a board to consider all of the relevant facts and circumstances in determining the materiality of a director s relationship with our company and permit the Board to adopt and disclose standards to assist the Board in making determinations of independence. Accordingly, the Board has adopted the Director Independence Criteria to assist the Board in determining whether a director has a material relationship with our company.

In February 2007, the Board conducted an evaluation of director independence, based on the Director Independence Criteria, the New York Stock Exchange listing standards and applicable Securities and Exchange Commission rules and regulations. In connection with this review, the Board evaluated commercial, charitable, consulting, familial or other relationships with each director or immediate family member and their related interests and Vulcan and its subsidiaries, including those relationships described under Other Matters Relating to Executive Officers and Directors.

As a result of this evaluation, the Board affirmatively determined that Messrs. Carroll, DeSimone, Farmer, Franklin, McGregor, Napier, Rice, Smith and Trosino are independent directors under the Board s Director Independence Criteria, the New York Stock Exchange listing standards and the applicable Securities and Exchange Commission rules and regulations.

Director Nomination Process

The Governance Committee described in detail below considers director candidates recommended by shareholders. Any shareholder wishing to recommend a candidate for election at the 2008 Annual Meeting must submit that recommendation in writing, addressed to the committee, in care of the Secretary of our company, at 1200 Urban Center Drive, Birmingham, Alabama 35242, by December 13, 2007. The notice should include the following:

The name and address of the shareholder who intends to make the nomination(s) and of the person or persons to be nominated;

A representation that the shareholder is a holder of record or a beneficial holder of stock entitled to vote at the meeting (including the number of shares the shareholder owns) and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;

A description of all arrangements and understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder;

Such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission (whether or not such rules are applicable) had each nominee been nominated, or intended to be nominated, by

the Board of Directors, including the candidate s name, biographical information, and qualifications; and

The written consent of each nominee to serve as a director if so elected, with such written consent attached thereto.

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The Governance Committee will identify nominees by first evaluating the current members of the Board willing to continue service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining new Board members. If any member of the Board does not wish to continue in service or if the Governance Committee or the Board decides not to re-nominate a current Board member for reelection, the Governance Committee may identify the desired skills and experience for a new nominee in light of the above criteria. Directors and members of management may also suggest candidates for director. Timely recommendations by shareholders will receive equal consideration by the Governance Committee. In some cases, the committee engages, for a fee, the services of a third party executive search firm to assist it in identifying and evaluating nominees for director.

Meetings and Attendance

Our Board held nine meetings in 2006. In 2006, each director attended more than 75% of the total number of meetings of the Board and meetings of the committees of which he was a member.

Annual Meeting Policy

Our directors are expected to attend the Annual Meeting of Shareholders. In furtherance of this policy, our Board holds a regularly scheduled Board meeting on the same day as the Annual Meeting of Shareholders. In 2006, all of the Board members attended the Annual Meeting.

Non-Management Executive Sessions and Presiding Director

Our Board of Directors has adopted a policy relating to non-management executive sessions. Under this policy, the Board of Directors must meet at each regularly scheduled Board meeting in executive sessions in which management directors and other members of management do not participate. During 2006, the non-management directors met in executive session five times.

Each year at the May Board meeting, the Board designates a non-management presiding director, a position which is filled by rotation among the chairs of the Board committees. The duties of the presiding director are delineated in our Corporate Governance Guidelines, which are available on our website at www.vulcanmaterials.com. The Chairman of the Safety, Health and Environmental Affairs Committee, Mr. Carroll, served as the presiding director at the executive sessions after the annual meeting in 2006. Mr. Napier, Chairman of the Audit Committee, will serve as the presiding director following the 2007 Annual Meeting. We encourage constructive communications from our shareholders. Shareholders and other parties interested in communicating directly with the presiding director or with the non-management directors as a group, may do so by writing to Presiding Director, c/o Corporate Secretary, Vulcan Materials Company, P. O. Box 385014, Birmingham, Alabama, 35238-5014. The shareholder communications will be forwarded to the Board in accordance with the Policy on Shareholder Communications with the Board, adopted by the independent directors in February 2004.

Committees of the Board of Directors

Our Board of Directors has established six standing committees as follows:

Executive Committee;

Audit Committee;

- Compensation Committee;
- Governance Committee;
- Safety, Health and Environmental Affairs Committee; and
- Finance and Pension Funds Committee.

The charters of the audit, governance and compensation committees are available on our website at *www.vulcanmaterials.com*, or you can obtain a printed copy free of charge by writing to us at: Corporate Secretary, Vulcan Materials Company, 1200 Urban Center Drive, Birmingham, Alabama 35242.

Each committee, except the Executive Committee, is comprised entirely of independent, non-management directors.

Executive Committee

The Executive Committee has the same powers as our Board of Directors, except as limited by the New Jersey Business Corporation Act. In practice, the powers of the Executive Committee are exercised only for matters that arise between meetings of the Board. Members of the Executive Committee are Messrs. James (Chair), Carroll, DeSimone, Napier, Rice and Smith. The Executive Committee did not meet in 2006.

Audit Committee

The Audit Committee advises the Board and management from time to time with respect to internal controls, financial systems and procedures, accounting policies and other significant aspects of our company s financial management. Pursuant to its charter, the Audit Committee selects our company s independent registered public accounting firm and oversees the arrangements for, and approves the scope of, the audits to be performed by the independent registered public accounting firm. The Audit Committee s primary responsibilities under its written charter include the following:

Hire, evaluate and, when appropriate, replace the independent registered public accounting firm, whose duty it is to audit our books and accounts for the fiscal year in which it is appointed;

Determine the compensation to be paid to the independent registered public accounting firm and, in its sole discretion, approve all audit and engagement fees and terms and pre-approve all auditing and non-auditing services of such firm, other than certain de minimis non-audit services;

Review and discuss with management the independent registered public accounting firm and internal auditors our internal reporting, audit procedures and the adequacy and effectiveness of our disclosure controls and procedures;

Review and discuss with management and the independent registered public accounting firm the audited financial statements to be included in our Annual Report on Form 10-K, the quarterly financial statements to be included in our Quarterly Reports on Form 10-Q, our disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations, and the selection, application and disclosure of accounting policies used in our financial statements;

Review and discuss with management with quarterly earnings press releases and financial information and earnings guidance provided to analysts and rating agencies;

Review and discuss with management all existing related-party transactions and approve any proposed related-party transactions to ensure that they are in our best interest; and

Review and reassess the adequacy of the Audit Committee Charter adopted by the Board of Directors, and recommend proposed changes to the Board of Directors.

The members of the Audit Committee are Messrs. Napier (Chair), Farmer, Franklin, McGregor and Rice. All members of our Audit Committee are non-management directors. Our Board of Directors has determined that each is independent and financially literate within the meaning of the listing standards of the New York Stock Exchange, Securities and Exchange Commission rules and regulations, and the Director Independence Criteria adopted by our Board of Directors and posted on our website at www.vulcanmaterials.com under Investor Relations . In addition, our

Board has determined that Mr. Napier is an audit committee financial expert within the meaning of that term as defined by rules adopted by the Securities and Exchange Commission. He has served on our company s Board since 1983 and on its Audit Committee since 1987. The Audit Committee met seven times during 2006. Further detail about the role of the Audit Committee may be found in the Report of the Audit Committee on page 35 of this proxy statement.

Compensation Committee

The Compensation Committee is responsible for, among other things: determining and setting the amount of compensation paid to each of our executive officers, including the Chief Executive Officer, senior officers and Division presidents; reviewing compensation plans relating to officers; interpreting and administering the Executive Incentive Plan, Management Incentive Plan, and the 2006 Omnibus Long-Term Incentive Plan; and making recommendations to the Board with respect to compensation paid by our company to any director. The Compensation Committee also reviews and discusses with management the Compensation Discussion and Analysis required by Securities and Exchange Commission Regulation S-K, Item 402(b).

During the year, the Compensation Committee works with Compensation Strategies, a consultant retained by management, which provides market data regarding executive compensation programs and amounts. The Compensation Committee obtains specific data and reports from Compensation Strategies on an annual basis and at other times upon request. The Compensation Committee invites representatives of Compensation Strategies to attend meetings of the Compensation Committee from time to time. The Compensation Committee also meets with the Chief Executive Officer to consider recommendations for the compensation arrangements for executives other than the Chief Executive Officer. For more information on these meetings, please refer to the section entitled Compensation Discussion and Analysis in this proxy statement.

The members of the Compensation Committee are Messrs. Smith (Chair), Carroll, DeSimone, Franklin and Napier. The Committee is comprised solely of non-management directors who are independent within the meaning of the listing standards of the New York Stock Exchange and the Board s Director Independence Criteria. The Compensation Committee met six times during 2006.

Governance Committee

The Governance Committee is responsible for reviewing and assessing our policies and practices relating to corporate governance, including our Corporate Governance Guidelines. The committee also plans for the succession of the Chief Executive Officer and other senior executives. In addition, the committee serves as the nominating committee and as such it is responsible for identifying and assessing candidates, including making recommendations to the Board regarding such candidates. In fulfilling its responsibilities, the Governance Committee, among other things:

- identifies individuals qualified to become Board members consistent with criteria established in its charter;
- recommends to the Board director nominees for the next annual meeting of shareholders; and
- evaluates individuals suggested by shareholders as director nominees.

In recommending director candidates to the Board, the Governance Committee Charter requires the committee to select individuals who, at a minimum, possess high ethical standards, integrity and sound business judgment. In its assessment of each potential candidate, the Governance Committee will review the candidate s experience, potential conflicts of interest, understanding of our company s industry or related industries, financial acumen and such other factors the Committee determines are pertinent in light of the current needs of the Board. The committee may also take into account the contribution of the candidate to the diversity of the Board, the ability of a candidate if elected a director to devote the time and effort necessary to fulfill his or her responsibilities as a Board member, and the needs of our company given the range of talent and experience represented on the Board. The Governance Committee believes it appropriate for at least one, and preferably several, members of the Board to meet the criteria for an audit committee financial expert as defined by the Securities and Exchange Commission rules, and that a substantial

majority of the members of the Board meet the definition of independence as defined by the listing standards of the New York Stock Exchange and the Board s Director Independence Criteria.

The Governance Committee also reviews the Board s committee structure and recommends to the Board, for its approval, directors to serve as members of each committee. The Committee also is responsible for overseeing the evaluations of the Board and its committees.

Members of the Governance Committee are Messrs. DeSimone (Chair), Carroll, Farmer, Rice and Smith. This Committee is comprised solely of non-management directors who are independent within the meaning of the

listing standards of the New York Stock Exchange and the Board s Director Independence Criteria. The Governance Committee met three times during 2006.

Safety, Health and Environmental Affairs Committee

The Safety, Health and Environmental Affairs Committee has the responsibility for reviewing our policies, practices and programs with respect to the management of safety, health and environmental affairs and monitoring our compliance with safety, health and environmental laws and regulations. Members of the Safety, Health and Environmental Affairs Committee are Messrs. Carroll (Chair), Franklin, McGregor, Smith and Trosino. The Committee met two times during 2006.

Finance and Pension Funds Committee

The Finance and Pension Funds Committee has responsibility for overseeing our financial policies and recommending to the Board financial policies and actions to accommodate our goals and operating strategies while maintaining a sound financial condition. Its functions include keeping informed about our financial condition, recommending a dividend policy, reviewing and recommending changes in the quarterly dividend payments, and evaluating and making recommendations concerning the appropriate mix of debt and equity, incurrence of long-term debt, and changes in the authorized limit of short-term debt. The Finance and Pension Funds Committee is also responsible for overseeing the funding and management of assets for pension plans sponsored by our company. To fulfill these functions, it establishes funding policies and methods consistent with pension plan objectives and the Employee Retirement Income Security Act of 1974, selects and removes investment managers, and appoints trustees for the pension plans. Members of the Finance and Pension Funds Committee are Messrs. Rice (Chair), Farmer, McGregor, Napier and Trosino. The Finance and Pension Funds Committee met two times in 2006.

Transactions with Related Persons

The brother-in-law of Mr. Donald James, Chairman and Chief Executive Officer, and the son of Mr. Philip Carroll, Jr., a member of the Board of Directors, are both partners in a large law firm which provides legal services to Vulcan. In determining that this is not a material relationship involving Mr. James or Mr. Carroll, the Board determined that payments made by Vulcan to the firm represented less than 2% of the firm s consolidated gross revenues, and the revenues from Vulcan received by Mr. James brother-in-law and Mr. Carroll s son as a result of their status as partners were not material. Additionally the Board made the assessment that Mr. Carroll was independent and that this was not a material relationship. Neither Mr. James brother-in-law nor Mr. Carroll s son were directly involved in providing significant legal services to Vulcan. Vulcan is not aware of any other material relationships or related transactions which are required to be disclosed pursuant to applicable Securities and Exchange Commission rules or regulations.

Security Holder Communication with the Board of Directors

The Board has established a process for shareholders and other interested parties to communicate directly with the presiding director or with the non-management directors individually or as a group. Any shareholder or other interested party who desires to contact one or more of our non-management directors, including the Board s presiding director, may send correspondence to the following address:

Board of Directors (or presiding director or name of individual director)
c/o Corporate Secretary
Vulcan Materials Company
1200 Urban Center Drive

Birmingham, Alabama 35242

All such communications will be forwarded to the appropriate director or directors specified in such communications as soon as practicable.

Policy on Reporting of Concerns Regarding Accounting Matters

As provided on our website at www.vulcanmaterials.com under the heading Investor Relations under the subheading Corporate Governance Contact the Board of Directors, any shareholder or interested party who has any concerns or complaints relating to accounting, internal accounting controls or auditing matters, may contact the Audit Committee by writing to the following address:

Vulcan Audit Committee
c/o Corporate Secretary
Vulcan Materials Company
1200 Urban Center Drive
Birmingham, Alabama 35242

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following is information regarding persons known to us to have beneficial ownership of more than 5% of the outstanding common stock of our company, which is our only outstanding class of voting securities.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
State Farm Mutual Automobile Insurance Company and Affiliates One State Farm Plaza Bloomington, Illinois 61710	11,072,672 shares(1)	11.72%
Davis Selected Advisors, L.P. 2949 East Elvira Road, Suite 101 Tucson, Arizona 85706	8,234,304 shares(2)(4)	8.72%
Regions Financial Corporation 1900 Fifth Avenue North Birmingham, Alabama 35203	5,772,762 shares(3)(4)	6.11%

(1) Based on information contained in the Schedule 13G/A, dated February 3, 2007, filed with the Securities and Exchange Commission. According to this Schedule 13G/A, the total includes the following shares over which the listed entities have sole or share either or both voting and dispositive power:

Affiliate	Shares
State Farm Mutual Automobile Insurance Company	8,399,798
State Farm Life Insurance Company	3,635
State Farm Fire and Casualty Company	3,216
State Farm Growth Fund	1,039,200
State Farm Balanced Fund	160,200
State Farm Variable Product Trust	4,615
State Farm Insurance Companies Employee Retirement Trust	2,808

State Farm Insurance Companies Savings and Thrift Plan for U.S. Employees	
-Equities Account	1,208,400
-Balanced Account	250,800

(2) Based on information contained in the Schedule 13G/A, dated February 3, 2007, filed with the Securities and Exchange Commission. According to this Schedule 13G/A, the total includes the following shares over which the listed entities have sole

(3) Based on information contained in a Schedule 13G dated February 14, 2007, filed with the Securities and Exchange Commission.

(4) Has sole voting and investment power over these shares.

SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth information, unless otherwise indicated, as of March 1, 2007, regarding beneficial ownership of our company s common stock, the company s only outstanding class of equity securities, by each of the directors, the executive officers named in the Summary Compensation Table below, and the directors and executive officers as a group. This table indicates that the named individual s financial interest is aligned with the interests of our shareholders, because the value of the individual s total holdings will increase or decrease in line with the price of our common stock.

Name	**Amount and Nature of Stock-Based Ownership**	**Percent of Class**
Directors(1)		
Philip J. Carroll, Jr.	19,555	*
Livio D. DeSimone	65,754	*
Phillip W. Farmer(2)	20,619	*
H. Allen Franklin	14,043	*
Douglas J. McGregor(3)	53,533	*
James V. Napier	22,249	*
Donald B. Rice	39,460	*
Orin R. Smith	64,134	*
Vincent J. Trosino	13,001	*
Chief Executive Officer and other Executive Officers(4)		
Donald M. James	1,629,152	1.7%
Guy M. Badgett, III	314,015	*
James W. Smack	246,823	*
Daniel F. Sansone	234,304	*
Ronald G. McAbee	156,191	*
All Directors and Executive Officers as a group (17 persons)	3,345,948	3.5%

* Less than 1% of issued and outstanding shares of our company s common stock.

(1) Beneficial ownership for the directors includes all shares held of record or in street name, and, if noted, by trusts or family members. The amounts also include restricted shares granted under our Restricted Stock Plan for Nonemployee Directors and phantom shares settled in stock accrued under the Directors Deferred Compensation Plan, and the Deferred Stock Plan for Nonemployee Directors, as follows:

	Shares Owned Directly or	**Restricted**	**Phantom Shares Held Pursuant to**

	Indirectly	Shares	Plans
Philip J. Carroll, Jr.	0	5,950	13,605
Livio D. DeSimone	25,303	6,185	34,266
Phillip W. Farmer	1,000	5,550	13,055
H. Allen Franklin	0	4,000	10,043
Douglas J. McGregor	1,350	6,185	45,998
James V. Napier	3,550	6,185	12,514
Donald B. Rice	21,950	6,185	11,325
Orin R. Smith	3,150	6,185	54,799
Vincent J. Trosino	5,500	2,000	5,501

(2) Held in a trust of which Mr. Farmer is the trustee.

(3) Includes 1,350 shares held in a trust of which Mr. McGregor is the trustee.

(4) Beneficial ownership for the executive officers includes shares held of record or in street name. The amounts also include shares that may be acquired upon the exercise of options which are presently exercisable or that will become exercisable on or before May 1, 2007, and shares credited to the executives accounts under our Thrift Plan for Salaried Employees (Thrift Plan) as follows:

	Shares Owned Directly or Indirectly	Exercisable Options	Thrift Plan
Donald M. James	111,843	1,490,200	18,790
Guy M. Badgett, III	24,003	250,250	38,362
James W. Smack	5,055	203,255	38,374
Daniel F. Sansone	28,611	188,400	16,456
Ronald G. McAbee	3,465	129,825	22,079

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EQUITY COMPENSATION PLANS

The table below sets forth information regarding the number of shares of our common stock authorized for issuance under all of our equity compensation plans as of December 31, 2006.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)			
1996 Long Term Incentive Plan (For Employees)			
Stock Options	6,768,562	$ 48.76	
Performance Share Units	376,800		
Deferred Stock Units	304,338		
Employees Total	7,449,700		(2)
Deferred Stock Plan for Non-employee Directors	13,281		(2)
Restricted Stock Plan for Non-employee Directors	54,384		(2)
2006 Long-Term Incentive Plan Employees			
Stock Only Stock Appreciation Rights	0		
PSUs	0		
Deferred Stock Units for Non-employee Directors	16,427		
Total	16,427		5,383,573
	None		None

Equity compensation plans not approved by security holders			
Total	7,533,792	48.76	5,383,573

(1) All of our company s equity compensation plans have been approved by the shareholders of our company. Column (a) sets forth the number of shares of common stock issuable upon the exercise of options, warrants or rights outstanding under the 2006 Omnibus Long-Term Incentive Plan (2006 LTIP), the 1996 Long-Term Incentive Plan (1996 LTIP), the Deferred Stock Plan for Nonemployee Directors and the Restricted Stock Plan for Nonemployee Directors. The weighted-average exercise price of outstanding stock options is shown in Column (b). The remaining number of shares that may be issued under the 2006 LTIP are shown in Column (c).

(2) Future grants will not be made under these plans. The plans will be used only for the administration and payment of grants that were outstanding when the 2006 LTIP was approved.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis as set forth below with management and, based on such review and discussions, recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Compensation Committee
Orin R. Smith, Chair
Philip J. Carroll, Jr.
Livio D. DeSimone
H. Allen Franklin
James V. Napier

COMPENSATION DISCUSSION AND ANALYSIS

Overview of Compensation Philosophy and Program

Our Corporate Mission Statement states that our success is dependent upon the talent, dedication and performance of all employees. Without the dedication and performance of our employees, we will be unable to accomplish our corporate goals. Therefore, our compensation program for executive officers is designed to fulfill this mission by:

Keeping our salary and benefits competitive with industrial companies of similar size so that we are able to hire officers of high caliber and keep our current management team from seeking more attractive employment opportunities from competing companies;

Linking a meaningful portion of the executive officers compensation to the company s performance, and their ability to create shareholder value, over the short term and the long term;

Motivating, recognizing and rewarding individual excellence;

Paying a meaningful portion of an executive s total compensation in our company s common stock, to facilitate the accumulation of significant ownership of our stock by the executive officers in order to align the interests of management with the interests of our shareholders; and

Motivating the officers to achieve our strategic goals and operational plans.

The Compensation Committee, which is comprised entirely of independent directors, administers our executive compensation program. The role of the Committee is to:

Oversee the design and development of compensation and benefit plans and policies;

Administer cash bonus and stock plans;

Review compensation recommendations made by the Chief Executive Officer for other executive officers; and

Determine and set all elements of compensation for the Chief Executive Officer and other executive officers.

The components of our compensation program for the named executive officers, all of which are discussed in greater detail below, include:

- base salary
- short-term cash bonus
- long-term incentive awards
- deferred compensation

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- perquisites and other benefits
- retirement and pension benefits

The Compensation Committee uses tally sheets showing the total compensation of the Chief Executive Officer and the other named executive officers when making executive compensation decisions.

We employ Compensation Strategies as our compensation consultant. Compensation Strategies:

- Conducts an annual study of and recommends levels for Board compensation;
- Advises management and the Compensation Committee regarding competitive practice, the design of new programs, and new rules and regulations relating to executive compensation; and
- Conducts periodic comprehensive studies of executive compensation and makes recommendations regarding the components of executive compensation.

Additionally, we do our own executive compensation research using survey results from other executive compensation consulting firms.

Measuring Performance Economic Profit

We are committed to excellence in our performance, both financially and operationally, and to earning superior returns for our shareholders. In order to fulfill this commitment, we need dedicated and talented executive officers. To encourage and reward superior performance, we have linked a substantial portion of the named executive officers compensation to company performance as measured by a standard referred to as Economic Profit.

In 1996, we adopted Economic Profit, or EP, as the quantifiable financial performance measurement against which company performance is measured for short term and some long-term incentives. EP is a measure of performance which incorporates both operating earnings and the cost of capital. EP essentially measures the extent to which our operating earnings exceed the cost of capital utilized by our company. Various studies have concluded that changes in EP correlate with changes in shareholder value better than other commonly used financial performance measures.

EP is used not only as a measure for incentive compensation, it pervades every aspect of the management process including planning, capital budgeting, evaluating acquisitions and other growth initiatives. It also is used by management to measure the financial performance of our company and its business units. We believe EP is the best measuring stick for setting financial goals for executive compensation.

Benchmarking Total Compensation

To ensure that our compensation program is competitive, our total direct compensation paid to our Chief Executive Officer and other named executive officers is benchmarked annually against a composite group of general industrial companies with revenue between $1-6 billion, roughly the size of our revenues, and market capitalization similar to that of Vulcan.

The total direct compensation for each named executive is reviewed annually to ensure it is appropriate based on:

- individual performance

- recent and long-term company performance
- competitive or market levels

Tax and Accounting Considerations

In administering the compensation program for executive officers, we consider the applicability of Section 162(m) and the effect of accounting and tax consequences of our various compensation vehicles.

Compliance with Internal Revenue Code Section 162(m). Section 162(m) prohibits public companies from taking a tax deduction for compensation that is paid to employees in excess of $1 million, unless the compensation qualifies as performance-based compensation within the meaning of the IRS rules. It is our understanding that bonus payments made pursuant to the Executive Incentive Plan, and all grants of long-term incentives under our current and previous long-term incentive plans, except for deferred stock units, qualify as qualified performance-based compensation.

Expensing of Stock Options. When appropriate, we have modified the type of incentive compensation paid to our named executive officers due to accounting rule changes and pronouncements. For example, in 2005, in anticipation of a change in accounting rules for expensing options, we made a grant of stock options to named executive officers in December in addition to the annual grant of stock options in February. This additional grant was made in lieu of a stock option grant in 2006 to take advantage of a favorable accounting treatment of stock options.

While we consider the tax and accounting implications to our company in allocating awards among various compensation vehicles, we do not consider the personal tax status of the named executive officers when making awards. For example, we have never issued incentive stock options (ISOs) even though such an award might be more favorable, from a tax standpoint, to the named executive officers.

Role of the Named Executive Officers in Setting Compensation

The Chief Executive Officer is responsible for conducting an annual performance evaluation of each executive officer, including the other named executive officers. The evaluations take into account such items as the performance of the business unit or function for which the executive officer is responsible, safety, health and environmental performance and effective management of our company s natural resources, among other items. These evaluations, along with the Chief Executive Officer s recommendations for compensation, are given to the Compensation Committee, which is responsible for approving and setting all elements of compensation for the named executive officers.

The Compensation Committee sets the Chief Executive Officer s compensation. The compensation amount is then ratified by the entire Board of Directors. The Chief Executive Officer and the Senior Vice President of Human Resources review and comment on all compensation recommendations.

Overall Compensation Goals

In creating and administering our compensation program, we seek to reward employees for:

- superior performance in generating increasing levels of EP;
- behavior that compliments our strategic goals; and
- adherence to our high ethical business standards.

As discussed in more detail below, the overall compensation program strives to achieve a balance between cash and noncash compensation allowing us to encourage ownership of our stock. The program also strives to achieve a balance between the goals of rewarding the achievement of short-term goals and, through the use of long-term awards, providing an employee retention element to the compensation program. Each element of our compensation program is set forth below, with an explanation of the factors considered in making awards of each element.

We do not target a specified percentage of total compensation for base pay, short-term or long-term incentives. The amounts realized in prior years did not serve to increase or decrease 2006 compensation amounts. We position each

element of compensation at the competitive market level, resulting in a total compensation program positioned at that level. Award percentages for long-term and short-term compensation vary by position and level of responsibility. The greater the responsibility, the larger the percentage of total compensation at risk through higher levels of short-term bonus participation and equity awards, the magnitude of which vary with performance.

We do not currently have employment agreements with executives, except for agreements which specify compensation treatment with respect to a change in control.

Elements of Compensation

Base Pay

The base pay, or salary, element of our compensation program is designed to be competitive in the market for compensation paid to similarly-situated executives who are competent and skilled.

Salaries of the named executive officers are reviewed on an annual basis, as well as at the time of a promotion or change in responsibilities. To ensure the salaries paid to our named executive officers are competitive relative to the marketplace, we conduct benchmarking, as described below for the Chief Executive Officer s salary, and review periodic market surveys, conducted by compensation consultants, for the other named executive officers. In both cases, we target the 50th percentile of the benchmark group and the general market. We believe the 50th percentile is an appropriate level of compensation to attract and retain competent executives. Increases in salaries are based on the nature and responsibilities of the position, individual performance, changes in the market compensation levels and other factors.

To further our goal of aligning the executives interests to those of our shareholders, we reward superior performance through our bonus program and long-term incentive awards.

The benchmark group used in setting the Chief Executive s salary is a composite group of general industrial companies with revenues between $1-6 billion and market capitalization similar to that of our company, the same group of companies used to benchmark total compensation as discussed above. As a reflection of Mr. James experience, performance and tenure in his position, his salary is set somewhat above the 50th percentile of the benchmark group.

For Mr. McAbee, a 25% cost of living increase is added to his base and short-term cash bonus to compensate him for the higher cost of living in California as compared to North Carolina, where he lived before he transferred to California. This adjustment is included in the information shown for Mr. McAbee in the following tables and will remain in effect for as long as he continues to reside in California.

The salaries paid to our named executive officers for 2006 are set forth in the Summary Compensation Table in the Salary column.

Short-Term Bonus

Our short-term incentive program is designed to motivate our executives, including the named executive officers, and reward them with cash payments for achieving quantifiable near term business results. The goal of this program is to directly link performance and payment, and reward behaviors that create value for our shareholders, by comparing financial results to pre-established objective performance targets. Payment of the bonus is based on both the performance of our company, specific divisions or business units or a combination of these, as applicable, and the performance of the named executive officer individually.

We set the target levels for average annual bonuses at competitive market levels. By doing so we reinforce the idea that average performance will yield an average bonus. We then provide significant upside opportunity and downside risk to actual bonus payments based on actual operating results. Payments are determined principally by annual financial performance measured against our internally established EP goal for the year. Our method for establishing the EP goal each year is discussed below.

Economic Profit Methodology

EP goals are established by the Compensation Committee annually at its February meeting based on the average of the previous year s actual EP and the previous year s EP goal for our company as well as each of its divisions. Goals are then adjusted to reflect the short-term impact of significant strategic and growth initiatives. These adjustments are applied in order to provide appropriate incentives and rewards for the pursuit of such initiatives. An EP goal represents the amount of EP that must be earned in order for an average bonus to be paid. The average bonus is expressed as a percentage of base salary and established for each named executive officer based on market surveys of similar-sized industrial companies. In the case of the Chief Executive Officer, the

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average bonus is equal to 100% of base salary. For example, if the corporate EP goal is met, the Chief Executive Officer would be eligible to receive a cash bonus equal to 100% of his salary.

If actual EP is higher or lower than the EP goal (for our company or its business units), then the executive s bonus would be increased or reduced in accordance with a predetermined scale. Further, in the case of named executive officers other than the Chief Executive Officer, the Chief Executive Officer may adjust the recommended bonus to be paid to the executive, up or down based on the Chief Executive Officer s review of the executive s performance, taking into account specifically,

the named executive officer s individual performance;

the safety, health and environmental performance record of our company and its Divisions;

consistent above target performance for the most recent 3 years; and

successful implementation of our strategic objectives.

The Compensation Committee considers the Chief Executive Officer s recommendations and the performance assessments in setting the bonus paid to each executive. The Compensation Committee likewise determines the actual bonus payable to the Chief Executive Officer based on our company s EP performance and his performance, in the areas mentioned above.

Short-term cash bonuses are paid to the named executive officers pursuant to either the Executive Incentive Plan (EIP) or Management Incentive Plan (MIP). The EIP, approved by our shareholders in 2001, and the MIP, approved by our shareholders in 1973, are similar in structure and administration. However, the MIP does not meet all of the requirements of Section 162(m). The maximum amount available for payment under the EIP is set at 4% of the consolidated net earnings in excess of 6% of the net capital for the prior year. Total payments under the MIP, which include awards to middle management as well as senior executives, cannot exceed 10% of the consolidated net earnings in excess of 6% of the net capital for the prior year. Of the named executive officers, in 2006 Messrs. James, Sansone, Badgett and Smack participated in the EIP, and Mr. McAbee participated in the MIP. No executive may receive a payment from both EIP and MIP for the same year. The awards made for 2006 performance constituted 39.8% of the maximum amount payable under the EIP and 47.8% of the maximum amount payable under the MIP.

Annually at its February meeting, the Compensation Committee establishes the maximum percentage (the 162(m) Cap) of the amount available for payment under the EIP for each participant in the EIP, such that when such percentage is multiplied by the aggregate 162(m) Cap allowed under the plan, it establishes the maximum award payable for each EIP participant for that year in accordance with Section 162(m). Once the maximum amount payable is established for each participant, the Compensation Committee may exercise only downward discretion in determining the actual award. In 2006, 40% of the 162(m) Cap amount was allocated to the Chief Executive Officer and 15% of the 162(m) Cap amount was allocated to each of the other participants.

In 2006, the short-term bonuses paid to the named executive officers as expressed as a percentage of their average annual bonus were as follows:

	Amount of Average Annual Bonus expressed	% of	Average

	as a percentage of base salary	Annual Bonus Paid
Donald M. James	100%	275.6%
Guy M. Badgett	60%	271.5%
James W. Smack	60%	272.7%
Daniel F. Sansone	60%	258.4%
Ronald G. McAbee	55%	284.3%

For actual short-term bonus amounts paid to each named executive officer in 2006, refer to the column headed Non-Equity Incentive Plan Compensation in the Summary Compensation Table.

Long-Term Equity Based Incentives

Our long-term incentive compensation program, which currently consists of awards of stock options and performance shares, is designed to reward the named executive officers based on the performance of our company or its divisions, as applicable, over a period of years, and to provide potentially significant payments based on the creation of value for our shareholders, as measured by total shareholder return and EP performance. The goals of the long-term incentive program are:

- to motivate financial performance over the long-term;
- to recognize and reward superior financial performance;
- to provide a retention element to our compensation program;
- to help executive officers accumulate shares of Vulcan stock to ensure congruence with our shareholders interest; and
- to promote compliance with the stock ownership guidelines for executives.

The amount awarded to each executive is based on the long-term incentive target established by the Compensation Committee. The target value of long-term awards is established by the Compensation Committee based principally on benchmark data of target awards for similar positions in similar-sized companies, at the 50th percentile. The award value of the long-term incentive grant for each executive is determined by multiplying the applicable long-term target percentage by the base salary of each named executive officer. Subject to the limitations under our 2006 Omnibus Long-Term Incentive Plan, which was approved by our shareholders last year (the Omnibus Plan), the Compensation Committee may adjust the award value to reflect our company s past performance relative to total shareholder return, or other quantifiable financial measures deemed appropriate by the Compensation Committee. The Omnibus Plan provides that the Compensation Committee, in its discretion, may grant long-term awards in the form of a variety of instruments, including, among others, stock options, stock-only stock appreciation rights, performance share units, and restricted stock. The Compensation Committee has chosen in recent years to grant awards in the form of stock options and performance share units in an effort to achieve balance in bonus incentives based on general market performance (stock price) and Vulcan s performance as compared to predetermined internal goals.

2006 Long Term Incentive Grants. Other than a grant of stock options to Mr. James in January 2006, as described below, the Compensation Committee made no long-term incentive awards in 2006 to named executive officers, because in December 2005, the Compensation Committee awarded a second grant of stock options for that year in lieu of a grant of long-term incentive grants in 2006. This additional grant was made in 2005 so these options would not be subject to new accounting standards that require the expensing of options that became effective in 2006. Since the December 2005 grant to Mr. James, when aggregated with the earlier February 2005 grant would have exceeded the individual yearly limitation set forth in the 1996 LTIP, the portion of the December 2005 award in excess of the limit was rescinded and he received a grant of stock options in January 2006 replacing that portion of the December 2005 grant that could not be made in 2005. The exercise price for the options granted to Mr. James in January 2006 was set at the average of the high and low price of the company s stock on the date of grant.

Timing of Equity-Based Incentive Compensation. In recent years, the Compensation Committee has set performance targets for long-term incentive grants for the year at its February meeting. Payments, if any, pursuant to previously set performance targets are also authorized at the February meeting. As discussed above, with the exception of Mr. James in 2006, the Compensation Committee did not make long-term grants to the named executive officers since an award

in lieu of a 2006 award was made in December 2005. The establishment of incentive compensation goals and the granting of stock options have not been timed with the release of non-public material information. Instead, with the exception of 2005, goals and awards consistently have been established at the February meeting. Additional stock options or other equity based incentive grants have been made to executive officers only upon hire or promotion at various times throughout the year.

Stock Ownership Guidelines. In order to align the interest of the named executive officers with our shareholders, and to promote a long-term focus for the officers, our company has executive stock ownership

guidelines for the officers of our company and its subsidiaries. All of the named executive officers currently meet or exceed by the ownership guidelines.

The guidelines for the named executive officers are expressed as a multiple of base salary as per the table below:

Name	Multiple of Salary Ownership Guidelines(1)
D.M. James	7x
G.M. Badgett	3x
J.W. Smack	3x
D.F. Sansone	3x
R.G. McAbee	3x

(1) Types of ownership counted toward the guidelines include the following:

Stock-based thrift plan holdings;

Direct holdings;

Indirect holdings, such as shares owned by a family member, shares held in trust for the benefit of the named executive officer or family member, or shares for which such officer is trustee;

Stock-based holdings in the excess benefit plans;

Vested in-the-money options represented by the spread between the exercise price and the fair market value of options; and

Vested deferred stock units.

Newly elected officers have five years to meet the applicable ownership requirement. Compliance with the ownership guidelines is reviewed yearly by the Chief Executive Officer.

Benefits and Perquisites

Executives participate in each of the benefit plans or arrangements that are made available to all salaried employees generally, including medical and dental benefits, life, accidental death and disability insurance, and pension and savings plans. With respect to disability benefits, our company pays 100% of the premiums for individual long term disability policies that insure base pay and target bonus in excess of that insured under the group contract up to $500,000 in total. In addition, the named executive officers participate in the Unfunded Supplemental Benefit Plan and have Change of Control Employment Agreements (as described below). The Chief Executive Officer also has a Supplemental Executive Retirement Agreement which is discussed in more detail below.

We provide company-owned cars to the named executives for their use. Additionally, we pay for the insurance, maintenance and fuel for such vehicles. Executives pay a charge for personal use. We also make the company-owned aircraft available to the Chief Executive Officer and senior executives for business travel. Although the aircraft is

available to the Chief Executive Officer and the named executives for personal use at the expense of the executive, there was no personal use of the aircraft in 2006.

We do not provide other perquisites to the named executive officers such as club memberships or financial planning services, except that Mr. McAbee is the designated company representative for a company-paid dining club membership used for business purposes at the Western Division.

Change in Control Protections

Each of our named executive officers has a change-in-control employment agreement that provides for severance payments and accelerated vesting or payment of equity-based incentive awards. We provide such protections upon a change in control in order to minimize disruptions during a pending or anticipated change in

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control. For more detailed information, see the discussion under the heading Payments Upon Termination or Change In Control below.

Retirement and Pension Benefits

Our company provides the following retirement and pension benefits to its named executive officers as follows:

Benefit	Reason for Providing Benefit
Retirement Income Plan	This pension plan is available to all salaried employees of our company.
Unfunded Supplemental Benefit Plan	The Unfunded Supplemental Benefit Plan counts pay ineligible to be counted under the Pension Plan and the 401(k) plan due to Internal Revenue rules. This plan is designed to provide retirement income benefits, as a percentage of pay, which are similar for all employees regardless of compensation levels. The Unfunded Supplemental Plan eliminates the effect of tax limitations on the payment of retirement benefits, except to the extent that it is an unfunded plan and a general obligation of our company.
Supplemental Executive Retirement Agreement	Only Mr. James has a SERA. The effect of the SERA is to give Mr. James 1.2 years of service credit for every year he participates in the Retirement Income Plan. The purpose of the SERA is to provide an incentive and retention device. The Plan will provide Mr. James with a full career pension in the event that he works until age 65.

A discussion of all retirement benefits provided to the named executive officers is set forth under the heading Retirement and Pension Benefits below.

The following table sets forth the grants of plan-based awards in 2006 to the named executive officers:

GRANTS OF PLAN-BASED AWARDS

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards ($/Sh)	Closing Market Price of Underlying	Grant da fair value stock an option awards
ne	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	(#)	(#)	(1)	Security	($/Sh) (2
I. James	1/24/06	$ 0	$ 1,125,000	$ 5,770,000					169,800	$ 69.31	$ 69.35	$ 2,843,4
I. Badgett		$ 0	$ 267,005	$ 2,164,000								
. Smack		$ 0	$ 264,002	$ 2,164,000								
. Sansone		$ 0	$ 267,005	$ 2,164,000								
. McAbee		$ 0	$ 226,875	N/A(3)								

(1) Exercise price was determined using the high/low average price of the common stock on the grant date as per the 1996 LTIP.

(2) Reflects nonqualified options granted pursuant to the 1996 LTIP . Grant date present values for these options was calculated using a Black-Scholes pricing model. For the January 24, 2006 grant, the assumptions used to determine the value of the options include: an expected volatility of 26.18% (derived using the daily closing stock prices for the five years preceding the grant date, a dividend yield of 2.16%, and interest rate of 4.34% (the rate of a U.S. Treasury note with a maturity date on five years from the grant date), and an expected time of exercise of five years from grant date.

(3) No individual maximum is applicable since this payment was made under MIP plan, which has no individual cap.

Summary Compensation Table

The following table sets forth information concerning the compensation of our principal executive officer, principal financial officer, and our three other most highly compensated executive officers employed as of December 31, 2006, determined on the basis of their total compensation for 2006.

In accordance with Securities and Exchange Commission rules, this table reflects compensation of the named executive officers only for the most recently completed fiscal year. Information for years prior to the most recently completed fiscal year presented under previous Securities and Exchange Commission rules is available in our previous filings, which can be obtained from the SEC s website at www.sec.gov.

and pal Position	Year	Salary ($)	Bonus ($)	Stock Awards (1) ($)	Option Awards (1) ($)	Non-Equity Incentive Plan Compensation (2) ($)	Change in Pension Value And Nonqualified Deferred Compensation Earnings ($)(3)	All Other Compensation ($)(4)	Tota ($)
d M. James nan and Executive r	2006	$ 1,114,168	$ 0	$ 3,406,064	$ 4,366,486	$ 3,100,000	$ 3,703,312	$ 332,457	$ 16,022
I. Badgett, III Vice ent, uction als Group	2006	$ 441,674	$ 0	$ 538,936	$ 268,281	$ 725,000	$ 287,749	$ 73,296	$ 2,334
W. Smack Vice ent, uction als Group	2006	$ 437,504	$ 0	$ 354,298	$ 195,823	$ 720,000	$ (85,148)	$ 63,814	$ 1,686
F. Sansone Vice ent and Chief ial Officer	2006	$ 442,508	$ 0	$ 353,528	$ 184,008	$ 690,000	$ 360,514	$ 67,137	$ 2,097
d G. McAbee Vice ent, uction als Group	2006	$ 409,376	$ 0	$ 309,339	$ 140,689	$ 645,000	$ 539,357	$ 57,205	$ 2,100

(1) These columns represent the dollar amount of the 2006 accounting expense recognized for these awards granted in 2006 and prior years. Therefore, the values shown here are not representative of the amounts that may eventually be realized by an executive. The sum of the amounts shown for Mr. James is $7,772,550, of which $4,929,069 is referable to prior year awards.

Pursuant to the rules of the Securities and Exchange Commission, we have provided a grant date fair value for Stock Awards and Option Awards in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R), Share-based Payments. For Option Awards, the fair value is estimated as of the date of grant using the Black-Scholes option pricing model, which requires the use of certain assumptions, including the risk-free interest rate, dividend yield, volatility and expected term. The risk-free interest rate is based on the yield at the date of grant of a U.S. Treasury security with a maturity period equal to or approximating the option s expected term. The dividend yield assumption is based on our historical dividend payouts. The volatility assumption is based on the historical volatility of our common stock over a period equal to the option s expected term and the market-based implied volatility derived from options trading on our common stock. The expected term of options granted is based on historical experience and expectations about future exercises and represents the period of time that options granted are expected to be outstanding. For Performance Share Awards, the fair value is estimated on the date of grant using a Monte Carlo simulation model. For Deferred Stock Units, the fair value is estimated on the date of grant based on the market price of our stock on the grant date.

(2) The Executive Incentive Plan (EIP) and the Management Incentive Plan (MIP) payments were made on March 12, 2007. See discussion of EIP/MIP plans under heading Compensation Discussion and Analysis above. None of the named executive officers elected to defer their 2006 EIP or MIP payment.

(3) Includes only the amount of change in pension value since our company does not provide any above market earnings on deferred compensation.

(4) Includes personal use of company auto, nonqualified thrift plan contributions, company-paid life insurance premiums, and deferred stock unit dividend equivalents granted in 2006, as set forth in the following table:

Name	Non-Qualified Thrift Plan Contributions	Qualified Thrift Plan Contributions	Company Paid Life Insurance Premiums	DSU Dividend Equivalents	Personal Use of Company Auto	Total
D.M. James	$ 188,567	$ 13,000	$ 1,440	$ 126,888	$ 2,562	$ 332,457
G.M. Badgett	$ 34,704	$ 13,000	$ 1,440	$ 22,285	$ 1,867	$ 73,296
J.W. Smack	$ 33,857	$ 13,000	$ 1,440	$ 13,403	$ 2,114	$ 63,814
D.F. Sansone	$ 39,565	$ 13,000	$ 1,440	$ 13,085	$ 47	$ 67,137
R.G. McAbee	$ 33,608	$ 9,000	$ 1,440	$ 11,896	$ 1,261	$ 57,205

Certain information concerning each exercise of stock option and each vesting of stock during the fiscal year ended December 31, 2006, for each of the named executive officers on an aggregate basis is set forth in the table below.

Option Exercises and Stock Vested

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)	Number of Shares Acquired on Vesting (#)(2)	Value Realized on Vesting ($)(3)
D.M. James	180,000	$ 10,462,787	58,534	$ 4,623,601
G.M. Badgett	22,650	$ 1,278,511	9,667	$ 763,596
J.W. Smack	22,650	$ 1,465,154	5,662	$ 447,241
D.F. Sansone	4,875	$ 343,038	5,112	$ 403,797
R.G. McAbee	0	$ 0	4,281	$ 338,156

(1) Calculated by multiplying the difference between the market price of the common stock at exercise and the option exercise price by the number of options exercised.

(2) Represents the common stock portion of Performance Share Units earned under the 1996 LTIP, which were paid out in 50% cash and in 50% stock.

(3) Calculated by multiplying the number of performance share units vested by the high/low average price of the common stock on the vesting date.

Deferred Compensation Plan

Our Executive Deferred Compensation Plan was established in 1998 to allow executives to defer a portion of their current year s compensation in a tax efficient manner. We believe that providing a tax deferral plan gives our executives flexibility in tax and financial planning and provides an additional benefit at little cost to our shareholders. Vulcan does not make any contributions to the plan on behalf of the participants. Because our company purchases assets that mirror, to the extent possible, participants deemed investment elections under the Plan, the only costs to our company related to the plan are administrative costs and any contributions which may be necessary to true-up account balances with deemed investment results. The plan allows executives with annual compensation (base salary and average annual short-term bonus) of $180,000 or more, to defer receipt of up to 50% of salary, up to 100% of annual cash bonus and beginning in 2007, up to 100% (net of taxes) of long-term incentive awards which are not excluded from deferral eligibility by the Internal Revenue Code (or regulations thereunder), as described below, until a date selected by the participant. The amounts deferred are deemed invested as designated by participants in our company common stock (a phantom stock account) or in dollar-denominated accounts that mirror the gains or losses of the various investment options available under our company s 401(k) plan. The Plan does not offer any guaranteed return to participants.

The Plan is funded by a rabbi trust arrangement owned by our company which holds assets that correspond to the deemed investments of the Plan participants. Participants have an unsecured contractual commitment from our company to pay when due the amounts to which the participants are entitled. Upon the death or disability of a participant or upon a change in control of our company (as defined on page 37 of this Proxy Statement), all deferred amounts and all earnings related thereto will be paid to the participant in a single lump sum cash payment.

Effective for deferrals made after January 1, 2007, the Plan will permit executives to defer Performance Share Units (PSU) and Deferred Stock Units (DSU) into the Plan which would, absent such deferral, be distributed to the executives. The PSU and DSU deferrals, other than described below, will be credited to the Plan participant accounts in the form of phantom stock and an equal number of shares of Vulcan common stock would be deposited by Vulcan in the rabbi trust. The only exceptions are the PSU distributions scheduled for payment in 2007 which were distributed one-half in cash and one-half in stock, and accordingly, deferrals were proportionately allocated between the cash account and the stock account. Deferrals of long-term incentive compensation payments are invested in phantom stock and may not be reallocated to an alternative investment option.

The following table shows the contributions, earnings, distributions and year-end account values for the named executives under the Plan.

Nonqualified Deferred Compensation Plan

Name	Executive Contributions in Last Fiscal Year ($)	Registrant Contributions in Last Fiscal Year(1) ($)	Aggregate Earnings in Last Fiscal Year(1) ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year(2) ($)
D.M. James	$ 118,168	$ 0	$ 448,596	$ 0	$ 2,094,331
G.M. Badgett	$ 0	$ 0	$ 5,310	$ 0	$ 34,861
D.F. Sansone	$ 0	$ 0	$ 144,915	$ 0	$ 1,043,172
J.W. Smack	$ 0	$ 0	$ 141,428	$ 0	$ 3,203,503
R.G. McAbee	$ 0	$ 0	$ 0	$ 0	$ 0

(1) These amounts are not reported in the Summary Compensation Table.

(2) Includes both the executive contributions and the earnings on those contributions. The amounts contributed by the executives are included in the amounts reported in the Summary Compensation Table in the year of deferral. The earnings are not reported as our company does not provide for above market earnings on deferred compensation.

Outstanding Equity Awards at Fiscal Year-End

Certain information concerning unexercised options, stock that has not vested and equity incentive plan awards for each of the named executive officers outstanding as of the end of the fiscal year ended December 31, 2006 is set forth in the table below.

	Option Awards					Stock Awards			
ame	Number of Securities Underlying Unexercised Options # Exercisable	Number of Securities Underlying Unexercised Options # Unexerciseable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options #	Option Exercise Price $	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested #(11)	Market Value of Shares or Units of Stock That Have Not Vested $ (13)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested #(12)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested $ (13)
M. James	135,000	0		$ 32.9467	2/12/2008	33,172(6)	$ 2,981,168	60,000(9)	$ 5,392,20
	195,000	0		$ 45.1667	2/11/2009	32,557(7)	$ 2,925,898	72,000(10)	$ 6,470,64
	220,000	0		$ 42.3438	2/10/2010	45,328(8)	$ 4,073,627		
	200,000	0		$ 44.9000	2/9/2011				
	160,000(1)	40,000		$ 45.9500	2/7/2012				
	87,000(2)	58,000		$ 31.4650	2/13/2013				
	52,000(3)	78,000		$ 46.7600	2/12/2014				
	58,400(4)	87,600		$ 57.0950	2/10/2015				
	118,000(5)	0		$ 68.6300	12/8/2015				
	169,800(5)	0		$ 69.3100	1/24/2016				
M. Badgett	21,225	0		$ 32.9467	2/12/2008	5,528(6)	$ 496,801	9,820(9)	$ 882,52
	30,225	0		$ 45.1667	2/11/2009	5,426(7)	$ 487,635	8,600(10)	$ 772,88
	38,000	0		$ 42.3438	2/10/2010	8,539(8)	$ 767,400		
	31,000	0		$ 44.9000	2/9/2011				
	24,800(1)	6,200		$ 45.9500	2/7/2012				

	16,800(2)	11,200	$	31.4650	2/13/2013						
	10,000(3)	15,000	$	46.7600	2/12/2014						
	10,400(4)	15,600	$	57.0950	2/10/2015						
	51,000(5)	0	$	68.6300	12/8/2015						
nack, J.W.	19,800	0	$	32.9467	2/12/2008	3,318(6)	$	298,189	5,892(9)	$	529,51
	30,225	0	$	45.1667	2/11/2009	3,256(7)	$	292,617	8,600(10)	$	772,88
	30,000	0	$	42.3438	2/10/2010	5,165(8)	$	464,179			
	20,000	0	$	44.9000	2/9/2011						
	16,000(1)	4,000	$	45.9500	2/7/2012						
	9,600(2)	6,400	$	31.4650	2/13/2013						
	6,000(3)	9,000	$	46.7600	2/12/2014						
	10,400(4)	15,600	$	57.0950	2/10/2015						
	51,000(5)	0	$	68.6300	12/8/2015						
F. Sansone	23,025	0	$	32.9467	2/12/2008	3,318(6)	$	298,189	6,000(9)	$	539,22
	17,775	0	$	45.1667	2/11/2009	3,256(7)	$	292,617	4,600(10)	$	413,40
	29,000	0	$	42.3438	2/10/2010	4,850(8)	$	435,870	4,000(10)	$	359,48
	19,000	0	$	44.9000	2/9/2011						
	15,200(1)	3,800	$	45.9500	2/7/2012						
	9,000(2)	6,000	$	31.4650	2/13/2013						
	4,800(3)	7,200	$	46.7600	2/12/2014						
	5,600(4)	8,400	$	57.0950	2/10/2015						
	4,800(4)	7,200	$	54.8350	5/13/2015						
	51,000(5)	0	$	68.6300	12/8/2015						

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options # Exercisable	Number of Securities Underlying Unexercised Options # Unexerciseable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options #	Option Exercise Price $	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested #(11)	Market Value of Shares or Units of Stock That Have Not Vested $ (13)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested #(12)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested $ (13)
R.G. McAbee	5,250	0		$ 32.9467	2/12/2008	3,318(6)	$ 298,189	5,892(9)	$ 529,514
	17,775	0		$ 45.1667	2/11/2009	3,256(7)	$ 292,617	5,000(10)	$ 449,350
	23,000	0		$ 42.3438	2/10/2010	3,795(8)	$ 341,057		
	15,000	0		$ 44.9000	2/9/2011				
	12,000(1)	3,000		$ 45.9500	2/7/2012				
	6,600(2)	4,400		$ 31.4650	2/13/2013				
	6,000(3)	9,000		$ 46.7600	2/12/2014				
	6,000(4)	9,000		$ 57.0950	2/10/2015				
	30,000(5)	0		$ 68.6300	12/8/2015				

Options in footnotes 1 through 4 vest at a rate of 20% per year in years 1-5.

(1) Options with vesting dates of 2/7/03, 2/7/04, 2/7/05, 2/7/06, and 2/7/07.

(2) Options with vesting dates of 1/1/04, 1/1/05, 1/1/06, 1/1/07, and 1/1/08.

(3) Options with vesting dates of 1/1/05, 1/1/06, 1/1/07, 1/1/08, and 1/1/09.

(4) Options with vesting dates of 12/31/05, 12/31/06, 12/31/07, 12/31/08, and 12/31/09.

(5) Options fully vested at grant date, with a three-year resale restriction.

Deferred Stock Units DSUs in footnotes 6 through 8 vest at the rate of 20% per year in years 6-10.

(6) DSUs with vesting dates of 3/1/07, 3/1/08, 31/09, 3/1/10, and 3/1/11.

(7) DSUs with vesting dates of 3/1/08, 3/1/09, 31/10, 3/1/11, and 3/1/12.

(8) DSUs with vesting dates of 3/1/09, 3/1/10, 31/11, 3/1/12, and 3/1/13.

Performance Share Units PSUs in footnotes 9 10 vest 100% after a three-year performance period to the extent pre-established performance criteria are satisfied.

(9) PSUs with vesting date of 1/1/2007.

(10) PSUs with vesting date of 12/31/2007.

(11) DSUs include dividend equivalents through 12/31/2006.

(12) PSUs adjusted for company performance through 12/31/2006.

(13) Calculated by multiplying the number of shares by the closing price of the common stock on the New York Stock Exchange on December 29, 2006, the last trading day of the year.

RETIREMENT AND PENSION BENEFITS

Generally all full-time, salaried employees of our company, including the named executive officers, participate in our company s funded pension plan after completing one year of service. Retirement benefits become payable as early as the date on which participants both attain age 55 and complete one year of service.

The following table provides for each named executive the number of years of credit service and present value of accumulated benefits as of December 31, 2006, under each plan in which the executive participates. The narrative that follows this table provides a description of the material features of each plan.

Pension Benefits

Name	Plan Name	Number of years of credited service (#)	Present value of accumulated benefit ($)	Payments during last fiscal Year ($)
D.M. James	Retirement Income Plan	14	430,545	0
	Supplemental Benefit Plan	14	5,027,773	0
	Supp. Executive Retirement Agreement	14	6,502,488	0
G.M. Badgett	Retirement Income Plan	36 1/12	1,038,634	0
	Supplemental Benefit Plan	36 1/12	2,475,603	0
J.W. Smack	Retirement Income Plan	24 2/12	891,327	0
	Supplemental Benefit Plan	24 2/12	2,137,126	0
D.F. Sansone	Retirement Income Plan	18 10/12	437,721	0
	Supplemental Benefit Plan	18 10/12	1,043,966	0
R.G. McAbee	Retirement Income Plan	33	1,024,627	0
	Supplemental Benefit Plan	33	1,925,757	0

1. The present value of accumulated benefits are based on benefits payable at age 62, the earliest age under the plans at which benefits are not reduced, or current age if the participant is older than age 62.

2. The following FAS 87 assumptions as of 12/31/2006 were used to determine the above present values:

Discount rate of 5.70%

Mortality based on the 2000RP combined healthy table

Lump sum payments after 2007 are based on estimated PPA provisions

SERP and SERA benefits assumed to be paid as a 10 Year Certain Annuity

For the Qualified Plan, 50% of the 12/31/2000 benefit is assumed to be paid as a lump sum, with the remainder of the accrued benefit assumed to be paid as a single life annuity

Retirement Income Plan

The Retirement Income Plan for Salaried Employees (the Retirement Plan) provides benefits under a funded noncontributory defined benefit plan and covers most salaried employees, including all executive officers. In order to attract and retain high quality employees, we believe that it is necessary for our company to provide an attractive

employee benefits package that includes a competitive retirement program.

Salaried employees automatically enter the Plan if they are at least age 21 and have one year of employment service, as defined in the Plan. The normal retirement date is defined in the Plan as the first day of the calendar month immediately following a participant s 65th birthday, however, service continues to accrue under the Plan if the participant works beyond age 65 (subject to a maximum service cap of 40 years). The amount of benefit is based on earnings, service and the age at which a participant commences receiving a benefit. Eligible earnings under the Plan, or Final Average Earnings , is the average of a participant s highest 36 consecutive months of earnings and includes base monthly salary and any awards under the Executive Incentive Plan and Management Incentive Plan, as reflected in the Salary and Non-equity Incentive Plan Compensation columns of the Summary Compensation Table. Under Section 415 of the Internal Revenue Code, the maximum annual benefit allowable under the Plan for an employee retiring at age 65 in 2006 is $175,000, an amount which may change in subsequent years as determined by the Internal Revenue Service. In addition, Section 401 of the Code limits the amount of a participant s compensation which may be taken into account under the Plan to $220,000, an amount which is also subject to change by the Internal Revenue Service.

The Retirement Plan formula provides a monthly benefit equal to 0.9% of Final Average Earnings per year of service accrued prior to age 45, plus 1.2% of Final Average Earnings per year of service accrued after age 44, plus .5% of Final Average Earnings in excess of 50% of the Social Security Wage Base applied to all years of service. A vested participant may commence receiving early retirement benefits under the Plan as early as age 55. The amount of early retirement reduction depends on the age of a participant when active employment ceases. If active employment ceases after age 55 and retirement income commences at age 62, or later, the monthly benefit is unreduced. However, if the benefit commences prior to age 62 the monthly benefit is reduced at a rate of 7% per year for commencement between ages 55 and 62. If active employment ceases prior to age 55, the monthly benefit is actuarially reduced for commencement between ages 55 and 65.

A participant must have either five years of vesting service, as defined in the Plan, or be at least age 55 with one year of vesting service to be vested and eligible for a benefit. The normal form of retirement benefit under the Plan for an unmarried participant is a Single Life Annuity, which is a monthly payment for life. The normal form of retirement benefit under the Plan for a married participant is a 75% Joint and Survivor Annuity, which is a monthly payment for the life of the participant, and thereafter 75% of that amount to the surviving spouse payable for their lifetime. The 75% Joint and Survivor Annuity is actuarially adjusted to account for two life expectancies. The Plan also provides that the participant may elect to choose among three additional Joint and Survivor options, three Period Certain Options, a Social Security Option and a Lump Sum Option (only for benefits accrued prior to 2001). The optional forms of payment are subject to actuarial adjustment. An election by a married participant of an option other than the normal form requires spousal consent.

Unfunded Supplemental Benefit Plan

The Unfunded Supplemental Benefit Plan for Salaried Employees (the Supplemental Plan) enables our company to pay, to any person whose pension under the Retirement Plan has been reduced as a result of the limitations imposed by Sections 401 and 415 of the Internal Revenue Code, an amount equal to the difference between the amount the person would have received under the Retirement Plan had there been no limitations and the amount the person will receive under the Retirement Plan after giving effect to the limitations.

The Supplemental Plan is unfunded and amounts due the employees covered thereby are considered to be general obligations of our company; however, the Supplemental Plan contains provisions which allow for the funding of a rabbi trust to improve the security of the benefit, to some extent, upon the occurrence of a Change in Control (as defined in the Supplemental Plan). The determination of the benefit amount and the payment options under the Supplemental Plan are the same as the Retirement Plan except as follows. Effective January 1, 2007 the Supplemental Plan was amended to allow existing participants to make an election to receive supplemental pension benefits in the form of installment payments over a period of ten years, thereby accelerating payout somewhat and minimizing to some extent the risk of future non-payment. The installment payments are actuarially equivalent to the various annuity options available under the Plan. New participants in the Supplemental Benefit Plan on or after January 1, 2007 automatically will receive their supplemental pension benefits in the form of installment payments over a period of ten years and have no other payment options.

Supplemental Executive Retirement Agreement

Mr. James is entitled to benefits under a Supplemental Executive Retirement Agreement (SERA) which provides for additional retirement benefit based on the formula in the Retirement Plan using his actual years of service multiplied by 1.2. The maximum benefit service provided by the combination of the SERA and the Retirement Plan is 40 years. Under the SERA, Mr. James was credited as of December 31, 2006, with additional service years. The SERA is an unfunded, noncontributory defined benefit plan.

The SERA was established in 2001 as an additional retention incentive for the Chief Executive Officer. This program enhances the amount of monthly retirement benefit to address the fact that Mr. James was a mid-career hire by Vulcan and is otherwise unable to accrue a full benefit under the current qualified and excess benefit plans.

The following named executives are currently eligible for early retirement under the following plans. Eligible under the Retirement Income Plan and the Unfunded Supplemental Benefit Plan are Donald M. James (age 58), Guy M. Badgett III (age 59), James W. Smack (age 64) and Ronald G. McAbee (age 60). Mr. James is also currently eligible for early retirement under the SERA.

DIRECTOR COMPENSATION

We use a combination of cash and stock-based compensation to attract and retain qualified candidates to serve on the Board. In setting director compensation, our company considers the significant amount of time that directors expend on fulfilling their duties to our company, as well as the limited pool of, and competition among public companies for, well-qualified Board members. Additional amounts are paid to committee chairs in recognition of the substantial responsibilities of the chair. Directors are subject to a minimum share ownership requirement. Within five years of becoming a director, each director is required to own at least 5,000 shares of our company s common stock. Shares or units held by a director under a deferred compensation plan are included in calculating the director s ownership.

Cash Compensation Paid to Board Members. Members of the Board who are not employees of our company are paid a retainer of $45,000 per year, plus the following fees:

$5,000 Board meeting fee for in-person attendance;

$3,000 Committee meeting fee for in-person attendance;

$1,500 Board and committee fees for telephonic meetings or actions by written consent;

$10,000 Audit Committee chair retainer fee; and

$5,000 Retainer fee for all other committee chairs.

Deferred Compensation Plan. We maintain a Deferred Compensation Plan for Directors Who Are Not Employees of our company (the Directors Deferred Compensation Plan) under which non-management directors are permitted to defer the cash compensation to which they are entitled for specified periods or until they cease to be directors. The deferred amounts, at the election of the director, either (i) are credited with interest at prescribed rates or (ii) are converted into a number of deferred stock units equivalent to the number of shares of our company s common stock (based on the market price at the time of deferral) that could be purchased with the amount deferred. Whenever a dividend is paid on Vulcan s common stock, the deferred stock unit accounts are credited with an additional number of stock units corresponding to the amount of the dividend. At the end of the deferral period, the deferred stock units are settled in shares of our company s common stock and interest-based deferrals are settled in cash. The Directors Deferred Compensation Plan also provides for a lump-sum settlement of the director s deferred compensation account in stock or cash, as applicable, if following a Change of Control (as defined in the Directors Deferred Compensation Plan) (i) the participating director ceases to be a member of the Board, (ii) the Directors Deferred Compensation Plan is terminated or (iii) our company s capital structure is changed materially. The Directors Deferred Compensation Plan was approved by our company s shareholders in 1993.

Deferred Stock Units. Equity grants are awarded to our non-management directors on an annual basis. These grants represent a significant portion of their compensation package. We believe that equity grants promote a greater alignment of interests between our directors and our shareholders through increasing their ownership of our common stock. Further, we believe that equity grants support our ability to attract and retain qualified individuals to serve as directors of our company by affording them an opportunity to share in our future success.

On June 1, 2006, 1,000 Deferred Stock Units (DSUs) were granted to each non-management director serving on that date pursuant to the 2006 Omnibus Long-Term Incentive Plan (2006 LTIP), which was approved by our shareholders in 2006. These units vest on the third anniversary of the grant; however, payment may be deferred beyond that date.

The DSUs are an unfunded, unsecured obligation of our company and no shares have been set aside for these grants. The non-management directors have no right to receive the DSUs until the restrictions imposed either lapse or are waived. Generally, the restrictions expire at the earliest of vesting or when the non-management director reaches age 72 (or the then current mandatory retirement age for directors), or the non-management director ceases to be a director because of death, disability, or change in control. However, the Compensation Committee, subject to Board approval, may waive restrictions in the event the non-management director fails to remain a director for any reason other than retirement at the mandatory age, death or disability. During the period the shares are restricted, the non-management directors have no right to vote the shares. Dividend

equivalents are credited as additional DSUs quarterly when dividends are paid on our stock. The deferred stock units are settled in Vulcan shares when the restrictions expire.

In prior years, grants to our directors were made under the Restricted Stock Plan or the Deferred Stock Plan. No further grants will be made under either of these Plans.

Director Summary Compensation Table

The table below summarizes the compensation paid by our company to non-employee directors for the fiscal year ended December 31, 2006.

Name(1)	Fees Earned or Paid in Cash	Stock Awards(2)	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Deferred Compensation Earnings	All Other Compensation(3)	Total
Philip J. Carroll	$ 120,500	$ 83,293	$ 0	$ 0	$ 0	$ 0	$ 203,793
Livio D. DeSimone	$ 110,000	$ 106,770	$ 0	$ 0	$ 0	$ 0	$ 216,770
Phillip W. Farmer	$ 108,000	$ 69,780	$ 0	$ 0	$ 0	$ 0	$ 177,780
H. Allen Franklin	$ 115,500	$ 39,124	$ 0	$ 0	$ 0	$ 0	$ 154,624
Douglas J. McGregor	$ 103,500	$ 65,533	$ 0	$ 0	$ 0	$ 0	$ 169,033
James V. Napier	$ 125,500	$ 106,770	$ 0	$ 0	$ 0	$ 0	$ 232,270
Donald B. Rice	$ 117,500	$ 70,728	$ 0	$ 0	$ 0	$ 0	$ 188,228
Orin R. Smith	$ 116,000	$ 87,822	$ 0	$ 0	$ 0	$ 0	$ 203,822
Vincent J. Trosino	$ 91,500	$ 33,459	$ 0	$ 0	$ 0	$ 0	$ 124,959

(1) Donald M. James, Chief Executive Officer and Chairman of the Board, is not included in this table as he is an employee of our company and receives no additional compensation for his service as director. Mr. James compensation is shown in the Summary Compensation Table.

(2) This column represents the dollar amount of the 2006 accounting expense recognized for these awards granted in 2006 and prior years. Therefore, the values shown here are not representative of the amounts that may eventually be realized by a director. Pursuant to the rules of the Securities and Exchange Commission, we have provided a grant date fair value for Stock Awards in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R), Share-based Payments. For Deferred Stock Units and Restricted Stock, the fair value is estimated on the date of grant based on the market price of our stock on the grant date. At December 31, 2006, the aggregate number of restricted stock units and deferred stock units accumulated on their account for all years of service, including dividend equivalent units were:

Name	Units

Philip J. Carroll	6,802
Livio D. DeSimone	34,411
Phillip W. Farmer	7,038
H. Allen Franklin	4,273
Douglas J. McGregor	9,108
James V. Napier	12,658
Donald B. Rice	31,058
Orin R. Smith	12,258
Vincent J. Trosino	7,586

The shares and phantom shares are included in the Stock Ownership table above.

(3) None of the directors received perquisites or other personal benefits in excess of $10,000.

PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

This section describes and estimates payments that could be made to the named executive officers under different termination and change in control events. The estimated payments would be made under the terms of our company compensation and benefits programs or the change in control severance agreements with each of the named executive officers. The amount of potential payments is calculated as if the different events occurred as of December 31, 2006 and assumes that the price of our company s common stock is the closing market price as of December 31, 2006.

Description of Termination and Change in Control Events

The following charts list different types of termination and change in control, or CIC , events that can affect the treatment of payments under our company s compensation and benefit programs. These events also affect payments to the named executive officers under their CIC employment agreements. Except for Messrs. James and Sansone, no payments are made under the CIC agreements unless, within two years of the change in control, the named executive officer is involuntarily terminated or he voluntarily terminates for good reason (as described below) (double trigger CIC agreements). The agreements with Messrs. James and Sansone provide for a 30-day window immediately following the first anniversary of the CIC during which they may elect to terminate their employment and receive the benefits provided under the CIC agreement (single trigger CIC agreements).

Termination Events

Retirement or Retirement Eligible Termination of a named executive officer who is at least 55 years old and has at least one year of credited service.

Resignation Voluntary termination of a named executive officer who is not retirement eligible.

Lay Off Termination by Vulcan of a named executive officer who is not retirement eligible.

Involuntary Termination Termination of a named executive officer for cause. Cause includes individual performance below minimum performance standards and misconduct.

Death or Disability Termination of a named executive officer due to death or disability.

CIC-Related Events

Acquisition by another entity of 20% or more of our common stock, or following a merger with another entity our shareholders own 65% or less of the company surviving the merger.

Involuntary CIC Termination or Voluntary CIC Termination for Good Reason Employment is terminated within two years of a CIC, other than for cause, or the employee voluntarily terminates for Good Reason.

Good reason for voluntary termination within two years of a CIC is generally satisfied when there is a reduction in salary, incentive compensation opportunity or benefits, relocation of over 35 miles or a diminution in duties and responsibilities.

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The following chart describes the treatment of different pay and benefit elements in connection with the termination events shown.

Program	Retirement/ Retirement Eligible	Lay Off (Involuntary Termination Not For Cause)	Resignation	Death or Disability	Involuntary Termination (For Cause)
Pension: **- Qualified Plan** **- Non-Qualified Plan** **- SERA**	Participant may commence benefit payment	Participant is considered Terminated Vested	Participant is considered Terminated Vested	Spouse may commence survivor benefit on or after the date that the Participant would have attained age 55	Participant may commence benefit payment or will be Terminated Vested depending on age
Executive Deferred Compensation	Payment commences the year after retirement in the form elected	Payout made the year following the year of termination in a lump sum	Payout made the year following the year of termination in a lump sum	Payment commences the year after death or disability in the form elected	Payout made the year following the year of termination in a lump sum
MIP and EIP	Eligible to receive full payment	Eligible to receive full payment	Eligible to receive full payment	Eligible to receive full payment	No payment
Stock Options	Full term to exercise vested options; non-vested options continue to vest; Noncompetition agreement required for exercising vested options.	Non-vested options forfeited; 30 days to exercise vested options	Non-vested options forfeited; 30 days to exercise vested options	Vesting accelerated. Under death, estate has one year to exercise. Under disability, have full remaining term to exercise.	Forfeit all, vested and non-vested
DSUs	If age 62 or older, deemed fully vested; otherwise forfeit non-vested DSUs	Non-vested are forfeited	Non-vested are forfeited	Vesting is accelerated on a pro-rata basis	Non-vested are forfeited
PSUs					

	Deemed fully vested	Non-vested are forfeited	Non-vested are forfeited	Vesting is accelerated on a pro-rata basis	Forfeit all, vested and non-vested
Thrift Plan	May take payment or defer until age 701/2	May take payment or defer until age 701/2	May take payment or defer until age 701/2	Account distributed by March 1 of the following year	May take payment or defer until age 701/2
Supplemental Thrift Plan	May take payment or defer until age 701/2	May take payment or defer until age 701/2	May take payment or defer until age 701/2	Account distributed by March 1 of the following year	May take payment or defer until age 701/2
Severance Benefits	None	None	None	None	None
Health Benefits	May continue to age 65 if age + service at least 70	Coverage ceases; eligible for coverage extension under COBRA	Coverage ceases; eligible for coverage extension under COBRA	Under age 55, 3 months spousal extension, then COBRA; over age 55, same as retiree	Under age 55, same as resignation; over age 55, same as retiree

The following table describes treatment of payments under pay and benefit programs upon a change in control, and upon a termination (voluntary or involuntary) upon a CIC.

Plan or Program	CIC	CIC with Termination
Pension: **Qualified Plan** **Non-Qualified** **SERA**	No impact	Service ceases except to the extent that additional service is provided under the terms of the CIC agreements
Executive Deferred Compensation Plan	Accelerate all deferred amounts and pay lump sum within 10 business days	Accelerate all deferred amounts and pay lump sum within 10 business days
EIP	The amount paid will be equal to the greater of (A) the average bonus during the three preceding years, (B) the target bonus, or (C) the bonus determined under the Plan for the year in which the CIC occurs.	The amount paid will be equal to the greater of (A) the average bonus during the three preceding years, (B) the target bonus, or (C) the bonus determined under the Plan for the year in which the CIC occurs.
MIP	The amount paid will be equal to the greater of (A) the target bonus, or (B) the bonus as determined under the Plan based upon our company s actual performance.	The amount paid will be equal to the greater of (A) the target bonus, or (B) the bonus as determined under the Plan based upon our company s actual performance; shall be paid within 90 days of CIC.
Stock Options	Immediately deemed fully vested and exercisable; remaining term to exercise	Immediately deemed fully vested and exercisable; remaining term to exercise
DSUs	All immediately deemed non-forfeitable; pay on 90th day following a Change in Control	All immediately deemed non-forfeitable; pay on 90th day following a Change in Control
PSUs	All immediately deemed non-forfeitable; pay no later that 21/2 months after end of award period	All immediately deemed non-forfeitable; pay no later that 21/2 months after end of award period
Thrift Plan	No impact	Service ceases except to the extent that additional service is provided under the terms of the CIC agreements. Participant entitled to distribution
Supplemental Thrift Plan	No impact	Participant entitled to distribution
Severance Benefits	No Impact	Payment is 3 times the named executive s annual base salary, short-term bonus and LTI amount.
Health Benefits	No impact	3 year coverage extension

Potential Payments

This section describes and estimates payments that would become payable to the named executive officers upon a termination or change in control as of December 31, 2006.

Pension Benefits

The monthly amounts that would have become payable to the named executive officers if the termination events occurred as of December 31, 2006 under the Tax-Qualified Plan and the SERA are itemized in the chart below. The amounts shown in the chart are monthly benefit amounts whereas the pension values shown in the Summary Compensation and Pension Benefits Tables are present values of all the monthly values anticipated to be

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paid over the lifetimes of the named executive officers and their spouses. These plans are described in the notes following the Pension Benefits Table. All the named executive officers, except Mr. Sansone, were retirement eligible on December 31, 2006. The benefits were determined using the same assumptions used to compute benefit values in the Pension Benefit Table with three exceptions. The benefit payments were assumed to commence as soon as possible instead of at normal retirement; approximate early retirement reductions were applied. And, the benefits were not adjusted to reflect optional forms of payment; all benefits are the amounts that would be paid monthly over the named executive officer s life, except for the value of CIC enhanced benefits which would be paid in a lump sum.

Name		Retirement (Monthly Payments) ($)	Resignation or Involuntary Retirement (Monthly Payments) ($)	Death (Monthly Payments to a Spouse) ($)	CIC (Value of Enhanced Benefits)(1) ($)
D.M. James	Tax-Qualified	2,760	Same as Retirement	2,513	0
	Non-Qualified	35,497	Same as Retirement	32,316	0
	SERA	63,945	Same as Retirement	58,213	8,270,886
	Defined Contribution	0	None	0	604,701
G.M. Badgett	Tax-Qualified	6,846	Same as Retirement	5,802	0
	Non-Qualified	18,011	Same as Retirement	15,264	1,634,918
	Defined Contribution	0	None	0	143,111
J.W. Smack	Tax-Qualified	6,486	Same as Retirement	4,216	0
	Non-Qualified	17,242	Same as Retirement	11,208	453,746
	Defined Contribution	0	None	0	140,571
D.F. Sansone	Tax-Qualified	Not Eligible	Not Eligible	Not Eligible	0
	Non-Qualified	Not Eligible	Not Eligible	Not Eligible	1,056,053
	Defined Contribution	0	None	0	157,694
R.G. McAbee	Tax-Qualified	6,966	Same as Retirement	5,371	0
	Non-Qualified	14,502	Same as Retirement	11,182	1,075,122
	Defined Contribution	0	None	0	127,823

(1) Value of retirement and defined contribution enhancements are payable in lump sum in the event of a CIC.

In accordance with CIC Employment Agreements, lump sum values for non-qualified and SERA pension benefits are based upon the granting of three years of service for each named executive, except for Mr. James, who would receive credit for 6.6 years of service. The defined contribution amounts represent three years of company matching contributions for each executive.

Long-Term Incentives

Deferred Stock Units (DSUs)

The chart below shows the number of DSUs for which vesting would be accelerated under certain events:

Name	Retirement		CIC (With or Without Termination)	
	Number of Deferred Stock Units with Accelerated Vesting (#)	Total Number of Deferred Stock Units following Accelerated Vesting (#)	Number of Deferred Stock Units with Accelerated Vesting (#)	Total Number of Deferred Stock Units following Accelerated Vesting (#)
D.M. James	0	0	111,057	111,057
G.M. Badgett	0	0	19,493	19,493
J.W. Smack	11,739	11,739	11,739	11,739
D.F. Sansone	0	0	11,424	11,424
R.G. McAbee	0	0	10,369	10,369

Performance Share Units (PSUs)

The chart below shows the number of PSUs for which vesting would be accelerated under certain events:

Name	Retirement		CIC (With or Without Termination)	
	Number of Performance Share Units with Accelerated Vesting (#)	Total Number of Performance Share Units following Accelerated Vesting (#)	Number of Performance Share Units with Accelerated Vesting (#)	Total Number of Performance Share Units following Accelerated Vesting (#)
D.M. James	36,000	66,000	36,000	66,000
G.M. Badgett	4,300	9,300	4,300	9,300
J.W. Smack	4,300	7,300	4,300	7,300
D.F. Sansone	0	3,000	4,300	7,300
R.G. McAbee	2,500	5,500	2,500	5,500

Stock Options

Stock Options would be treated as described in the termination and CIC charts above. The chart below shows the number of stock options for which vesting would be accelerated under certain events:

	Retirement		CIC (With or Without Termination)	
Name	**Number of Options with Accelerated Vesting (#)**	**Total Number of Options following Accelerated Vesting (#)**	**Number of Options with Accelerated Vesting (#)**	**Total Number of Options following Accelerated Vesting (#)**
D.M. James	263,600	1,658,800	263,600	1,658,800
G.M. Badgett	48,000	281,450	48,000	281,450
J.W. Smack	35,000	228,025	35,000	228,025
D.F. Sansone	0	179,200	32,600	211,800
R.G. McAbee	25,400	147,025	25,400	147,025

Executive Deferred Compensation Plan

The aggregate balances reported in the Nonqualified Deferred Compensation Table would be payable to the named executive officers as described in the termination events and CIC-Related Events chart above. There is no enhancement or acceleration of payments under these plans associated with termination of CIC events, other than

the lump sum payment opportunity described in the above charts. The lump sums that would be payable are those that are reported in the Nonqualified Deferred Compensation Table.

Health Benefits

Because Messrs. James, Badgett, Smack and McAbee are eligible for early retirement and health care benefits are provided to early retirees, there is no incremental payment associated with the termination or CIC events. At the end of 2006, Mr. Sansone was not eligible for early retirement; therefore, health care benefits would not become available until he reached age 55, except in the case of a CIC-Related Termination, as described in the CIC-Related Events chart. The estimated cost of providing three years of group health insurance premiums for Mr. Sansone is $35,064.

Severance Benefits

Our company has entered into individual CIC Employment Agreements with each of the named executive officers. In addition to the treatment of the benefits described above the named executive officers are entitled to a severance benefit, if within two years of a CIC they are involuntarily terminated, not for cause, or they voluntarily terminate for Good Reason. Further, Messrs. James and Sansone may elect to voluntarily terminate their employment during the thirty days following the first anniversary of a CIC, and receive severance benefits. In any case, benefits are not paid unless the named executive officer releases us from any claims he may have against us.

The CIC severance payment is three times the named executive officer s base annual salary, short-term bonus, and LTI amount, as each is defined in the CIC agreements. If any portion of the severance payment is an excess parachute payment , as defined under Internal Revenue Code Section 280G, we will pay on behalf of the named executive officer an additional amount to cover the taxes that would be due on the excess parachute payment a 280G tax gross-up.

The table below reflects an estimate of the severance payments that would be made to the named executive officers if they were terminated as of December 31, 2006 in connection with a CIC.

Name	**Severance Amount ($)**
D.M. James	$ 23,368,750
G.M. Badgett	$ 5,570,000
J.W. Smack	$ 5,520,000
D.F. Sansone	$ 5,430,000
R.G. McAbee	$ 4,680,000

The table below reflects an estimate of the value of 280G tax gross-up amounts due and payable to the Internal Revenue Service in connection with a CIC that results in several payments.

Name	**280G Tax Gross-Up ($)(1)**
D.M. James	$ 19,923,501

G.M. Badgett	$	4,240,761
J.W. Smack	$	3,303,191
D.F. Sansone	$	3,810,719
R.G. McAbee	$	3,622,367

(1) Based on payment of equity components of compensation valued at $89.87, the value of our company s common stock as of December 29, 2006.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board is responsible for, among other things, reviewing our company s financial statements with management and our company s independent auditor. The Audit Committee acts under a written charter which is available on our website at *www.vulcanmaterials.com*. Each member of the Audit Committee is an independent director as determined by our Board, based on the requirements of the New York Stock Exchange and the Securities and Exchange Commission.

Our company s management has the primary responsibility for our company s financial statements and financial reporting process, including the system of internal controls. Our independent auditor is responsible for expressing an opinion on the conformity of our company s audited financial statements with generally accepted accounting principles. Our independent auditor also audits, in accordance with the standards of the Public Company Accounting Oversight Board (the PCAOB), the effectiveness of our company s internal control over financial reporting. The Audit Committee is responsible for monitoring and overseeing these processes.

In this context, the Audit Committee has reviewed and discussed our company s audited financial statements with management and the independent auditor. The Audit Committee has discussed with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees) as adopted by the PCAOB. In addition, the Committee has received from the independent auditor the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with the Audit Committees as adopted by the PCAOB) and discussed with the independent auditor the auditor s independence and considered whether the auditor s provision of any non-audit services is compatible with the auditor s independence.

Based on the reviews and discussions noted above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in our company s Annual Report on Form 10-K for the year ended December 31, 2006, for filing with the Securities and Exchange Commission.

Audit Committee

James V. Napier, Chairman
Phillip W. Farmer
H. Allen Franklin
Douglas J. McGregor
Donald B. Rice

INDEPENDENT AUDITORS

Aggregate fees billed to us for the fiscal years ended December 31, 2006 and 2005, by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu and their respective affiliates are as follows:

	2006	2005
Audit Fees(1)	$ 2,467,082	$ 2,721,002
Audit Related Fees(2)	732,618	135,000
Tax Fees(3)	423,777	76,738
All Other Fees	0	0
Total	$ 3,623,477	$ 2,932,740

(1) Consists of fees for the audit of our financial statements including the attestation report on management s assessment of our company s internal control over financial reporting, the review of our quarterly financial statements, the issuance of comfort letters and the provision of attestation services in connection with statutory and regulatory filings and engagements.

(2) Consists of fees for the audits of our employee benefit plans ($217,000 in 2006 and $135,000 in 2005). Also includes fees for merger and acquisition due diligence services related to proposed business acquisitions.

(3) Consists of tax fees for services related to proposed business acquisitions, including consultation on tax restructuring with our company s management and outside legal and tax advisors.

The Audit Committee has policies and procedures that require the pre-approval by the Audit Committee of all fees paid to, and all services performed by, our company s independent auditor. At the beginning of each year, the Audit Committee approves the proposed services, including the nature, type and scope of services contemplated and the related fees, to be rendered by the independent auditor during the year.

During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent auditor. The Audit Committee has delegated pre-approval authority to the Chair of the Audit Committee for those instances when pre-approval is needed prior to a scheduled Audit Committee meeting. The Chair of the Audit Committee must report on such approvals at the next scheduled Audit Committee meeting.

No audit-related, tax or other services were rendered in 2006 pursuant to the de minimus exception to the pre-approval requirement set forth in Exchange Act Rule 2-01(c)(7)(i)(C).

PROPOSAL 2. RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee, which is comprised solely of non-management directors, has appointed Deloitte & Touche LLP, as independent registered public accountants for the year 2007. The function of the independent registered public accountants is to audit our accounts and records; to report on the consolidated balance sheet, the related statements of consolidated earnings, consolidated shareholders equity and consolidated statements of cash flows of our company and its subsidiaries; and to perform such other appropriate accounting services as may be required by the Audit Committee. Although shareholder ratification is not required, the Board has determined that it would be desirable to request an expression from the shareholders as to whether or not they concur in this appointment. If a majority of the votes cast at the meeting fails to ratify the selection of Deloitte & Touche LLP as independent registered public accountants, the Audit Committee will consider the selection of another independent registered public accounting firm.

The firm of Deloitte & Touche LLP, or its predecessors, has audited our financial statements since 1956. A representative of that firm is expected to be present at the meeting, will be given an opportunity to make a statement and will be available to respond to appropriate questions.

The Board of Directors recommends a vote FOR the proposal to ratify Deloitte & Touche LLP as our company s independent registered public accountants.

GENERAL INFORMATION

Section 16(A) Beneficial Ownership Reporting Compliance

Under Section 16(a) of the Securities Exchange Act of 1934, as amended, each of our directors and executive officers, and any beneficial owner of more than 10% of our common stock, is required to file with the Securities and Exchange Commission initial reports of beneficial ownership of our common stock and reports of changes in beneficial ownership of the common stock. Such persons also are required by Securities and Exchange Commission regulations to furnish us with copies of all such reports. Based solely on our review of the copies of such reports furnished to us for the year ended December 31, 2006, and on the written representations made by our directors and executive officers that no other reports were required, we believe that during the year ended December 31, 2006, Vincent J. Trosino inadvertently filed a Form 4 late due to a delay in notification of a trade.

Shareholder Proposals For 2008

To be eligible for consideration for inclusion in our proxy statement and form of proxy for our 2007 annual meeting, a shareholder s proposal must be received by us at our principal office no later than December 13, 2007. Proposals should be addressed to William F. Denson, III, Secretary, P. O. Box 385014, Birmingham, Alabama 35238-5014. Proposals received after that date will be considered untimely and will not be eligible for inclusion in the 2008 proxy statement. If a shareholder intending to introduce a resolution for a vote at the 2008 Annual Meeting does not provide notice of that intention to the Secretary before February 25, 2008, the persons named in Vulcan s 2008 proxy material will have the discretionary authority to vote on the matter in accordance with their best judgment without disclosure in the proxy statement of such matter or of how the proxy holders intend to exercise their discretionary authority to vote on the matter.

VULCAN MATERIALS COMPANY

WILLIAM F. DENSON, III
Secretary

1200 Urban Center Drive
Birmingham, Alabama 35242
April 11, 2007

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Notice of
Annual Meeting
and
Proxy Statement
Annual Meeting of
Shareholders
May 11, 2007
Vulcan Materials Company

Annex I

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Quarter ended March 31, 2007**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

VULCAN MATERIALS COMPANY
(Exact name of registrant as specified in its charter)

New Jersey	**1-4033**	**63-0366371**
(State or other jurisdiction of incorporation)	*(Commission file number)*	*(I.R.S. Employer Identification No.)*

1200 Urban Center Drive
Birmingham, Alabama 35242
(Address of principal executive offices) (zip code)

Registrant s telephone number including area code
(205) 298-3000

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 þ No o

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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 March 31, 2007
Common Stock, $1 Par Value	95,290,665

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VULCAN MATERIALS COMPANY

FORM 10-Q
QUARTER ENDED MARCH 31, 2007

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

Vulcan Materials Company and Subsidiary Companies

Consolidated Balance Sheets

	March 31 2007	December 31 2006 (As Adjusted See Note 2)	March 31 2006 (As Adjusted See Note 2)
		(Amounts in thousands) (Condensed and unaudited)	
ASSETS			
Cash and cash equivalents	$ 69,960	$ 55,230	$ 80,343
Medium-term investments			68,965
Accounts and notes receivable:			
Accounts and notes receivable, gross	395,124	394,815	506,558
Less: Allowance for doubtful accounts	(3,108)	(3,355)	(4,539)
Accounts and notes receivable, net	392,016	391,460	502,019
Inventories:			
Finished products	235,307	214,508	201,904
Raw materials	10,950	9,967	10,977
Products in process	1,628	1,619	2,058
Operating supplies and other	18,531	17,443	17,499
Inventories	266,416	243,537	232,438
Deferred income taxes	22,165	25,579	20,959
Prepaid expenses	15,016	15,388	16,378
Total current assets	765,573	731,194	921,102
Investments and long-term receivables	2,383	6,664	6,864
Property, plant and equipment:			
Property, plant and equipment, cost	4,026,960	3,897,618	3,582,868
Less: Reserve for depr., depl. & amort	(2,070,840)	(2,028,504)	(1,917,815)
Property, plant and equipment, net	1,956,120	1,869,114	1,665,053
Goodwill	650,206	620,189	628,683
Other assets	196,633	200,673	185,255
Total assets	$ 3,570,915	$ 3,427,834	$ 3,406,957

LIABILITIES AND SHAREHOLDERS EQUITY

Current maturities of long-term debt	$ 727	$ 630	$ 32,547
Short-term borrowings	240,400	198,900	
Trade payables and accruals	156,008	154,215	137,538
Other current liabilities	129,080	133,763	154,102
Total current liabilities	526,215	487,508	324,187
Long-term debt	321,503	322,064	322,859
Deferred income taxes	290,404	287,905	282,400
Other noncurrent liabilities	338,237	319,458	287,229
Other commitments and contingencies (Notes 13 & 19)			
Shareholders equity	2,094,556	2,010,899	2,190,282
Total liabilities and shareholders equity	$ 3,570,915	$ 3,427,834	$ 3,406,957

See accompanying Notes to Condensed Consolidated Financial Statements

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Vulcan Materials Company and Subsidiary Companies

Consolidated Statements of Earnings

	Three Months Ended March 31	
	2007	2006 (As Adjusted See Note 2)
	(Condensed and unaudited) (Amounts and shares in thousands, except per share data)	
Net sales	$ 630,187	$ 642,272
Delivery revenues	57,000	66,415
Total revenues	687,187	708,687
Cost of goods sold	462,992	478,378
Delivery costs	57,000	66,415
Cost of revenues	519,992	544,793
Gross profit	167,195	163,894
Selling, administrative and general expenses	74,402	65,012
Gain on sale of property, plant and equipment, net	46,387	757
Other operating expense, net	2,034	625
Operating earnings	137,146	99,014
Other income, net	1,202	12,093
Interest income	1,323	2,647
Interest expense	6,635	6,285
Earnings from continuing operations before income taxes	133,036	107,469
Provision for income taxes	43,697	35,564
Earnings from continuing operations	89,339	71,905
Discontinued operations (Note 3):		
Loss from results of discontinued operations	(777)	(3,033)
Income tax benefit	312	1,213
Loss on discontinued operations, net of tax	(465)	(1,820)
Net earnings	$ 88,874	$ 70,085
Basic earnings (loss) per share:		
Earnings from continuing operations	$ 0.94	$ 0.72
Discontinued operations	(0.01)	(0.02)

Net earnings per share	$	0.93	$	0.70
Diluted earnings (loss) per share:				
Earnings from continuing operations	$	0.91	$	0.70
Discontinued operations				(0.02)
Net earnings per share	$	0.91	$	0.68
Weighted-average common shares outstanding:				
Basic		95,172		100,552
Assuming dilution		97,778		102,346
Cash dividends declared per share of common stock	$	0.46	$	0.37
Depreciation, depletion, accretion and amortization from continuing operations	$	60,801	$	53,673
Effective tax rate from continuing operations		32.8%		33.1%

See accompanying Notes to Condensed Consolidated Financial Statements

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Vulcan Materials Company and Subsidiary Companies

Consolidated Statements of Cash Flows

	Three Months Ended March 31	
	2007	2006 (As Adjusted See Note 2)
	(Amounts in thousands) (Condensed and unaudited)	
Operating Activities		
Net earnings	$ 88,874	$ 70,085
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, depletion, accretion and amortization	60,801	53,691
Net gain on sale of property, plant and equipment	(46,387)	(757)
Contributions to pension plans	(292)	(318)
Share-based compensation	3,871	5,478
Increase in assets before initial effects of business acquisitions and dispositions	(21,652)	(29,831)
Increase (decrease) in liabilities before initial effects of business acquisitions and dispositions	11,710	(23,187)
Other, net	1,220	(3,144)
Net cash provided by operating activities	98,145	72,017
Investing Activities		
Purchases of property, plant and equipment	(122,636)	(95,787)
Proceeds from sale of property, plant and equipment	50,823	2,572
Payment for businesses acquired, net of acquired cash	(58,857)	(13,681)
Proceeds from sales and maturities of medium-term investments		106,175
Decrease in investments and long-term receivables	1,435	104
Other, net	8,730	(13)
Net cash used for investing activities	(120,505)	(630)
Financing Activities		
Net short-term borrowings	41,500	
Payment of short-term debt and current maturities	(320)	(240,305)
Payment of long-term debt	(27)	
Purchases of common stock	(4,800)	(19,337)
Dividends paid	(43,762)	(37,167)
Proceeds from exercise of stock options	22,980	14,644
Excess tax benefits from exercise of stock options	15,501	7,161
Other, net	6,018	8,822
Net cash provided by (used for) financing activities	37,090	(266,182)

Net increase (decrease) in cash and cash equivalents	14,730	(194,795)
Cash and cash equivalents at beginning of period	55,230	275,138
Cash and cash equivalents at end of period	$ 69,960	$ 80,343

See accompanying Notes to Condensed Consolidated Financial Statements

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VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Our accompanying condensed consolidated financial statements have been prepared in compliance with Form 10-Q instructions 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. The statements should be read in conjunction with the summary of accounting policies and notes to financial statements included in our latest annual report on Form 10-K.

Due to the 2005 sale of our Chemicals business, as presented in Note 3, the operating results of the Chemicals business have been presented as discontinued operations in the accompanying Condensed Consolidated Statements of Earnings.

2. Accounting Changes

FIN 48 On January 1, 2007, we adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes, by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, the financial statement effects of a tax position should initially be recognized when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold should initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority.

As a result of the implementation of FIN 48, we increased the liability for unrecognized tax benefits by $2,420,000, increased deferred tax assets by $1,480,000 and reduced retained earnings as of January 1, 2007 by $940,000. The total liability for unrecognized tax benefits as of January 1, 2007, amounted to $11,760,000.

During the first quarter of 2007, we recognized adjustments to our liability for prior year unrecognized tax benefits of $550,000, which increased our current tax provision and increased our liability balance. As of March 31, 2007, our total liability for unrecognized tax benefits amount to $12,310,000, of which $10,740,000 would affect the effective tax rate if recognized.

We classify interest and penalties recognized on the liability for unrecognized tax benefits as income tax expense. Accrued interest and penalties included in our total liability for unrecognized tax benefits were $2,310,000 as of March 31, 2007 and $2,060,000 as of January 1, 2007.

The U.S. Federal statute of limitations expires during the third quarter of 2007 for our 2002 and 2003 tax years. However, on our U.S. consolidated corporation income tax returns for those years, we anticipate having no single tax position generating a significant increase or decrease in our liability for unrecognized tax benefits within 12 months of this reporting date.

We file income tax returns in the U.S. federal and various state jurisdictions and one foreign jurisdiction. Generally, we are not subject to changes in income taxes by any taxing jurisdiction for the years prior to 2002.

FSP AUG AIR-1 In September 2006, the FASB issued FASB Staff Position (FSP) No. AUG AIR-1, Accounting for Planned Major Maintenance (FSP AUG AIR-1). This FSP amends certain provisions in the American Institute of Certified Public Accountants Industry Audit Guide, Audits of Airlines (Airline Guide). The Airline Guide is the principal source of guidance on the accounting for planned major maintenance activities and permits four alternative methods of accounting for such activities. This guidance principally affects our accounting for periodic overhauls on our oceangoing vessels. Prior to January 1, 2007, we applied the accrue-in-advance method as prescribed by the Airline Guide, which required the accrual of estimated costs for the next scheduled

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

overhaul over the period leading up to the overhaul. At that time, the actual cost of the overhaul was charged to the accrual, with any deficiency or excess charged or credited to expense. FSP AUG AIR-1 prohibits the use of the accrue-in-advance method, and was effective for fiscal years beginning after December 15, 2006. Accordingly, we adopted this FSP effective January 1, 2007, and have elected to use the deferral method of accounting for planned major maintenance as prescribed by the Airline Guide and allowed by FSP AUG AIR-1. Under the deferral method, the actual cost of each overhaul is capitalized and amortized over the period until the next overhaul. Additionally, the FSP must be applied retrospectively to the beginning of the earliest period presented in the financial statements. As a result of the retrospective application of this change in accounting standard, we have adjusted our financial statements for all prior periods presented to reflect using the deferral method of accounting for planned major maintenance.

The following tables reflect the effect of the retrospective application of FSP AUG AIR-1 on our Condensed Consolidated Balance Sheets (in thousands of dollars):

	December 31, 2006		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Balance Sheet Data:			
Deferred income taxes	$ 25,764	$ (185)	$ 25,579
Total current assets	731,379	(185)	731,194
Other assets	196,879	3,794	200,673
Total assets	3,424,225	3,609	3,427,834
Other current liabilities	139,942	(6,179)	133,763
Total current liabilities	493,687	(6,179)	487,508
Shareholders equity (retained earnings)	2,001,111	9,788	2,010,899
Total liabilities and shareholders equity	3,424,225	3,609	3,427,834

	March 31, 2006		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Balance Sheet Data:			
Deferred income taxes	$ 21,108	$ (149)	$ 20,959
Total current assets	921,251	(149)	921,102
Other assets	183,954	1,301	185,255
Total assets	3,405,805	1,152	3,406,957
Other current liabilities	163,004	(8,902)	154,102
Total current liabilities	333,089	(8,902)	324,187
Shareholders equity (retained earnings)	2,183,005	7,277	2,190,282
Total liabilities and shareholders equity	3,405,805	1,152	3,406,957

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reflects the effect of the retrospective application of FSP AUG AIR-1 on our Condensed Consolidated Statements of Earnings (in thousands of dollars, except per share data):

	Three Months Ended March 31, 2006		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Statement of Earnings Data:			
Net sales	$ 642,272	$	$ 642,272
Cost of goods sold	478,609	(231)	478,378
Cost of revenues	545,024	(231)	544,793
Gross profit	163,663	231	163,894
Selling, administrative and general expenses	65,042	(30)	65,012
Operating earnings	98,753	261	99,014
Earnings from continuing operations before income taxes	107,208	261	107,469
Provision for income taxes	35,471	93	35,564
Earnings from continuing operations	71,737	168	71,905
Net earnings	69,917	168	70,085
Diluted earnings per share	$ 0.68	$	$ 0.68

The following table reflects the effect of the retrospective application of FSP AUG AIR-1 on our Condensed Consolidated Statement of Cash Flows (in thousands of dollars):

	Three Months Ended March 31, 2006		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Statement of Cash Flows Data:			
Net earnings	$ 69,917	$ 168	$ 70,085
Depreciation, depletion, accretion and amortization	53,232	459	53,691
Increase in assets before initial effects of business acquisitions and dispositions	(29,759)	(72)	(29,831)
Decrease in liabilities before initial effects of business acquisitions and dispositions	(22,632)	(555)	(23,187)
Net cash provided by operating activities	72,017		72,017

3. Discontinued Operations

In June 2005, we sold substantially all the assets of our Chemicals business, known as Vulcan Chemicals, to Basic Chemicals, a subsidiary of Occidental Chemical Corporation. These assets consisted primarily of chloralkali facilities

in Wichita, Kansas; Geismar, Louisiana and Port Edwards, Wisconsin; and the facilities of our Chloralkali joint venture located in Geismar. The purchaser also assumed certain liabilities relating to the Chemicals business, including the obligation to monitor and remediate all releases of hazardous materials at or from the three plant facilities. The decision to sell the Chemicals business was based on our desire to focus our resources on the Construction Materials business.

In consideration for the sale of the Chemicals business, Basic Chemicals made an initial cash payment of $214,000,000 and assumed certain liabilities relating to the business as described below. Concurrent with the sale transaction, we acquired the minority partner s 49% interest in the joint venture for an initial cash payment of $62,701,000, and conveyed such interest to Basic Chemicals. The net initial cash proceeds of $151,299,000 were subject to adjustments for actual working capital balances at the closing date, transaction costs and income taxes. In

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 2006, we received additional cash proceeds of $10,202,000 related to adjustments for the actual working capital balance at the closing date.

Basic Chemicals is required to make future payments under two separate earn-out agreements subject to certain conditions. The first earn-out agreement is based on ECU (electrochemical unit) and natural gas prices during the five-year period beginning July 1, 2005, and is capped at $150,000,000 (ECU earn-out or ECU derivative). The ECU earn-out is accounted for as a derivative instrument; accordingly, it is reported at fair value. Changes to the fair value of the ECU derivative, if any, are recorded within continuing operations pursuant to the Securities and Exchange Commission (SEC) Staff Accounting Bulletin Topic 5:Z:5, Classification and Disclosure of Contingencies Relating to Discontinued Operations (SAB Topic 5:Z:5). Future estimates of this derivative s fair value could vary from period to period. 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 will be shared equally between Vulcan and Basic Chemicals. The primary determinant of the value for this earn-out is growth in 5CP sales volume.

The fair value of the consideration received in connection with the sale of the Chemicals business, including anticipated cash flows from the two earn-out agreements, is expected to exceed the net carrying value of the assets and liabilities sold. However, SFAS No. 5, Accounting for Contingencies, precludes the recognition of a contingent gain until realization is assured beyond a reasonable doubt. Accordingly, no gain was recognized on the Chemicals sale and the value recorded at the June 7, 2005 closing date referable to these two earn-outs was limited to $128,167,000.

The carrying amounts of the ECU and 5CP earn-outs are reflected in accounts and notes receivable other and other noncurrent assets in the accompanying Condensed Consolidated Balance Sheets. The carrying amount of the ECU earn-out was as follows: March 31, 2007 $20,913,000 (classified entirely as current), December 31, 2006 $20,213,000 (classified entirely as current) and March 31, 2006 $131,531,000 million (of which $114,432,000 was current). During the first three months of 2007, we recognized gains related to changes in the fair value of the ECU earn-out of $700,000 (reflected as a component of other income, net in our Condensed Consolidated Statements of Earnings). During 2006, we received payments of $127,859,000 under the ECU earn-out and recognized gains related to changes in its fair value of $28,722,000 (of which $12,181,000 was reflected as a component of other income, net in our Condensed Consolidated Statements of Earnings for the three months ended March 31, 2006). The carrying amount of the 5CP earn-out was as follows: March 31, 2007 $20,828,000 (of which $9,112,000 was current), December 31, 2006 $29,246,000 (of which $9,030,000 was current) and March 31, 2006 $25,119,000 (of which $11,151,000 was current).

In March of 2007, we received payments of $8,418,000 under the 5CP earn-out related to the year ended December 31, 2006. During 2006, we received net payments of $3,856,000 under the 5CP earn-out related to the period from the closing of the transaction in June 2005 through December 31, 2005. Additionally, the final resolution during 2006 of adjustments for working capital balances at the closing date resulted in an increase to the carrying amount of the 5CP earn-out of $4,127,000. Since changes in the carrying amount of the ECU earn-out are reported in continuing operations, any gain or loss on disposal of the Chemicals business will ultimately be recognized to the extent remaining cash receipts under the 5CP earn-out exceed or fall short of its $20,828,000 carrying amount.

As a result of the sale of our Chemicals business, we incurred approximately $23.7 million of pretax exit and disposal charges and transaction fees, substantially all of which were recognized prior to 2006.

We are potentially liable for a cash transaction bonus payable in the future to certain key former Chemicals employees. This transaction bonus will be payable only if cash receipts realized from the two earn-out agreements described above exceed an established minimum threshold. Based on our evaluation of possible cash receipts from

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the earn-outs, the likely range for the contingent payments to certain key former Chemicals employees is between $0 and approximately $5 million. As of March 31, 2007, the calculated transaction bonus would be $0 and, as such, no liability for these contingent payments has been recorded.

Under the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets (FAS 144), the financial results of the Chemicals business are classified as discontinued operations in the accompanying Condensed Consolidated Statements of Earnings for all periods presented.

There were no net sales or revenues from discontinued operations during the three month periods ended March 31, 2007 or March 31, 2006. Pretax losses from discontinued operations are as follows (in thousands of dollars):

	Three Months Ended March 31	
	2007	**2006**
Pretax loss	$ (777)	$ (3,033)

The pretax losses from discontinued operations of $0.8 million and $3.0 million during the three month periods ended March 31, 2007 and March 31, 2006, respectively, primarily reflect charges related to general and product liability costs and environmental remediation costs associated with our former Chemicals businesses.

4. Earnings Per Share (EPS)

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

	Three Months Ended March 31	
	2007	**2006**
Weighted-average common shares outstanding	95,172	100,552
Dilutive effect of:		
Stock options	2,141	1,374
Other	465	420
Weighted-average common shares outstanding, assuming dilution	97,778	102,346

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. The numbers of antidilutive common stock equivalents are as follows (in thousands of shares):

	Three Months Ended March 31	
	2007	2006
Antidilutive common stock equivalents	408	6

5. 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, we estimate the annual tax rate based on projected taxable income for the full year and record a quarterly income 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

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

See Note 2 (FIN 48 caption) for a discussion of our adoption of FIN 48.

In accordance with FIN 48, 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 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 considered appropriate by management.

The 2007 first quarter effective tax rate from continuing operations of 32.8% was down 0.3% from the 33.1% effective tax rate for the three months ended March 31, 2006. This decrease primarily results from the scheduled increase in the deduction for certain domestic production activities arising under the American Jobs Creation Act of 2004 from 3% in 2006 to 6% in 2007. Generally and subject to certain limitations, this deduction is set to further increase to 9% in 2010 and thereafter.

6. Medium-term Investments

We had no medium-term investments as of March 31, 2007 or December 31, 2006. As of March 31, 2006, our medium-term investments consisted of highly liquid securities with a contractual maturity in excess of three months at the time of purchase. We classify our medium-term investments as either available-for-sale or held-to-maturity. Investments classified as available-for-sale consist of variable rate demand obligations and are reported at fair value, which is equal to cost. Investments classified as held-to-maturity consist of fixed rate debt securities and are reported at cost. The reported values of these investments by major security type are summarized below (in thousands of dollars):

	Mar. 31 2007	Dec. 31 2006	Mar. 31 2006
Bonds, notes and other securities:			
Variable rate demand obligations	$	$	$ 58,965
Other debt securities			10,000
Total medium-term investments	$	$	$ 68,965

While the contractual maturities for the variable rate demand obligations noted above are generally long term (longer than one year), these securities have certain economic characteristics of current (less than one year) investments because of their rate-setting mechanisms. Therefore, all our medium-term investments as of March 31, 2006 were classified as current assets based on our investing practices and intent.

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Proceeds, gross realized gains and gross realized losses from sales and maturities of medium-term investments are summarized below (in thousands of dollars):

	Three Months Ended March 31	
	2007	2006
Proceeds	$	$106,175
Gross realized gains	$	insignificant
Gross realized losses	$	insignificant

There were no transfers from either the available-for-sale or held-to-maturity categories to the trading category during the three months ended March 31, 2007 and 2006. Gross unrealized holding gains related to medium-term investments classified as held-to-maturity were $36,000 as of March 31, 2006.

7. Derivative Instruments

We may periodically use derivative instruments to reduce our exposure to interest rate risk, currency exchange risk or price fluctuations on natural gas or other commodity energy sources subject to our risk management policies.

In connection with the sale of our Chemicals business, we entered into an earn-out agreement that requires the purchaser, Basic Chemicals, to make future payments capped at $150,000,000 based on ECU (electrochemical unit) and natural gas prices during the five-year period beginning July 1, 2005. We have not designated the ECU earn-out as a hedging instrument and, accordingly, gains and losses resulting from changes in the fair value, if any, are recognized in current earnings. Furthermore, pursuant to SAB Topic 5:Z:5, changes in fair value are recognized in continuing operations. During the three month periods ended March 31, 2007 and 2006, we recorded gains of $700,000 and $12,181,000, respectively. These gains are reflected in other income, net of other charges, in our accompanying Condensed Consolidated Statements of Earnings.

There was no impact to earnings due to hedge ineffectiveness during the three months ended March 31, 2007 and 2006.

8. Comprehensive Income

Comprehensive income includes charges and credits to equity from nonowner sources and comprises two subsets: net earnings and other comprehensive income. Total comprehensive income comprises the following (in thousands of dollars):

Three Months Ended March 31	
2007	2006
	(As Adjusted

		See Note 2)
Net earnings	$ 88,874	$ 70,085
Other comprehensive income:		
Fair value adjustments to cash flow hedges	34	
Amortization of prior service cost included in net periodic benefit costs for pension and postretirement plans	529	
Total comprehensive income	$ 89,437	$ 70,085

9. Shareholders Equity

On February 10, 2006, the Board of Directors increased to 10,000,000 shares the existing authorization to purchase common stock. As of March 31, 2007, 3,411,416 shares remained under the purchase authorization.

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The number and cost of shares purchased during the periods presented and shares held in treasury at period end are shown below:

	Three Months Ended March 31	
	2007	2006
Shares purchased:		
Number	44,123	272,122
Total cost (thousands)	$ 4,800	$ 19,337
Average cost	$ 108.78	$ 71.06

	Mar. 31 2007	Dec. 31 2006	Mar. 31 2006
Shares in treasury at period end:			
Number	44,414,307	45,098,644	39,096,748
Average cost	$ 29.16	$ 28.78	$ 20.45

All shares purchased in the three months ended March 31, 2007, were purchased directly from employees to satisfy income tax withholding requirements on shares issued pursuant to incentive compensation plans. Of the 272,122 shares purchased in the three months ended March 31, 2006, 221,400 shares were purchased in the open market and 50,722 shares were purchased directly from employees to satisfy income tax withholding requirements on shares issued pursuant to incentive compensation plans.

10. Benefit Plans

The following tables set forth the components of net periodic benefit cost (in thousands of dollars):

	Three Months Ended March 31	
	2007	2006
PENSION BENEFITS		
Components of Net Periodic Benefit Cost:		
Service cost	$ 5,172	$ 4,581
Interest cost	8,646	8,031
Expected return on plan assets	(11,607)	(10,993)
Amortization of prior service cost	189	267
Recognized actuarial loss	456	434

Net periodic benefit cost	$ 2,856	$ 2,320

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended March 31	
	2007	2006
OTHER POSTRETIREMENT BENEFITS		
Components of Net Periodic Benefit Cost:		
Service cost	$ 1,134	$ 904
Interest cost	1,398	1,190
Amortization of prior service cost	(42)	(42)
Recognized actuarial loss	253	119
Net periodic benefit cost	$ 2,743	$ 2,171

The net periodic benefit costs for pension plans and postretirement plans during the three months ended March 31, 2007 include pretax reclassifications from other comprehensive income totaling $645,000 and $211,000, respectively, which are related to amortization of prior service costs and actuarial losses. During the three months ended March 31, 2007 and 2006, contributions of $292,000 and $318,000, respectively, were made to our pension plans.

11. Credit Facilities, Short-term Borrowings and Long-term Debt

Short-term borrowings are summarized as follows (in thousands of dollars):

	Mar. 31 2007	Dec. 31 2006	Mar. 31 2006
Bank borrowings	$ 14,500	$ 2,500	$
Commercial paper	225,900	196,400	
Total short-term borrowings	$ 240,400	$ 198,900	$

Short-term borrowings outstanding as of March 31, 2007 consisted of $14,500,000 of bank borrowings at 5.545% maturing within April 2007 and $225,900,000 of commercial paper having maturities ranging from 2 to 5 days and interest rates ranging from 5.35% to 5.50%. We plan to reissue most, if not all, of these notes when they mature. These short-term borrowings are used for general corporate purposes, including working capital requirements.

Our policy is to maintain committed credit facilities at least equal to our outstanding commercial paper. Unsecured bank lines of credit totaling $770,000,000 were maintained at March 31, 2007, of which $200,000,000 expires September 14, 2007, $20,000,000 expires January 30, 2008 and $550,000,000 expires June 27, 2011. As of March 31, 2007, $14,500,000 of the lines of credit were drawn. Interest rates are determined at the time of borrowing based on current market conditions.

All our debt obligations, both short-term borrowings and long-term debt, are unsecured as of March 31, 2007.

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-term debt is summarized as follows (in thousands of dollars):

	Mar. 31 2007	Dec. 31 2006	Mar. 31 2006
6.00% 10-year notes issued 1999	$ 250,000	$ 250,000	$ 250,000
Private placement notes	49,212	49,335	81,991
Medium-term notes	21,000	21,000	21,000
Other notes	2,018	2,359	2,415
Total debt excluding short-term borrowings	$ 322,230	$ 322,694	$ 355,406
Less current maturities of long-term debt	727	630	32,547
Total long-term debt	$ 321,503	$ 322,064	$ 322,859
Estimated fair value of total long-term debt	$ 332,050	$ 332,611	$ 333,820

Our debt agreements do not subject us to contractual restrictions with regard to working capital or the amount we may expend for cash dividends and purchases of our stock. The percentage of consolidated debt to total capitalization, as defined in our bank credit facility agreements, must be less than 60%. Our total debt as a percentage of total capital was 21.2% as of March 31, 2007; 20.6% as of December 31, 2006 (as adjusted see Note 2); and 14.0% as of March 31, 2006 (as adjusted see Note 2).

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

12. Asset Retirement Obligations

SFAS No. 143, Accounting for Asset Retirement Obligations (FAS 143) applies to legal obligations associated with the retirement of long-lived assets resulting from the acquisition, construction, development and/or normal use of the underlying assets.

FAS 143 requires recognition of a liability for an asset retirement obligation in the period in which it is incurred at its estimated fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the estimated useful life of the asset. The liability is accreted through charges to operating expenses. If the asset retirement obligation is settled for other than the carrying amount of the liability, we recognize a gain or loss on settlement.

We record all asset retirement obligations for which we have legal obligations for land reclamation at estimated fair value. Essentially all these asset retirement obligations relate to our underlying land parcels, including both owned properties and mineral leases. FAS 143 results in ongoing recognition of costs related to the depreciation of the assets and accretion of the liability. For the three month periods ended March 31, we recognized operating costs related to FAS 143 as follows: 2007 $4,545,000; and 2006 $3,469,000. FAS 143 operating costs for our continuing operations are reported in cost of goods sold. FAS 143 asset retirement obligations are reported within other noncurrent liabilities in our accompanying Condensed Consolidated Balance Sheets.

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of the carrying amount of our asset retirement obligations is as follows (in thousands of dollars):

	Three Months Ended March 31	
	2007	**2006**
Balance at beginning of period	$ 114,829	$ 105,774
Liabilities incurred	174	347
Liabilities (settled)	(3,085)	(2,925)
Accretion expense	1,439	1,272
Revisions up	1,512	5,366
Balance at end of period	$ 114,869	$ 109,834

13. Standby Letters of Credit

We provide certain third parties with irrevocable standby letters of credit in the normal course of business. We use our commercial banks to issue standby letters of credit to secure our obligations to pay or perform when required to do so pursuant to the requirements of an underlying agreement or the provision of goods and services. The standby letters of credit listed below are cancelable only at the option of the beneficiary who is authorized to draw drafts on the issuing bank up to the face amount of the standby letter of credit in accordance with its terms. Since banks consider letters of credit as contingent extensions of credit, we are required to pay a fee until they expire or are cancelled. Substantially all of our standby letters of credit are renewable annually.

Our standby letters of credit as of March 31, 2007 are summarized in the table below (in thousands of dollars):

	Amount	**Term**	**Maturity**
Risk management requirement for insurance claims	$ 16,194	One year	Renewable annually
Payment surety required by utilities	100	One year	Renewable annually
Contractual reclamation/restoration requirements	35,752	One year	Renewable annually
Total standby letters of credit	$ 52,046		

14. Acquisitions

During the three months ended March 31, 2007, we acquired the assets of the following facilities for cash payments of approximately $58,857,000 including acquisition costs and net of acquired cash:

an aggregates production facility in Illinois

- an aggregates production facility in North Carolina

We have recorded the acquisitions above based on preliminary purchase price allocations which are subject to change.

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Goodwill

Changes in the carrying amount of goodwill for the periods presented below are summarized as follows (in thousands of dollars):

Goodwill as of March 31, 2006	$ 628,683
Goodwill of acquired businesses	(2,800)
Purchase price allocation adjustments	(5,694)
Goodwill as of December 31, 2006	$ 620,189
Goodwill of acquired businesses*	30,017
Purchase price allocation adjustments	
Goodwill as of March 31, 2007	$ 650,206

* The goodwill of acquired businesses for 2007 relates to the acquisitions listed in Note 14 above. We are currently evaluating the final purchase price allocations; therefore, the goodwill amount is subject to change. When finalized, the goodwill from these 2007 acquisitions is expected to be fully deductible for income tax purposes.

16. New Accounting Standards

See Note 2 for a discussion of the accounting standards adopted in 2007.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (FAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value; accordingly, it does not expand the use of fair value in any new circumstances. Fair value under FAS 157 is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data; for example, a reporting entity s own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. FAS 157 is effective for fiscal years beginning after November 15, 2007; we expect to adopt FAS 157 as of January 1, 2008.

In September 2006, the FASB issued FAS 158. In addition to the recognition provisions (which we adopted December 31, 2006), FAS 158 requires an employer to measure the plan assets and benefit obligations as of the date

of its year-end balance sheet. This requirement is effective for fiscal years ending after December 15, 2008. We are currently evaluating the timing of our adoption of the measurement date provisions of FAS 158 and the estimated impact such adoption will have on our financial statements.

17. Enterprise Data Continuing Operations

Our Construction Materials business is organized in seven regional divisions that produce and sell aggregates and related products and services. All these divisions exhibit similar economic characteristics, product processes, products and services, types and classes of customers, methods of distribution and regulatory environments. Accordingly, they have been aggregated into one reporting segment for financial statement purposes. Customers use aggregates primarily in the construction and maintenance of highways, streets and other public works and in the construction of housing and commercial, industrial and other private nonresidential facilities.

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The majority of our activities are domestic. We sell a relatively small amount of construction aggregates outside the United States. Due to the sale of our Chemicals business as described in Note 3, we have one reportable segment, Construction Materials, which constitutes continuing operations.

Net sales by product are summarized below (in millions of dollars):

	Three Months Ended March 31	
	2007	**2006**
NET SALES BY PRODUCT		
Aggregates	$ 455.8	$ 459.9
Asphalt mix	96.8	85.6
Concrete	48.0	64.6
Other	29.6	32.2
Total	$ 630.2	$ 642.3

18. Supplemental Cash Flow Information

Supplemental information referable to our Condensed Consolidated Statements of Cash Flows for the three months ended March 31 is summarized below (in thousands of dollars):

	2007	**2006**
Cash payments:		
Interest (exclusive of amount capitalized)	$ 1,632	$ 6,999
Income taxes	3,145	9,154
Noncash investing and financing activities:		
Accrued liabilities for purchases of property, plant and equipment	29,500	9,934
Debt issued for purchases of property, plant and equipment	5	
Proceeds receivable from exercise of stock options	48	

19. Other Commitments and Contingencies

We are a defendant in various lawsuits and legal proceedings which were specifically described in our most recent Annual Report on Form 10-K. Legal proceedings for which events have occurred subsequent to the filing of our most recent Annual Report on Form 10-K, which we believe are material to the development of such proceedings, are described below.

In September 2001, we were named a defendant in a suit brought by the Illinois Department of Transportation (IDOT), in the Circuit Court of Cook County, Chancery Division, Illinois, alleging damage to a 0.9-mile section of Joliet Road that bisects our McCook Quarry in McCook, Illinois, a Chicago suburb. IDOT seeks damages to repair, restore, and maintain the road or, in the alternative, judgment for the cost to improve and maintain other roadways to accommodate vehicles that previously used the road. The complaint also requests that the court enjoin any McCook Quarry operations that will further damage the road. The court in this case recently granted summary judgment in our favor on certain claims. If this ruling stands, we believe this could preclude certain damage claims by the plaintiffs. However, the court also granted the plaintiffs motion to amend their complaint to add a punitive damages claim, although the court made it clear that it was not ruling on the merits of this claim. Discovery is ongoing.

We produced and marketed industrial sand from 1988 to 1994. Since July 1993, we have been sued in numerous suits in a number of states by plaintiffs alleging that they contracted silicosis or incurred personal injuries

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as a result of exposure to, or use of, industrial sand used for abrasive blasting. As of April 19, 2007, the number of suits totaled 100, involving an aggregate of 566 plaintiffs. Of the pending suits, 51 with 494 plaintiffs are filed in Texas. The balance of the suits have been brought by plaintiffs in state courts in Alabama, California, Florida, Louisiana and Mississippi. We are seeking dismissal of all suits on the grounds that plaintiffs were not exposed to our product. To date, we have been successful in getting dismissals without settlement payments from 548 cases involving 17,190 plaintiffs.

It is not possible to predict with certainty the ultimate outcome of these and other legal proceedings in which we are involved. As of March 31, 2007, we had recorded liabilities of $9,702,000 related to claims and litigation for which a loss was determined to be probable and reasonably estimable. For claims and litigation for which a loss was determined to be only reasonably possible, no liability was recorded. Furthermore, the potential range of such losses would not be material to our condensed consolidated financial statements. In addition, losses on certain claims and litigation may be subject to limitations on a per occurrence basis by excess insurance, as described in our most recent Annual Report on Form 10-K.

20. Major Pending Acquisition

As noted in our most recent Annual Report on Form 10-K, on February 19, 2007 we signed a definitive agreement to acquire 100% of the stock of Florida Rock Industries, Inc. (Florida Rock), a leading producer of construction aggregates, cement, concrete and concrete products in the Southeast and Mid-Atlantic states, in exchange for cash and stock valued at approximately $4.6 billion based on the February 16, 2007 closing price of Vulcan common stock. Under the terms of the agreement, Vulcan shareholders will receive one share of common stock in a new holding company (whose subsidiaries will be Vulcan Materials and Florida Rock) for each Vulcan share. Florida Rock shareholders can elect to receive either 0.63 shares of the new holding company or $67.00 in cash for each Florida Rock share, subject to proration to ensure that in the aggregate 70% of Florida Rock shares will be converted into cash and 30% of Florida Rock shares will be converted into stock. We intend to finance the transaction with approximately $3.2 billion in debt and approximately $1.4 billion in stock based on the February 16, 2007 closing price of Vulcan common stock. We have received a firm commitment from Goldman, Sachs & Co. to provide bridge financing for the transaction. The transaction is intended to be non-taxable for Vulcan shareholders and nontaxable for Florida Rock shareholders to the extent they receive stock. The acquisition has been unanimously approved by the Boards of Directors of each company and is subject to approval by a majority of Florida Rock shareholders, regulatory approvals and customary closing conditions. The transaction is expected to close in the third calendar quarter of 2007.

Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

GENERAL COMMENTS

Overview

Vulcan provides essential infrastructure materials required by the U.S. economy. We are the nation s largest producer of construction aggregates primarily crushed stone, sand and gravel and a major producer of asphalt and concrete. We operate primarily in the United States and our principal product aggregates is consumed in virtually all types of publicly and privately funded construction. While aggregates are our primary business, we believe vertical integration between aggregates and downstream products, such as asphalt mix and concrete, can be managed effectively in certain markets to generate acceptable financial returns. As such, we evaluate the structural characteristics of individual markets to determine the appropriateness of an aggregates only or vertical integration strategy. Demand for our products is dependent on construction activity. The primary end uses include public construction, such as highways, bridges, airports, schools and prisons, as well as private nonresidential (e.g., manufacturing, retail, offices, industrial and institutional) and private residential construction (e.g., single-family and multifamily). Customers for our products include heavy construction and paving contractors; commercial building contractors; concrete products manufacturers; residential building contractors; state, county and municipal governments; railroads; and electric utilities. Customers are served by truck, rail and water networks from our production facilities and sales yards.

Seasonality of our Business

Virtually all our products are produced and consumed outdoors. Our financial results for any individual quarter are not necessarily indicative of results to be expected for the year, due primarily to the effect that seasonal changes and other weather-related conditions can have on the production and sales volumes of our products. Normally, the highest sales and earnings are attained in the third quarter and the lowest are realized in the first quarter. Our sales and earnings are sensitive to national, regional and local economic conditions and particularly to cyclical swings in construction spending. These cyclical swings are further affected by fluctuations in interest rates, and demographic and population fluctuations.

Forward-looking Statements

Certain matters discussed in this report, including expectations regarding future performance, contain forward-looking statements that are subject to assumptions, risks and uncertainties that could cause actual results to differ materially from those projected. These assumptions, risks and uncertainties include, but are not limited to, those associated with general economic and business conditions; changes in interest rates; the timing and amount of federal, state and local funding for infrastructure; changes in the level of spending for residential and private nonresidential construction; the highly competitive nature of the construction materials industry; pricing; weather and other natural phenomena; energy costs; costs of hydrocarbon-based raw materials; increasing healthcare costs; the timing and amount of any future payments to be received under two earn-outs contained in the agreement for the divestiture of our Chemicals business; our ability to manage and successfully integrate acquisitions; and other assumptions, risks and uncertainties detailed from time to time in our periodic reports. Forward-looking statements speak only as of the date of this Report. We undertake no obligation to publicly update any forward-looking statements, as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our future filings with the Securities and Exchange Commission or in any of our press releases.

RESULTS OF OPERATIONS

In the discussion that follows, discontinued operations are discussed separately. Continuing operations consist solely of Construction Materials. The comparative analysis is based on net sales and cost of goods sold, which exclude delivery revenues and costs, and is consistent with the basis on which management reviews results of operations.

First Quarter 2007 as Compared with First Quarter 2006

We achieved record first quarter net earnings of $88.9 million, or $0.91 per diluted shared, a 34% increase from the prior year s first quarter net earnings of $0.68 per diluted share. First quarter net sales were $630.2 million compared with $642.3 million in the prior year.

Net earnings in the first quarter of 2007 include a gain on sale of real estate in California of $0.27 per diluted share. Net earnings in the prior year s first quarter include a gain of $0.07 per diluted share related to an increase in the carrying value of the ECU earn-out received in connection with the 2005 sale of our Chemicals business and a $0.02 per diluted share loss from discontinued operations.

During the first quarter of 2007, we acquired aggregates operations in Illinois and North Carolina. Additionally, in March, we received $8.4 million in cash from the 5CP earn-out agreement received in connection with the 2005 sale of our Chemicals business compared with $3.9 million received in March of 2006. The cash receipts had no earnings effect in either quarter. This earn-out is to be paid annually in the first quarter, subject to certain conditions, through 2013.

Continuing Operations:

First quarter net sales decreased 2% from the prior year resulting from lower volumes partially offset by higher prices. Concrete sales decreased $16.6 million from the prior year s first quarter and were a primary driver of the 2% decrease in overall net sales in the first quarter. First quarter 2007 aggregates shipments declined due to less favorable weather than the first quarter of 2006 and weakness in residential construction. During last year s first quarter, aggregates shipments surged 13% due to the combination of favorable weather and strong demand resulting in significantly higher than normal first quarter shipments. The average unit price for aggregates in the first quarter increased 16% from the prior year s level, while aggregates shipments decreased 14%. Our key products realized double-digit price increases.

Gross profit as a percentage of net sales, which excludes gains on sale of real estate, was 26.5%, up 1.0 percentage point from the prior year s level of 25.5%. The aforementioned double-digit price increases for our key products more than offset the earnings effect of lower sales volumes. Earnings in the asphalt product line increased significantly as higher prices more than offset higher costs for key raw materials and lower sales volumes. First quarter concrete earnings were lower than the prior year s level as higher prices were more than offset by lower sales volumes and higher costs for raw materials. Unit costs for diesel fuel in the first quarter approximated the prior year s first quarter.

Selling, administrative and general expenses of $74.4 million increased $9.4 million, or 14%, from the prior year due mostly to higher employee-related costs and expenses associated with the pending acquisition of Florida Rock Industries Inc. (Florida Rock), improving business processes and the replacement of legacy information systems.

Gain on sale of property, plant and equipment increased $45.6 million from the prior year s first quarter due primarily to the aforementioned sale of real estate in California during January 2007. The resulting pretax gain, net of transaction costs, for this real estate was $43.8 million.

Operating earnings were $137.1 million compared with $99.0 million in the prior year, an increase of 38.5%.

Other income, net decreased $10.9 million from the prior year s first quarter. Other income, net in the current year s first quarter includes a $0.7 million gain from adjustment in the carrying value of the ECU earn-out, compared with a $12.2 million gain in the prior year s first quarter.

Our effective tax rate from continuing operations was 32.8% for the first quarter of 2007 compared with 33.1% in the prior year s same period. This decrease primarily results from the scheduled increase in the deduction for certain domestic production activities arising under the American Jobs Creation Act of 2004 from 3% in 2006 to 6% in 2007. Generally and subject to certain limitations, this deduction is set to further increase to 9% in 2010 and thereafter.

As a result of the items above, earnings from continuing operations for the first quarter of 2007 of $89.3 million reflect an increase of $17.4 million or 24% from the first quarter of 2006.

Discontinued Operations:

We reported a pretax loss from discontinued operations of $0.8 million during the first quarter of 2007 and $3.0 million during the first quarter of 2006. These losses primarily reflect charges related to general and product liability costs and environmental remediation costs associated with our former Chemicals businesses.

LIQUIDITY AND CAPITAL RESOURCES

We believe we have sufficient financial resources, including cash provided by operating activities, unused bank lines of credit and ready access to the capital markets, to fund business requirements in the future including debt service obligations, cash contractual obligations, capital expenditures, dividend payments, share purchases and potential future acquisitions.

Cash Flows

Net cash provided by operating activities increased $26.1 million to $98.1 million during the three months ended March 31, 2007 as compared with $72.0 million during the same period in 2006. When compared with the prior year, net earnings adjusted for non-cash expenses related to depreciation, depletion, accretion and amortization increased $25.9 million. A comparative increase in liabilities before initial effects of business acquisitions and dispositions, primarily found in trade payables, accrued interest and accrued taxes, provided an increase in operating cash flow of $34.9 million. Additionally, net gain on sale of property, plant and equipment increased $45.6 million resulting primarily from the $43.7 million pretax gain on the sale of real estate in California. The cash provided by these gains are a component of proceeds from the sale of property, plant and equipment, which is appropriately presented in the investing section and therefore not reflected in cash flows from operating activities.

Net cash used for investing activities was $120.5 million during the three months ended March 31, 2007 as compared with $0.6 million during the same period in 2006. The $119.9 million change in investing cash flows is principally due to a decrease in proceeds from sales and maturities of medium-term investments of $106.2 million, an increase in payments for business acquisitions of $45.2 million and an increase in purchases of property, plant and equipment of $26.8 million, partially offset by higher proceeds from the sale of property, plant and equipment of $48.3 million primarily related to the sale of real estate in California.

Financing activities provided cash flows of $37.1 million during the three months ended March 31, 2007 as compared with $266.2 million used during the same period in 2006. This $303.3 million change is primarily related to a $240.0 million decrease in cash payments to retire debt obligations, a $41.5 million increase in short-term borrowings and a $14.5 million decrease in cash used to purchase common stock. These increases in cash provided by financing activities were partially offset by an increase in dividends paid of $6.6 million.

Working Capital

Working capital, the excess of current assets over current liabilities, totaled $239.4 million at March 31, 2007, a decrease of $4.3 million from December 31, 2006 and a decrease of $357.6 million from March 31, 2006. The decrease in working capital over the twelve month period ended March 31, 2007 resulted primarily from a decrease in accounts and notes receivable of $110.0 million, a decrease in medium-term investments of $69.0 million and an increase in short-term borrowings of $240.4 million. The twelve-month decrease in accounts and notes receivable was

primarily related to the two contingent earn-out agreements obtained in connection with the sale of our Chemicals business. The combined current balances of these earn-out agreements decreased $95.6 million during the twelve-month period ended March 31, 2007 resulting from cash receipts of $136.2 million offset in part by increased ECU earn-out valuations of $17.2 million (gain on the ECU earn-out) and reclassifications from noncurrent to current of $23.4 million.

Short-term Borrowings and Investments

Net short-term borrowings and investments consisted of the following (in thousands of dollars):

	Mar. 31 2007	Dec. 31 2006	Mar. 31 2006
Short-term investments:			
Cash equivalents	$ 69,960	$ 50,374	$ 80,343
Medium-term investments			68,965
Total short-term investments	$ 69,960	$ 50,374	$ 149,308
Short-term borrowings:			
Bank borrowings	$ 14,500	$ 2,500	$
Commercial paper	225,900	196,400	
Total short-term borrowings	$ 240,400	$ 198,900	$
Net short-term (borrowings)/investments	$ (170,440)	$ (148,526)	$ 149,308

Short-term borrowings outstanding as of March 31, 2007 of $240.4 million consisted of $14.5 million of bank borrowings at 5.545% maturing within April 2007 and $225.9 million of commercial paper having maturities ranging from 2 to 5 days and interest rates ranging from 5.35% to 5.50%. We plan to reissue most, if not all, of these notes when they mature. Periodically, we issue commercial paper for general corporate purposes, including working capital requirements. We plan to continue this practice from time to time as circumstances warrant.

Our policy is to maintain committed credit facilities at least equal to our outstanding commercial paper. Unsecured bank lines of credit totaling $770.0 million were maintained at March 31, 2007, of which $200.0 million expires September 14, 2007, $20.0 million expires January 30, 2008 and $550.0 million expires June 27, 2011. As of March 31, 2007, $14.5 million of the lines of credit were drawn. Closely following the February 19, 2007 announcement of our intention to acquire Florida Rock and the resulting financing requirements, Standard & Poor s (S&P) lowered its credit ratings on our long-term debt and commercial paper and placed the ratings on credit watch with negative implications. On the same day, Moody s Investors Service, Inc. (Moody s) placed its ratings of our long-term debt and commercial paper under review for possible downgrade. As of March 31, 2007, our commercial paper was rated A-2 and P-1 by S&P and Moody s, respectively.

Current Maturities

Current maturities of long-term debt are summarized below (in thousands of dollars):

	Mar. 31 2007	Dec. 31 2006	Mar. 31 2006
Private placement notes	$	$	$ 32,000

Other notes	727	630	547
Total	$ 727	$ 630	$ 32,547

Maturity dates for our current maturities as of March 31, 2007 are as follows: September 2007 $0.2 million; March 2008 $0.3 million; and various dates for the remaining $0.2 million. We expect to retire this debt using available cash or by issuing commercial paper.

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Debt and Capital

The calculations of our total debt as a percentage of total capital are summarized below (amounts in thousands, except percentages):

	Mar. 31 2007	Dec. 31 2006	Mar. 31 2006
Debt:			
Current maturities of long-term debt	$ 727	$ 630	$ 32,547
Short-term borrowings	240,400	198,900	
Long-term debt	321,503	322,064	322,859
Total debt	$ 562,630	$ 521,594	$ 355,406
Capital:			
Total debt	$ 562,630	$ 521,594	$ 355,406
Shareholders equity*	2,094,556	2,010,899	2,190,282
Total capital	$ 2,657,186	$ 2,532,493	$ 2,545,688
Ratio of total debt to total capital	21.2%	20.6%	14.0%

* As adjusted for December 31, 2006 and March 31, 2006. See Note 2 to the condensed consolidated financial statements.

In the future, our total debt as a percentage of total capital will depend upon specific investment and financing decisions. We believe our cash-generating capability, combined with our financial strength and geographic diversification, can comfortably support a target range of 35% to 40%. Following the close of the transaction to acquire Florida Rock, we anticipate our total debt as a percentage of total capital to increase to approximately 51%. We intend to maintain an investment grade rating and expect our operating cash flows will enable us to reduce our total debt as a percentage of total capital to a range of 35% to 40% within three years of close, in line with our historic capital structure targets. We have made acquisitions from time to time and will continue to pursue attractive investment opportunities. Such acquisitions could be funded by using internally generated cash flow or issuing debt or equity securities.

As previously noted, closely following the announcement of our intention to acquire Florida Rock and the resulting financing requirements, S&P lowered its credit ratings on our long-term debt and commercial paper and placed the ratings on credit watch with negative implications. On the same day, Moody s placed its ratings of our long-term debt and commercial paper under review for possible downgrade. As of March 31, 2007, S&P and Moody s rated our public long-term debt at the A- and A1 levels, respectively.

Cash Contractual Obligations

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

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48) as described in Note 2 to the condensed consolidated financial statements. As of January 1, 2007 and March 31, 2007, our total liabilities for unrecognized tax benefits amounted to $11,760,000 and $12,310,000, respectively. We do not believe that our adoption of FIN 48 has a material effect on the schedule of cash contractual obligations included in our most recent Annual Report on Form 10-K because we cannot make a reasonably reliable estimate of the amount and period of related future payments of our FIN 48 liabilities.

Standby Letters of Credit

We provide certain third parties with irrevocable standby letters of credit in the normal course of business. We use our commercial banks to issue standby letters of credit to secure our obligations to pay or perform when required

to do so pursuant to the requirements of an underlying agreement or the provision of goods and services. The standby letters of credit listed below are cancelable only at the option of the beneficiary who is authorized to draw drafts on the issuing bank up to the face amount of the standby letter of credit in accordance with its terms. Since banks consider letters of credit as contingent extensions of credit, we are required to pay a fee until they expire or are cancelled. Substantially all of our standby letters of credit are renewable annually.

Our standby letters of credit as of March 31, 2007 are summarized in the table below (in thousands of dollars):

	Amount	Term	Maturity
Risk management requirement for insurance claims	$ 16,194	One year	Renewable annually
Payment surety required by utilities	100	One year	Renewable annually
Contractual reclamation/restoration requirements	35,752	One year	Renewable annually
Total standby letters of credit	$ 52,046		

Risks and Uncertainties

Our most recent Annual Report on Form 10-K discusses the risks and uncertainties of our business. We continue to evaluate our exposure to all operating risks on an ongoing basis.

CRITICAL ACCOUNTING POLICIES

We follow certain significant accounting policies when preparing our consolidated financial statements. A summary of these policies is included in our latest Annual Report on Form 10-K. The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses, and the related disclosures of contingent assets and liabilities at the date of the financial statements. We evaluate these estimates and judgments on an ongoing basis and base our estimates on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Our actual results may differ from these estimates.

We believe that the estimates, assumptions and judgments involved in the accounting policies described in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of our most recent Annual Report on Form 10-K have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies.

Additionally, due to the adoption of FIN 48 (as described in Note 2 to the condensed consolidated financial statements), we have revised our policy on income taxes with respect to accounting for uncertain tax positions. We consider our policy on income taxes to be a critical accounting policy due to the significant level of estimates, assumptions and judgments and its potential impact on our consolidated financial statements. We have included below a description of our accounting policy for income taxes, which reflects changes to our accounting policy for uncertain tax positions.

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, we estimate the annual tax rate based on projected taxable income for the full year and record a quarterly income 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.

In accordance with SFAS No. 109, Accounting for Income Taxes, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets represent items to be used as a tax deduction or credit in future tax returns for which we have already properly recorded the tax benefit in the income statement. At least quarterly, we assess the likelihood that the deferred tax asset balance will be recovered from future taxable income. We take into account such factors as prior earnings history, expected future earnings, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of a realization of a deferred tax asset. To the extent recovery is unlikely, a valuation allowance is established against the deferred tax asset, increasing our income tax expense in the year such determination is made.

APB Opinion No. 23, Accounting for Income Taxes, Special Areas, does not require U.S. income taxes to be provided on foreign earnings when such earnings are indefinitely reinvested offshore. We periodically evaluate our investment strategies with respect to each foreign tax jurisdiction in which we operate to determine whether foreign earnings will be indefinitely reinvested offshore and, accordingly, whether U.S. income taxes should be provided when such earnings are recorded.

We adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48) effective January 1, 2007. In accordance with FIN 48, 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 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 considered appropriate by management.

A number of years may elapse before a particular matter for which we have recorded a liability related to an unrecognized tax benefit is audited and finally resolved. The number of years with open tax audits varies by jurisdiction. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe our liability for unrecognized tax benefits is adequate. Favorable resolution of an unrecognized tax benefit could be recognized as a reduction in our effective tax rate in the period of resolution. Unfavorable settlement of an unrecognized tax benefit could increase the effective tax rate and may require the use of cash in the period of resolution. Our liability for unrecognized tax benefits is generally presented as noncurrent. However, if we anticipate paying cash within one year to settle an uncertain tax position, the liability is presented as current.

We classify interest and penalties recognized on the liability for unrecognized tax benefits as income tax expense.

Our largest permanent item in computing both our effective tax rate and taxable income is the deduction allowed for percentage depletion. The deduction for percentage depletion does not necessarily change proportionately to changes in pretax earnings. Due to the magnitude of the impact of percentage depletion on our effective tax rate and taxable income, a significant portion of the financial reporting risk is related to this estimate.

The American Jobs Creation Act of 2004 created a new deduction for certain domestic production activities as described in Section 199 of the Internal Revenue Code. Generally and subject to certain limitations, the deduction was set at 3% for 2005 and 2006, increased to 6% in 2007 through 2009 and reaches 9% in 2010 and thereafter.

INVESTOR ACCESS TO COMPANY FILINGS

We make available free of charge on our website, vulcanmaterials.com, copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as well as all Forms 4 and 5 filed by our executive officers and directors, as soon as the filings are made publicly available by the Securities and Exchange Commission on its EDGAR database, at sec.gov. In addition to accessing copies of our reports online,

you may request a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, at no charge, by writing to:

William F. Denson, III
Secretary
Vulcan Materials Company
1200 Urban Center Drive
Birmingham, Alabama 35242

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to certain market risks arising from transactions that are entered into in the normal course of business. In order to manage or reduce this market risk, we may utilize derivative financial instruments.

We are exposed to risk related to the ultimate proceeds to be received from the sale of our Chemicals business. As described in Note 3 to the condensed consolidated financial statements, in addition to the initial proceeds, we are entitled to receive annual cash receipts under two separate earn-outs, subject to certain conditions. The first earn-out is based on ECU (electrochemical unit) and natural gas prices during the five-year period beginning July 1, 2005. Payments to us pursuant to this ECU earn-out are capped at $150.0 million and it is accounted for as a derivative instrument. Accordingly, it is reported at fair value and changes, if any, to the fair value of the ECU derivative are recorded in current earnings from continuing operations. Future estimates of this derivative s fair value could vary from period to period. The determination of the fair value of the ECU derivative is discussed in greater detail in our most recent Annual Report on Form 10-K. Proceeds under the second earn-out are determined based on the performance of the hydrochlorocarbon product HCC-240fa (commonly referred to as 5CP) from the June 7, 2005 sale through 2012. Although we expect the total proceeds received in connection with the sale of our Chemicals business, including contingent proceeds under the two earn-outs, to exceed the carrying amount of the net assets sold, no gain on the sale was recognized since SFAS No. 5, Accounting for Contingencies, precludes the recognition of a contingent gain until realization is assured beyond a reasonable doubt. Accordingly, the value recorded at the June 7, 2005 closing date referable to these two earn-outs was limited to $128.2 million. The combined carrying amount of these earn-outs (reflected in accounts and notes receivable and noncurrent other assets in the accompanying Condensed Consolidated Balance Sheets) were as follows: March 31, 2007 $41.7 million, December 31, 2006 $49.5 million and March 31, 2006 $156.7 million. The $7.8 million decrease in the combined carrying amount from December 31, 2006 is due primarily to cash receipts in 2007 totaling $8.4 million under the 5CP earn-out, partially offset by a gain of $0.7 million on the ECU earn-out (reflected as a component of other income, net in our Condensed Consolidated Statements of Earnings for the three months ended March 31, 2007).

We are exposed to interest rate risk due to our various long-term debt instruments. Substantially all of this debt is at fixed rates; therefore, a decline in interest rates would result in an increase in the fair market value of the liability. At times, we use interest rate swap agreements to manage this risk. We had no interest rate swap agreements outstanding as of March 31, 2007, December 31, 2006 and March 31, 2006.

We do not enter into derivative financial instruments for speculative or trading purposes.

At March 31, 2007, the estimated fair market value of our long-term debt instruments including current maturities was $332.8 million as compared with a book value of $322.2 million. The effect of a hypothetical decline in interest rates of 1% would increase the fair market value of our liability by approximately $7.6 million.

We are exposed to certain economic risks related to the costs of our pension and other postretirement benefit plans. These economic risks include changes in the discount rate for high-quality bonds, the expected return on plan assets,

the rate of compensation increase for salaried employees and the rate of increase in the per capita cost of covered healthcare benefits. The impact of a change in these assumptions on our annual pension and other postretirement benefits costs is discussed in our most recent Annual Report on Form 10-K.

Item 4. ***Controls and Procedures***

We maintain a system of controls and procedures designed to ensure that information required to be disclosed in reports we file with the Securities and Exchange Commission (SEC) is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer, with the participation of other management officials, evaluated the effectiveness of the design and operation of the disclosure controls and procedures as of March 31, 2007. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. No changes were made to our internal controls over financial reporting or other factors that could affect these controls during the first quarter of 2007, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

Certain legal proceedings in which we are involved are discussed in Note 12 to the consolidated financial statements and Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2006. The following discussion is limited to certain recent developments concerning our legal proceedings and should be read in conjunction with these earlier disclosures. Unless otherwise indicated, all proceedings discussed in those earlier disclosures remain outstanding.

In September 2001, we were named a defendant in a suit brought by the Illinois Department of Transportation (IDOT), in the Circuit Court of Cook County, Chancery Division, Illinois, alleging damage to a 0.9-mile section of Joliet Road that bisects our McCook Quarry in McCook, Illinois, a Chicago suburb. IDOT seeks damages to repair, restore, and maintain the road or, in the alternative, judgment for the cost to improve and maintain other roadways to accommodate vehicles that previously used the road. The complaint also requests that the court enjoin any McCook Quarry operations that will further damage the road. The court in this case recently granted summary judgment in our favor on certain claims. If this ruling stands, we believe this could preclude certain damage claims by the plaintiffs. However, the court also granted the plaintiffs motion to amend their complaint to add a punitive damages claim, although the court made it clear that it was not ruling on the merits of this claim. Discovery is ongoing.

We produced and marketed industrial sand from 1988 to 1994. Since July 1993, we have been sued in numerous suits in a number of states by plaintiffs alleging that they contracted silicosis or incurred personal injuries as a result of exposure to, or use of, industrial sand used for abrasive blasting. As of April 19, 2007, the number of suits totaled 100, involving an aggregate of 566 plaintiffs. Of the pending suits, 51 with 494 plaintiffs are filed in Texas. The balance of the suits have been brought by plaintiffs in state courts in Alabama, California, Florida, Louisiana and Mississippi. We are seeking dismissal of all suits on the grounds that plaintiffs were not exposed to our product. To date, we have been successful in getting dismissals without settlement payments from 548 cases involving 17,190 plaintiffs.

Although the ultimate outcome of these matters is uncertain, it is our opinion that the disposition of these described lawsuits will not have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

Item 1A. ***Risk Factors***

There have been no material changes to the risk factors disclosed in Item 1A of Part 1 in our Form 10-K for the year ended December 31, 2006 (Form 10-K).

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

(c) Issuer Purchases of Equity Securities

The following table presents a summary of share purchases we made during the quarter ended March 31, 2007:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs(3)
Jan. 1 - 31, 2007		$		3,455,539
Feb. 1 - 28, 2007	41,033	$ 108.32	41,033	3,414,506
Mar. 1 - 31, 2007	3,090	$ 114.90	3,090	3,411,416
Total	44,123	$ 108.78	44,123	

(1) All shares purchased during the first quarter of 2007 were purchased directly from employees to satisfy income tax withholding requirements on shares issued pursuant to incentive compensation plans.

(2) The average price paid per share includes commission costs.

(3) On February 10, 2006, the Board of Directors authorized the Company to purchase up to 10,000,000 shares. As of March 31, 2007, there were 3,411,416 shares remaining under the authorization. We may make share purchases from time to time in the open market or through privately negotiated transactions, depending upon market, business, legal and other conditions.

We did not have any unregistered sales of equity securities during the first quarter of 2007.

Item 6. ***Exhibits***

Exhibit 31(a)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31(b)	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32(a)	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32(b)	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

VULCAN MATERIALS COMPANY

/s/ Ejaz A. Khan
Ejaz A. Khan
Vice President, Controller and Chief Information Officer

/s/ Daniel F. Sansone
Daniel F. Sansone
Senior Vice President, Chief Financial Officer

Date May 1, 2007

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Annex J

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported):
July 12, 2007

VULCAN MATERIALS COMPANY
(Exact name of registrant as specified in its charter)

New Jersey	**I-4033**	**63-0366371**
(State or other jurisdiction of incorporation)	*(Commission File Number)*	*(IRS 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:

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 ***Other Events***

Vulcan Materials Company (the Company, we, or our) is filing this Current Report on Form 8-K to update the historical financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, to reflect the retrospective application of Financial Accounting Standards Board (FASB) Staff Position No. AUG AIR-1, Accounting for Planned Major Maintenance Activities (FSP AUG AIR-1).

FSP AUG AIR-1 amends certain provisions in the American Institute of Certified Public Accountants Industry Audit Guide, Audits of Airlines (Airline Guide). The Airline Guide is the principal source of guidance on the accounting for planned major maintenance activities and permits four alternative methods of accounting for such activities. This guidance principally affects our accounting for periodic overhauls on our oceangoing vessels. Prior to January 1, 2007, we applied the accrue-in-advance method as permitted by the Airline Guide, which allowed the accrual of estimated costs for the next scheduled overhaul over the period leading up to the overhaul. At that time, the actual cost of the overhaul was charged to the accrual, with any deficiency or excess charged or credited to expense. FSP AUG AIR-1 prohibits the use of the accrue-in-advance method, and was effective for fiscal years beginning after December 15, 2006. Accordingly, we adopted this FSP effective January 1, 2007, and have elected to use the deferral method of accounting for planned major maintenance as permitted by the Airline Guide and allowed by FSP AUG AIR-1. Under the deferral method, the actual cost of each overhaul is capitalized and amortized over the period until the next overhaul.

FSP AUG AIR-1 requires that a change in accounting principle due to the adoption of this standard be applied retrospectively to the beginning of the earliest period presented in the financial statements. Furthermore, under the requirements of the Securities and Exchange Commission (SEC), retrospective application required by a new accounting standard is also required for previously issued financial statements included in our Form 10-K if those financial statements are to be incorporated by reference or annexed in filings with the SEC made under the Securities Act of 1933, as amended. This is the case even though those financial statements relate to periods prior to the effective date of the new accounting standard.

Accordingly, our audited consolidated financial statements as of and for the years ended December 31, 2006, 2005 and 2004, and the related Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and Computation of Ratio of Earnings to Fixed Charges, have been revised to reflect using the deferral method of accounting for planned major maintenance, and are filed as Exhibit 99.1 to this Current Report on Form 8-K. The revised sections of the Form 10-K included in this Current Report have also been updated to incorporate certain disclosures requested by the SEC staff during the course of their review of our Form 10-K for the year ended December 31, 2006, and otherwise have not been updated for events occurring after the date of the consolidated financial statements, which were originally presented in the Form 10-K filed on February 26, 2007. All other information in the Form 10-K remains unchanged. This report should be read in conjunction with the Form 10-K (except for Items 6, 7 and 8, and Exhibit 12, which are included in this report).

Item 9.01 ***Financial Statements and Exhibits.***

(d) *Exhibits:*

Exhibit No.	Description
23.1	Consent of Deloitte & Touche LLP

99.1	Revised Selected Financial Data, revised Management s Discussion and Analysis of Financial Condition and Results of Operations, revised Financial Statements and Supplementary Data for the years ended December 31, 2006, 2005 and 2004, and revised Computation of Ratio of Earnings to Fixed Charges (Part II, Items 6, 7 and 8 and Exhibit 12 of our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on February 26, 2007)

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SIGNATURES

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

VULCAN MATERIALS COMPANY

(Registrant)

By: /s/ William F. Denson, III

William F. Denson, III

Dated: July 12, 2007

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-67586 on Form S-3 and Registration Statements No. 333-40394, 333-99805 and 333-99807 on Form S-8 of our report dated February 26, 2007 (July 11, 2007 as to the effect of the retrospective application of a new accounting standard as discussed in Note 18), relating to the consolidated financial statements of Vulcan Materials Company and its subsidiary companies (the Company) (which report expresses an unqualified opinion and includes an explanatory paragraph related to the adoption of SFAS 123(R), Share-Based Payment; SFAS 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R); and EITF Issue No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry; and an explanatory paragraph referring to the Company s retrospective application of FSP No. AUG AIR-1, Accounting for Planned Major Maintenance Activities), and our report dated February 26, 2007, relating to management s report on the effectiveness of internal control over financial reporting appearing in this Current Report on Form 8-K of Vulcan Materials Company dated July 12, 2007.

/s/ DELOITTE & TOUCHE LLP

Birmingham, Alabama
July 11, 2007

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Exhibit 99.1

Item 6. ***Selected Financial Data***

The selected statement of earnings, per share data and balance sheet data for each of the five years ended December 31, 2006, set forth below have been derived from our audited consolidated financial statements. The following data should be read in conjunction with our consolidated financial statements and notes to consolidated financial statements included in Item 8 below this Current Report on Form 8-K.

	Years Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(Amounts in millions, except per share data)				
Net sales	$ 3,041.1	$ 2,615.0	$ 2,213.2	$ 2,086.9	$ 1,980.6
Total revenues	$ 3,342.5	$ 2,895.3	$ 2,454.3	$ 2,309.6	$ 2,175.8
Earnings from continuing operations before cumulative effect of accounting changes	$ 480.2	$ 344.1	$ 262.5	$ 237.5	$ 233.2
Earnings (loss) on discontinued operations, net of tax(1)	(10.0)	44.9	26.2	(23.7)	(42.8)
Cumulative effect of accounting changes(2)				(18.8)	(20.5)
Net earnings	$ 470.2	$ 389.0	$ 288.7	$ 195.0	$ 169.9
Basic per share:					
Earnings from continuing operations before cumulative effect of accounting changes	$ 4.92	$ 3.37	$ 2.56	$ 2.33	$ 2.29
Discontinued operations	(0.10)	0.44	0.26	(0.23)	(0.42)
Cumulative effect of accounting changes				(0.19)	(0.20)
Net earnings	$ 4.82	$ 3.81	$ 2.82	$ 1.91	$ 1.67
Diluted per share:					
Earnings from continuing operations before cumulative effect of accounting changes	$ 4.81	$ 3.31	$ 2.53	$ 2.31	$ 2.28
Discontinued operations	(0.10)	0.43	0.25	(0.23)	(0.42)
Cumulative effect of accounting changes				(0.18)	(0.20)
Net earnings	$ 4.71	$ 3.74	$ 2.78	$ 1.90	$ 1.66
Pro forma assuming FAS 143 applied retroactively:					
Net earnings					$ 168.4
Net earnings per share, basic					$ 1.66
Net earnings per share, diluted					$ 1.64
Total assets	$ 3,427.8	$ 3,590.4	$ 3,667.5	$ 3,636.9	$ 3.448.2
Long-term obligations	$ 322.1	$ 323.4	$ 604.5	$ 607.7	$ 857.8
Shareholders equity	$ 2,010.9	$ 2,133.6	$ 2,020.8	$ 1,802.8	$ 1,697.0
Cash dividends declared per share	$ 1.48	$ 1.16	$ 1.04	$ 0.98	$ 0.94

(1) Discontinued operations includes the results from operations attributable to our former Chloralkali and Performance Chemicals businesses, divested in 2005 and 2003, respectively.

(2)

The 2003 accounting change relates to our adoption of FAS 143, Asset Retirement Obligations. The $18.8 million net-of-tax cumulative effect adjustment represents the impact of recording asset retirement obligations, at estimated fair value, for which we have legal obligations for land reclamation. The 2002 accounting change relates to our adoption of FAS 142, Goodwill and Other Intangible Assets. The $20.5 million net-of-tax cumulative effect adjustment represents the full impairment of goodwill in the Performance Chemicals reporting unit.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Introduction

Vulcan provides essential infrastructure materials required by the U.S. economy. We are the nation s largest producer of construction aggregates primarily crushed stone, sand and gravel and a major producer of asphalt mix and concrete.

Products

We operate primarily in the United States and our principal product aggregates is consumed in virtually all types of publicly and privately funded construction. In 2006, aggregates accounted for 70% of net sales. We shipped 255.4 million tons in 21 states, the District of Columbia and Mexico from 287 aggregates production facilities and sales yards. Our top 10 states accounted for 85% of total aggregates shipments. Reserves largely determine the ongoing viability of an aggregates business. Our current estimate of 11.4 billion tons of zoned and permitted aggregates reserves represents a net increase of 3.3 billion tons since the end of 1996. We believe that these reserves are sufficient to last, on average, 44.3 years at current annual production rates. Additionally, we produce and sell asphalt mix and concrete in California, Texas, Arizona and New Mexico. While aggregates are our primary business, we believe vertical integration between aggregates and downstream products, such as asphalt mix and concrete, can be managed effectively in certain markets to generate acceptable financial returns. As such, we evaluate the structural characteristics of individual markets to determine the appropriateness of an aggregates only or vertical integration strategy.

End Markets

Demand for our products is dependent on construction activity. The primary end uses include public construction, such as highways, bridges, airports, schools, and prisons, as well as private nonresidential (e.g., manufacturing, retail, offices, industrial and institutional) and private residential construction (e.g., single-family and multifamily).

Public This construction end market is generally the most aggregates intensive. Historically, public sector construction spending has been more stable than in the private end markets, in part because public sector spending is less sensitive to interest rates. In 2006, publicly funded construction accounted for 44% of our total aggregates shipments. Public construction projects are typically funded through a combination of federal, state and local sources. The federal highway bill is the principal source of federal funding for public infrastructure and transportation projects. Federal highway spending is determined by a six-year authorization bill, now covering fiscal years 2004 2009, and annual budget appropriations using funds largely taken from the Federal Highway Trust Fund that receives taxes on gasoline and other levies. Specific highway and bridge projects are typically managed by state transportation departments, who obligate their portion of federal revenues and supplement this federal funding with state fuel taxes, vehicle registration fees and general fund appropriations. States also transfer funds to counties and municipalities to fund local street construction and maintenance. The level of state spending on infrastructure varies across the United States and depends on individual state needs and economies. Other public infrastructure construction includes sewer and waste disposal systems, water supply systems, dams, reservoirs and government buildings. Construction for power plants and other utilities is funded from both public and private sources.

Private Nonresidential This construction end market includes a wide array of project types and generally is more aggregates intensive than residential construction. Economic factors such as job growth, vacancy rates, private infrastructure needs and demographic trends help drive overall demand for private nonresidential construction. In 2006, private nonresidential construction accounted for 28% of our total aggregates shipments. Strong corporate

profits and growth of private workforce generates demand for offices, hotels and restaurants. Likewise, population growth generates demand for stores, shopping centers, warehouses and parking decks as well as schools, hospitals, churches and entertainment facilities. A new manufacturing facility in an area generally generates demand for other manufacturing plants to supply its parts and assemblies. Firms seeking to construct a new facility will often seek to borrow funds from banks and other financial institutions. The willingness of banks to lend has a cyclical pattern, in part dependent on their expectations for future interest rate moves.

Private Residential Approximately 80 85% of all residential construction activity is for single-family houses with the remainder consisting of multi-family (e.g., two-family houses, apartment buildings and larger condominiums). Public housing comprises a small portion of the housing supply. Household formation is a primary driver of housing demand along with mortgage rates. In the last 10 years, households have increased 13% from 101.5 million to 114.7 million in the U.S. and 15%, on average, in the states we serve. Mortgage rates were at relatively low levels and contributed to the strong residential construction. However, in recent years, rising home prices have triggered speculative buying and made home ownership less affordable. Demand for our products generally occurs early in the infrastructure phase of residential construction and later as part of the foundation, driveway or parking lot. In 2006, private residential construction accounted for 25% of our total aggregates shipments.

Other End Uses Ballast is sold to the railroads for construction and maintenance of their track. Riprap and jetty stone are sold for erosion control along waterways. Stone also can be used as a feedstock for cement and lime plants and for making a variety of adhesives, fillers and extenders. Coal-burning power plants use limestone in their scrubbers to reduce harmful emissions. Limestone that is crushed to a fine powder also can be sold to farmers. In 2006, these other end uses accounted for 3% of our total aggregates shipments.

Customers and Competition

Customers for our products include heavy construction and paving contractors; commercial building contractors; concrete products manufacturers; residential building contractors; state, county and municipal governments; railroads; and electric utilities. Customers are served by truck, rail and water distribution networks from our production facilities and sales yards. Due to the high weight-to-value ratio of aggregates, markets generally are local in nature. They often consist of a single metropolitan area or one or more counties or portions thereof when transportation is by truck only. Truck delivery accounts for approximately 86% of our total shipments. Additionally, sales yards and other distribution facilities located on waterways and rail lines substantially increase our geographic market reach through the availability of rail and water transportation.

Zoning and permitting regulations have made it increasingly difficult for the construction aggregates industry to expand existing quarries or to develop new quarries in some markets. Although we cannot predict what governmental policies will be adopted in the future that affect the construction materials industry, we believe that future zoning and permitting costs will not have a materially adverse effect on our business. However, future land use restrictions in some markets could make zoning and permitting more difficult. Any such restrictions, while potentially curtailing expansion in certain areas, could also enhance the value of our reserves at existing locations.

We estimate that the 10 largest aggregates producers in the nation supply approximately one-third of the total national market, resulting in highly fragmented markets in some areas. Therefore, depending on the market, we may compete with a number of large regional and small local producers.

Seasonality of Our Business

Virtually all our products are produced and consumed outdoors. Our financial results for any individual quarter are not necessarily indicative of results to be expected for the year, due primarily to the effect that seasonal changes and other weather-related conditions can have on the production and sales volume of our products. Normally, the highest sales and earnings are attained in the third quarter and the lowest are realized in the first quarter. Our sales and earnings are sensitive to national, regional and local economic conditions and particularly to cyclical swings in construction spending. These cyclical swings are further affected by fluctuations in interest rates, and demographic and population fluctuations.

Other

In June 2005, we sold our Chemicals business as presented in Note 2 to the consolidated financial statements and, accordingly, its results are reported as discontinued operations in the accompanying Consolidated Statements of Earnings. As of December 31, 2004, the related assets and liabilities are reported as assets held for sale and liabilities of assets held for sale in the accompanying Consolidated Balance Sheets.

In the discussion that follows, discontinued operations are discussed separately. Continuing operations consist solely of Construction Materials. The comparative analysis is based on net sales and cost of goods sold, which exclude delivery revenues and costs, and is consistent with the basis on which management reviews results of operations.

Results of Operations

2006 versus 2005

Net sales and earnings for 2006 surpassed 2005 s record levels. Improved pricing for all key products more than offset lower shipments and resulted in a 16% increase in net sales, which exceeded $3.0 billion for the first time in our history. Aggregates pricing improved approximately 15%. The increasing demand for aggregates in a broad range of public infrastructure and nonresidential construction helped offset the correction that has occurred in residential construction. Our consistent earnings growth is a reflection of both our broad geographic and end-use markets and a pricing environment for aggregates that recognizes the high cost of reserves replacement and product distribution in high growth metropolitan markets.

Operating earnings were a record $695.1 million, an increase of 46% from the 2005 amount. Improved aggregates pricing more than offset the effects of the slight decline in aggregates shipments and higher production costs related to diesel fuel, parts, supplies and electricity. Asphalt mix and concrete earnings also increased significantly as pricing improvements exceeded the effects of lower volumes and increases in raw material costs. Compared with 2005, the cost of diesel fuel and liquid asphalt were $13.7 million and $58.8 million higher, respectively. Gross profit as a percentage of net sales was 31% for 2006, up 4 percentage points from 2005. Selling, administrative and general expenses increased $31.9 million from the prior year. Approximately one-half of the increase resulted from higher provisions for incentive compensation, including the effect of expensing stock options, and increased professional fees. During 2006, we sold the contractual rights to mine the Bellwood Quarry in Atlanta, Georgia for a pretax gain of $24.8 million, which is included in other operating (income) expense, net in the accompanying Consolidated Statements of Earnings.

Earnings from continuing operations before income taxes were $703.5 million, an increase of $222.8 million or 46% from the prior year. The 2006 earnings include a gain of $28.7 million related to the increase in the carrying value of the contingent ECU (electrochemical unit) earn-out received in connection with the sale of our Chemicals business compared with a $20.4 million gain in 2005.

Earnings from continuing operations before income taxes for 2006 versus 2005 are summarized below (in millions of dollars):

2005	$ 481
Higher aggregates earnings	164
Higher asphalt mix earnings	45
Higher earnings for all other products	23
Higher selling, administrative and general expenses	(32)
Gain on sale of contractual rights to mine	25
Higher gain on contingent ECU earn-out	8
All other	(11)
2006	**$ 703**

Earnings from continuing operations increased to $4.81 per diluted share from $3.31 per diluted share in 2005.

2005 versus 2004

Net sales and earnings were both at record levels in 2005. Net sales increased 18% to $2.6 billion. All major product lines achieved higher sales. The strong demand experienced across most of our markets in 2004 continued throughout 2005. As a result, aggregates shipments increased 7% to 260 million tons with record volumes achieved

in each quarter of 2005. Acquisitions accounted for 1% of this volume growth. Pricing for aggregates increased approximately 8%.

Operating earnings were a record $476.8 million, an increase of 18% from the prior-year amount. The earnings benefit from higher aggregates pricing and volumes more than offset increased costs for diesel fuel, parts and supplies, and maintenance. Higher prices for asphalt mix and concrete more than offset cost increases for raw materials such as liquid asphalt and cement. Cost for diesel fuel was $33.5 million higher as compared with 2004. Selling, administrative and general expenses increased $36.2 million due primarily to performance-based compensation plans, which accounted for $24.8 million of the increase from 2004. In 2004, gains on the sale of property, plant and equipment included a large real estate sale in California as well as the sale of operations in Chattanooga, Tennessee. In 2005, gains on the sale of property, plant and equipment reflected lower real estate sales in California.

Earnings from continuing operations before income taxes were $480.7 million, an increase of 27% from the prior year. Included in the 2005 earnings is a $20.4 million increase in the carrying value of the contingent ECU earn-out related to the sale of our Chemicals business. Net interest expense was approximately $14.0 million lower due primarily to higher average balances on short- and medium-term investments and the retirement of $243.0 million of debt in April 2004.

Earnings from continuing operations before income taxes for 2005 versus 2004 are summarized below (in millions of dollars):

2004	$ 377
Higher aggregates earnings	111
Higher asphalt mix earnings	9
Higher selling, administrative and general expenses	(36)
Lower gains on sale of property, plant and equipment	(16)
Gain on contingent ECU earn-out	20
Lower net interest expense	14
All other	2
2005	$ 481

Earnings from continuing operations increased to $3.31 per diluted share from $2.53 per diluted share in 2004.

Selling, Administrative and General

Selling, administrative and general expenses were $264.3 million in 2006 compared with $232.4 million in the prior year. Approximately one-half of this 14% increase resulted from higher provisions for incentive compensation, including the effect of expensing stock options, and increased professional fees. Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, [FAS 123(R)], which requires the expensing of stock options. Adoption of this standard resulted in a pretax charge of approximately $9.3 million related to stock options, resulting in a decrease to earnings from continuing operations and net earnings of approximately $5.7 million, or $0.06 per diluted share in 2006. Selling, administrative and general expenses as a percentage of net sales, were 8.7%, down from the prior year s 8.9%. In 2005, selling, administrative and general expenses increased 18% from the 2004 level due primarily to performance-based compensation plans. Compensation expense under these plans was influenced by the degree to which business performance targets were achieved. One of the plans, the performance share plan, was also affected by stock price, which increased 24% in 2005. As a percentage

of net sales, selling, administrative and general expenses for 2005 were flat with the prior year at 8.9%.

Impairment of Long-lived Assets

During 2006, we recorded asset impairment losses totaling $0.2 million related to long-lived assets. This impairment loss resulted from various write-downs related to continuing operations. During 2005, we recorded asset impairment losses totaling $0.7 million related to long-lived assets. This impairment loss resulted from various write-downs related to continuing operations. During 2004, we recorded no asset impairment losses for

continuing operations. Asset impairment losses are included within the total of other operating (income) expense, net in our Consolidated Statements of Earnings.

Gain on Sale of Property, Plant and Equipment

During 2006, we recorded gains on the sale of property, plant and equipment of $5.6 million, a decrease of $2.7 million from the prior year. In 2005, gains on the sale of property, plant and equipment of $8.3 million were down $15.5 million from the 2004 level. In 2004, gains on the sale of property, plant and equipment included a large real estate sale in California as well as the sale of asphalt mix, concrete and highway construction operations in Chattanooga, Tennessee. In 2005, gains on the sale of property, plant and equipment reflected lower real estate sales in California. As none of these asset sales met the definition of a component of an entity as described in SFAS 144, Accounting for the Impairment or Disposal of Long-lived Assets (FAS 144), the gains were reported in continuing operations.

Other Operating (Income) Expense, Net

Other operating income, net of other operating expense, increased $29.8 million to $21.9 million in 2006. The increase in income was principally due to a $24.8 million pretax gain from the sale of contractual rights to mine the Bellwood Quarry in Atlanta, Georgia. In 2005, other operating expense, net decreased $1.0 million compared with 2004 due primarily to lower costs associated with idle equipment taken out of service and lower charges for old equipment scrapped due to plant rebuilds and site closings, partially offset by an increase in environmental remediation costs.

Other Income, Net

In 2006, other income, net of other charges, was $28.5 million, $4.1 million higher than the prior year. The 2006 increase was due primarily to the ECU earn-out. We recognized a $28.7 million gain related to the ECU earn-out in 2006 compared with a $20.4 million gain in 2005. In 2005, other income was $16.1 million higher than 2004 due to the above-mentioned $20.4 million ECU earn-out gain. This earn-out agreement is accounted for as a derivative instrument, with any gains or losses recorded as other income or charges in continuing operations. For additional information regarding this ECU earn-out, see Note 5 to the consolidated financial statements.

Interest Income

Interest income was $6.2 million in 2006, a decrease of $10.4 million from 2005. The decrease resulted from lower average cash and cash equivalents and medium-term investments balances during 2006. Interest income was $16.6 million in 2005 compared with $5.6 million in 2004 due to higher interest rates and higher average balances for the total of cash and cash equivalents and medium-term investments.

Interest Expense

Interest expense was $26.3 million in 2006 compared with the 2005 amount of $37.1 million. The $10.8 million decrease was due primarily to the February 2006 retirement of $240.0 million of 6.40% five-year notes issued in 2001, partially offset by increased commercial paper borrowings. Excluding capitalized interest credits, gross interest expense for 2006 was $31.3 million compared with $39.1 million in the prior year. In 2005, interest expense decreased $3.2 million from the $40.3 million reported in 2004 due primarily to the retirement of $243.0 million of debt in April 2004. Excluding capitalized interest credits, gross interest expense was $39.1 million compared with $42.3 million in 2004.

Income Taxes

Our 2006 effective tax rate for continuing operations was 31.7%, up from 28.4% in 2005. This increase principally reflects a smaller reduction during 2006 in estimated income tax liabilities for prior years and a nonrecurring favorable settlement of federal refund claims in 2005. The 2005 rate for continuing operations was down 2.0 percentage points from the 2004 rate of 30.4%. This decrease principally reflected a reduction in

estimated income tax liabilities for prior years, a favorable settlement of federal refund claims and the benefit from the U.S. Production Activities Deduction that went into effect in 2005.

Discontinued Operations

In 2005, we sold substantially all the assets of our Chemicals business, known as Vulcan Chemicals, to Basic Chemicals, a subsidiary of Occidental Chemical Corporation. These assets consisted primarily of chloralkali facilities in Wichita, Kansas; Geismar, Louisiana and Port Edwards, Wisconsin; and the facilities of our Chloralkali joint venture located in Geismar. The decision to sell the Chemicals business was based on our desire to focus our resources on the Construction Materials business.

The transaction, which was structured as a sale of assets, involved initial cash proceeds, contingent future proceeds under two earn-out provisions and the transfer of certain liabilities. Accordingly, financial results referable to our Chemicals business are reported in discontinued operations for all periods presented. Although we expect the total proceeds received in connection with the sale of our Chemicals business, including the two contingent earn-outs, to exceed the carrying amount of the net assets sold, no gain from the disposal transaction was recognized during 2005 or 2006 as accounting requirements preclude the recognition of contingent gains. Ultimately, gain or loss on disposal will be recognized to the extent that total receipts under the 5CP earn-out (as described under the caption Market Risk) exceed or fall short of the amount recognized at closing.

Pretax operating results from discontinued operations were a loss of $16.6 million in 2006 compared with earnings of $83.7 million in 2005. The 2006 operating results reflect charges related to general and product liability costs and environmental remediation costs associated with our former Chemicals business. Included in these costs are approximately $7.4 million in contingency accruals related to a lawsuit filed by the city of Modesto, California (see Note 12 to the consolidated financial statements). The 2005 operating results reflected approximately five months of operations prior to closing the sale and included approximately $18.1 million of pretax exit and disposal costs. For additional information regarding discontinued operations, see Note 2 to the consolidated financial statements.

Accounting Change

On January 1, 2006, we adopted Emerging Issues Task Force Issue No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry (EITF 04-6). In the mining industry, the costs of removing overburden and waste materials to access mineral deposits are referred to as stripping costs. Per EITF 04-6, stripping costs incurred during the production phase are considered costs of the extracted minerals under a full absorption costing system, inventoried, and recognized in costs of sales in the same period as the revenue from the sale of the inventory. Additionally, capitalization of such costs would be appropriate only to the extent inventory exists at the end of a reporting period.

Prior to the adoption of EITF 04-6, we expensed stripping costs as incurred with only limited exceptions when specific criteria were met. The January 1, 2006 adoption of EITF 04-6 resulted in an increase in current assets (finished product inventory) of $16.8 million; a decrease in other assets (capitalized quarrying costs) of $0.7 million; an increase in deferred tax liabilities of $3.9 million; and a cumulative effect of adoption that increased retained earnings by $12.2 million.

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Staff Position No. AUG AIR-1, Accounting for Planned Major Maintenance Activities (FSP AUG AIR-1). This FSP must be applied retrospectively to the beginning of the earliest period presented in the financial statements. The effects of the retrospective application of this new accounting standard are described under the caption New Accounting Standards and in Note 18 to the consolidated financial statements.

2007 Outlook

Continuing Operations

We remain confident in our ability to continue strong earnings growth in 2007. Overall, we expect earnings from continuing operations for 2007 to be in the range from $5.51 to $5.91 per diluted share. In January 2007, we

closed a real estate sale transaction in California that resulted in a net after-tax gain of $0.25 per diluted share, which is included in our guidance. Our current earnings outlook is based on overall aggregates price improvements in the range of 10% to 11%, a decrease in the average unit cost for diesel fuel compared with 2006 and aggregates shipments that are in line with 2006.

Broader economic factors such as low interest rates, job growth, falling office vacancy rates and the solid fiscal condition of most states should continue to aid the more aggregate-intensive infrastructure and private nonresidential end use markets in 2007. Overall demand for aggregates in our markets should remain relatively stable. The residential construction slowdown in the U.S. continued in the fourth quarter of 2006 and contributed to lower aggregates shipments for the year. However, with mortgage interest rates still at relatively low historical levels and household formations increasing in high growth markets, residential construction has the potential to stabilize by the second half of 2007.

Aggregates demand from highway construction in the markets we serve should increase in 2007, primarily as a result of higher state spending levels and moderating liquid asphalt costs. In 2006, construction cost inputs for highway projects increased significantly, particularly liquid asphalt and diesel fuel, resulting in some delays for new contract awards.

We believe private nonresidential construction will continue to improve in 2007. This end market includes a wide array of project types and generally is more aggregates intensive than private residential construction. Economic factors such as job growth, vacancy rates, private infrastructure needs and demographic trends help drive demand for this type of construction.

Discontinued Operations

During 2005, we sold our former Chemicals business. Costs related to retained liabilities, primarily environmental and general and product liability, are expected to result in a small loss in discontinued operations for 2007.

Liquidity and Capital Resources

We believe we have sufficient financial resources, including cash provided by operating activities, unused bank lines of credit and ready access to the capital markets, to fund business requirements in the future including debt service obligations, cash contractual obligations, capital expenditures, dividend payments, stock purchases and potential future acquisitions.

Cash Flows

Net cash provided by operating activities (including discontinued operations) totaled $579.3 million in 2006, an increase of $106.2 million or 22% as compared with 2005. The increase primarily resulted from higher net earnings of $81.2 million and a decrease in contributions to pension plans of $27.7 million.

Cash provided by operating activities during 2005 includes $15.3 million referable to tax benefits from the exercise of stock options. During 2006, such tax benefits are classified as financing activities pursuant to FAS 123(R). Additional disclosures regarding the adoption of FAS 123(R) are presented in Note 1 to the consolidated financial statements under the heading Share-based Compensation.

Net cash used for investing activities totaled $105.0 million in 2006 compared with $149.2 million in 2005. The decrease in net cash used for investing activities is principally due to net activity in our medium-term investment program, which contributed $171.1 million to the overall change, a decrease in business acquisitions of $73.4 million,

and $24.8 million in net proceeds from the sale of contractual rights. These favorable contributors were partially offset by an increase of $219.6 million used for purchases of property, plant and equipment primarily related to production capacity and efficiency improvements. During 2006, proceeds from the sale of our Chemicals business of $141.9 million include payments received under the ECU and 5CP earn-outs as well as amounts received in connection with working capital adjustments.

Net cash used for financing activities increased to $694.3 million in 2006 compared with $320.3 million in 2005. Cash used to purchase our common stock increased $294.3 million, cash payments to retire debt obligations increased $260.9 million, and dividends paid increased $25.9 million. These increases in cash used for financing activities were offset by net short-term borrowings of $198.9 million during 2006.

Our policy is to pay out a reasonable share of net cash provided by operating activities as dividends, consistent on average with the payout record of past years, while maintaining debt ratios within what we believe to be prudent and generally acceptable limits.

Working Capital

Working capital, the excess of current assets over current liabilities, totaled $243.7 million at December 31, 2006, a decrease of $350.1 million from the $593.8 million level at December 31, 2005. The decrease in working capital primarily results from the use of cash to purchase our common stock and property, plant and equipment. During 2006, combined cash and medium-term investment balances decreased $395.0 million, while cash of $522.8 million was used to purchase our common stock and $435.2 million was used to purchase property, plant and equipment. As of December 31, 2006, we have $760.0 million in bank lines of credit, of which $2.5 million was drawn. Bank lines of credit serve as liquidity support when we issue commercial paper.

Working capital totaled $593.8 million at December 31, 2005, down $404.3 million from the 2004 level. The 2005 decrease resulted primarily from a $268.8 million increase in current maturities of long-term debt primarily attributable to debt that matured February 2006, a net decrease in assets and liabilities of assets held for sale of $269.8 million referable to the sale of our Chemicals business, and an increase in all other current liabilities of $70.6 million. These contributors to the decrease in working capital year over year were partially offset by an increase of $194.8 million in accounts and notes receivable, including $105.7 million referable to contingent earn-outs, and an increase in inventories of $20.6 million.

Capital Expenditures

Capital expenditures, which exclude business acquisitions, totaled $458.9 million in 2006, up $224.6 million from the 2005 level of $234.3 million. Much of the increase in spending over the 2005 level was for projects to lower operating costs, the acquisition of new reserves and additional production and distribution assets in key markets. We classify our capital expenditures into three categories based on the predominant purpose of the project. In 2006, profit-adding projects accounted for $232.9 million or 51% of the 2006 spending.

Commitments for capital expenditures were $72.5 million at December 31, 2006. We expect to fund these commitments using available cash or internally generated cash flow.

Acquisitions

In 2006, the total purchase price of acquisitions amounted to $20.5 million, down $73.5 million from the prior year. Acquisitions completed during 2006 included an aggregates production facility and asphalt mix plant in Indiana, an aggregates production facility in North Carolina and an aggregates production facility in Virginia. The 2005 acquisitions included five aggregates production facilities and five asphalt mix plants in Arizona, one aggregates production facility in Georgia, four aggregates production facilities in Indiana and one aggregates production facility in Tennessee.

Short-term Borrowings and Investments

Net short-term borrowings and investments at December 31 consisted of the following (in thousands of dollars):

	2006	2005	2004
Short-term investments:			
Cash equivalents	**$ 50,374**	$ 273,315	$ 259,522
Medium-term investments		175,140	179,210
Total short-term investments	**$ 50,374**	$ 448,455	$ 438,732
Short-term borrowings:			
Bank borrowings	**$ 2,500**	$	$
Commercial paper	**196,400**		
Total short-term borrowings	**$ 198,900**	$	$
Net short-term (borrowings) investments	**$ (148,526)**	$ 448,455	$ 438,732

We were a net short-term borrower during most of 2006 and ended the year in a short-term borrowed position of $148.5 million. In 2006, total short-term borrowings reached a peak of $236.8 million and amounted to $198.9 million at year end. Throughout 2005, we were a net short-term investor and ended the year in a short-term invested position of $448.5 million. After reaching a high of $65.0 million, there were no short-term borrowings at year-end 2005. In 2004 we were a net short-term investor and ended the year in a short-term invested position of $438.7 million. After reaching a high of $48.0 million, there were no short-term borrowings at year-end 2004.

Short-term borrowings outstanding as of December 31, 2006 of $198.9 million consisted of $2.5 million of bank borrowings at 5.575% maturing January 2007 and $196.4 million of commercial paper having maturities ranging from 2 to 36 days and interest rates ranging from 5.28% to 5.36%. We plan to reissue most, if not all, of these notes when they mature. There were no short-term borrowings outstanding as of December 31, 2005 and 2004. Periodically, we issue commercial paper for general corporate purposes, including working capital requirements. We plan to continue this practice from time to time as circumstances warrant.

Our policy is to maintain committed credit facilities at least equal to our outstanding commercial paper. Unsecured bank lines of credit totaling $760.0 million were maintained at the end of 2006, of which $2.5 million was drawn. As of December 31, 2006, our commercial paper was rated A-1 and P-1 by Standard & Poor s and Moody s Investors Service, Inc. (Moody s), respectively.

Current Maturities

Current maturities of long-term debt as of December 31 are summarized below (in thousands of dollars):

	2006	2005	2004
6.40% 5-year notes issued 2001*	**$**	$ 239,535	$ (80)

Private placement notes		32,000	
Medium-term notes			2,000
Other notes	**630**	532	1,306
Total	**$ 630**	$ 272,067	$ 3,226

* Includes a decrease in valuation for the fair value of short-term interest rate swaps, as follows: December 31, 2005 $465 thousand and December 31, 2004 $80 thousand.

Scheduled debt payments during 2006 included $240.0 million (listed in the table above net of the $0.5 million decrease for the interest rate swap) in February to retire the 6.40% 5-year notes issued in 2001 and $32.0 million in

December to retire 10-year private placement notes issued in 1996. Scheduled debt payments during 2005 included $2.0 million in November to retire an 8.07% medium-term note issued in 1991.

Maturity dates for our $0.6 million of current maturities as of December 31, 2006 are various. We expect to retire this debt using available cash or by issuing commercial paper.

Debt and Capital

During 2006, long-term debt was reduced by $1.3 million to $322.1 million, compared with a net reduction of $281.1 million in 2005. The 2005 reduction reflected the reclassification of $272.1 million from long-term debt to current maturities. During the three-year period ended December 31, 2006, long-term debt decreased cumulatively by $285.6 million from the $607.7 million outstanding at December 31, 2003. At year end, the weighted-average interest rates on our long-term debt were 6.42% in 2006, 6.43% in 2005 and 6.41% in 2004.

During the same three-year period, shareholders equity, net of dividends of $369.0 million, increased by $208.1 million to $2.011 billion.

The calculations of our total debt as a percentage of total capital are summarized below (amounts in thousands, except percentages):

	2006	2005	2004
Debt:			
Current maturities of long-term debt	**$ 630**	$ 272,067	$ 3,226
Short-term borrowings	**198,900**		
Long-term debt	**322,064**	323,392	604,522
Total debt	**$ 521,594**	$ 595,459	$ 607,748
Capital:			
Total debt	**$ 521,594**	$ 595,459	$ 607,748
Shareholders equity	**2,010,899**	2,133,649	2,020,790
Total capital	**$ 2,532,493**	$ 2,729,108	$ 2,628,538
Total debt as a percentage of total capital	**20.6%**	21.8%	23.1%

In the future, our total debt as a percentage of total capital will depend on specific investment and financing decisions. We believe our cash-generating capability, combined with our financial strength and geographic diversification, can comfortably support a target range of 35% to 40%. We have made acquisitions from time to time and will continue to pursue attractive investment opportunities. Such acquisitions could be funded by using internally generated cash flow or issuing debt or equity securities.

As of December 31, 2006, Standard & Poor s and Moody s rated our public long-term debt at the A+ and A1 level, respectively. Both Standard & Poor s and Moody s have assigned a stable outlook to our long-term debt ratings.

Contractual Obligations and Contingent Credit Facilities

Our obligations to make future payments under contracts as of December 31, 2006 are summarized in the table below (in millions of dollars):

			Payments Due by Year			
	Note Reference	Total	2007	2008 2009	2010 2011	Thereafter
Cash Contractual Obligations						
Short-term borrowings:						
Principal payments	Note 6	$ 198.9	$ 198.9	$	$	$
Interest payments		0.4	0.4			
Long-term debt:						
Principal payments	Note 6	321.4	0.7	283.7	20.3	16.7
Interest payments	Note 6	64.2	20.6	31.1	6.1	6.4
Operating leases	Note 7	80.1	16.6	25.4	13.5	24.6
Mineral royalties	Note 12	91.5	11.4	18.2	11.0	50.9
Unconditional purchase obligations:						
Capital	Note 12	72.5	72.5			
Noncapital(1)	Note 12	89.5	29.3	20.9	12.2	27.1
Benefit plans(2)	Note 10	416.5	31.7	69.6	78.0	237.2
Total cash contractual obligations(3)		$ 1,335.0	$ 382.1	$ 448.9	$ 141.1	$ 362.9

(1) Noncapital unconditional purchase obligations relate primarily to transportation and electrical contracts.

(2) Payments in Thereafter column for benefit plans are for the years 2012 2016.

(3) The above table excludes discounted asset retirement obligations in the amount of $114.8 million at December 31, 2006, the majority of which have an estimated settlement date beyond 2011 (see Note 17 to the Consolidated Financial Statements).

We estimate cash requirements for income taxes in 2007 to be $290.0 million.

We have a number of contracts containing commitments or contingent obligations that are not material to our earnings. These contracts are discrete in nature, and it is unlikely that the various contingencies contained within the contracts would be triggered by a common event. The future payments under these contracts are not included in the table set forth above.

Our contingent credit facilities as of December 31, 2006 are summarized in the table below (in millions of dollars):

	Total Facilities	Amount and Year of Expiration 2007	2008 2009	2010	2011	Thereafter
Contingent Credit Facilities						
Lines of credit	$ 760.0	$ 210.0	$		$ 550.0	$
Standby letters of credit	66.7	66.7				
Total contingent credit facilities	$ 826.7	$ 276.7	$		$ 550.0	$

Bank lines of credit amounted to $760.0 million, of which $210.0 million expires in 2007, and $550.0 million expires in 2011. As of December 31, 2006, $2.5 million of the lines of credit were drawn.

We provide certain third parties with irrevocable standby letters of credit in the normal course of business. We use our commercial banks to issue standby letters of credit to secure our obligations to pay or perform when required to do so pursuant to the requirements of an underlying agreement or the provision of goods and services. The

standby letters of credit listed below are cancelable only at the option of the beneficiary who is authorized to draw drafts on the issuing bank up to the face amount of the standby letter of credit in accordance with its terms. Since banks consider letters of credit as contingent extensions of credit, we are required to pay a fee until they expire or are cancelled. Substantially all our standby letters of credit are renewable annually at the option of the beneficiary.

Our standby letters of credit as of December 31, 2006 are summarized in the table below (in millions of dollars):

	Amount	Term	Maturity
Standby Letters of Credit			
Risk management requirement for insurance claims	$ 16.2	One year	Renewable annually
Payment surety required by contract	14.9		February 2007
Payment surety required by utilities	0.1	One year	Renewable annually
Contractual reclamation/restoration requirements	35.5	One year	Renewable annually
Total standby letters of credit	$ 66.7		

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, such as financing or unconsolidated variable interest entities, that either have or are reasonably likely to have a current or future material effect on our financial position, results of operations, liquidity, capital expenditures or capital resources.

Common Stock

Our decisions to purchase shares of our common stock are based on valuation and price, our liquidity and debt level, and our actual and projected cash requirements for investment projects and regular dividends. The amount, if any, of future share purchases will be determined by management from time to time based on various factors, including those listed above. Shares purchased are being held for general corporate purposes, including distributions under long-term incentive plans.

The number and cost of shares purchased during each of the last three years and shares held in treasury at year end are shown below:

	2006	2005	2004
Shares purchased:			
Number	**6,757,361**	3,588,738	
Total cost (millions)	**$ 522.8**	$ 228.5	$
Average cost	**$ 77.37**	$ 63.67	$
Shares in treasury at year end:			
Number	**45,098,644**	39,378,985	37,045,535
Average cost	**$ 28.78**	$ 19.94	$ 15.32

The number of shares remaining under the current purchase authorization of the Board of Directors was 3,455,539 as of December 31, 2006.

Market Risk

We are exposed to certain market risks arising from transactions that are entered into in the normal course of business. In order to manage or reduce these market risks, we may utilize derivative financial instruments.

We are exposed to risk related to the ultimate proceeds to be received from the sale of the Chemicals business. As described in Note 2 to the consolidated financial statements, in addition to the initial proceeds, we are entitled to receive annual cash receipts under two separate earn-outs, subject to certain conditions. The first earn-out is based on ECU and natural gas prices during the five-year period beginning July 1, 2005. Payments to us pursuant to this ECU earn-out are capped at $150 million and it is accounted for as a derivative instrument. Accordingly, it is

reported at fair value and changes, if any, to the fair value of the ECU derivative are recorded in current earnings from continuing operations. Future estimates of this derivative s fair value could vary materially from period to period. The determination of the fair value of the ECU derivative is discussed in greater detail within the Critical Accounting Policies section of this annual report. Proceeds under the second earn-out are determined based on the performance of the hydrochlorocarbon product HCC-240fa (commonly referred to as 5CP) from the June 7, 2005 sale through 2012. Although we expect the total proceeds received in connection with the sale of our Chemicals business, including contingent proceeds under the two earn-outs, to exceed the carrying amount of the net assets sold, no gain on the sale was recognized since SFAS No. 5, Accounting for Contingencies, precludes the recognition of a contingent gain until realization is assured beyond a reasonable doubt. Accordingly, the value recorded at the June 7, 2005 closing date referable to these two earn-outs was limited to $128.2 million. The combined carrying amount of these earn-outs (reflected in accounts and notes receivable other and other noncurrent assets in the accompanying Consolidated Balance Sheets) as of December 31, 2006 and December 31, 2005 was $49.5 million and $148.4 million, respectively. The $98.9 million decrease in the combined carrying amount during 2006 was due primarily to cash receipts totaling $131.8 million under the 5CP and ECU earn-outs, partially offset by a gain of $28.7 million on the ECU earn-out (reflected as a component of other income, net of other charges, in our Consolidated Statements of Earnings for the year ended December 31, 2006). The $20.2 million increase in the combined carrying amount from the June 7, 2005 closing to December 31, 2005 was due primarily to a $20.4 million gain on the ECU earn-out, which is included as a component of other income, net of other charges, in our Consolidated Statements of Earnings for the year ended December 31, 2005.

We are exposed to interest rate risk due to our various long-term debt instruments. Substantially all this debt is at fixed rates; therefore, a decline in interest rates would result in an increase in the fair market value of the liability. At times, we use interest rate swap agreements to manage this risk. In November 2003, we entered into an interest rate swap agreement with a counterparty in the stated (notional) amount of $50.0 million. Under this agreement, we paid a variable London Interbank Offered Rate (LIBOR) plus a fixed spread and received a fixed rate of interest of 6.40% from the counterparty. The six-month LIBOR approximated 4.70% at December 31, 2005 and 2.78% at December 31, 2004. The interest rate swap agreement terminated February 1, 2006, coinciding with the maturity of our 6.40% five-year notes issued in 2001 in the amount of $240.0 million. The realized gains and losses upon settlement related to the swap agreement are reflected in interest expense concurrent with the hedged interest payments on the debt. For the prior periods presented, the estimated fair values of this agreement were as follows: December 31, 2005 $0.5 million unfavorable and December 31, 2004 $0.2 million unfavorable.

We have used commodity swap and option contracts to reduce our exposure to fluctuations in prices for natural gas in our discontinued operations Chemicals business. We had no such contracts outstanding as of December 31, 2006 and December 31, 2005. The fair values of these contracts were $0.1 million unfavorable as of December 31, 2004.

We do not enter into derivative financial instruments for speculative or trading purposes.

At December 31, 2006, the estimated fair market value of our long-term debt instruments including current maturities was $333.2 million as compared with a book value of $322.7 million. The effect of a hypothetical decline in interest rates of 1% would increase the fair market value of our liability by approximately $8.3 million.

We are exposed to certain economic risks related to the costs of our pension and other postretirement benefit plans. These economic risks include changes in the discount rate for high-quality bonds, the expected return on plan assets, the rate of compensation increase for salaried employees and the rate of increase in the per capita cost of covered healthcare benefits. The impact of a change in these assumptions on our annual pension and other postretirement benefit costs is discussed in greater detail within the Critical Accounting Policies section of this annual report.

New Accounting Standards

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes, by prescribing a recognition threshold

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and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, the financial statement effects of a tax position should initially be recognized when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold should initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. FIN 48 is effective for fiscal years beginning after December 15, 2006; we adopted FIN 48 as of January 1, 2007. We do not expect the adoption of FIN 48 to have a material effect on our results of operations, financial position or liquidity.

In September 2006, the FASB issued FASB Staff Position (FSP) No. AUG AIR-1, Accounting for Planned Major Maintenance Activities (FSP AUG AIR-1). This FSP amends certain provisions in the American Institute of Certified Public Accountants Industry Audit Guide, Audits of Airlines (Airline Guide). The Airline Guide is the principal source of guidance on the accounting for planned major maintenance activities and permits four alternative methods of accounting for such activities. This guidance principally affects our accounting for periodic overhauls on our oceangoing vessels. Prior to January 1, 2007, we applied the accrue-in-advance method as prescribed by the Airline Guide, which required the accrual of estimated costs for the next scheduled overhaul over the period leading up to the overhaul. At that time, the actual cost of the overhaul is charged to the accrual, with any deficiency or excess charged or credited to expense. FSP AUG AIR-1 prohibits the use of the accrue-in-advance method and is effective for fiscal years beginning after December 15, 2006. The FSP must be applied retrospectively to the beginning of the earliest period presented in the financial statements. We adopted FSP AUG AIR-1 as of January 1, 2007 using the deferral method as prescribed by the Airline Guide. Under the deferral method, the actual cost of each overhaul is capitalized and amortized to the next overhaul. As a result of the retrospective application of this new accounting standard, we recorded the following cumulative effect adjustments to our January 1, 2004 Consolidated Balance Sheet: an increase in noncurrent assets of $2,555,000; a decrease in current liabilities of $5,134,000; a decrease in deferred tax assets of $46,000; an increase in deferred tax liabilities of $2,111,000; and an increase in retained earnings of $5,532,000. The effect of the retrospective application of FSP AUG AIR-1 on our Consolidated Balance Sheets as of December 31, 2006, 2005 and 2004, and the related Consolidated Statements of Earnings and Statements of Cash Flows for the years then ended are presented in Note 18 to the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (FAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value; accordingly, it does not expand the use of fair value in any new circumstances. Fair value under FAS 157 is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data; for example, a reporting entity s own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. FAS 157 is effective for fiscal years beginning after November 15, 2007; we expect to adopt FAS 157 as of January 1, 2008.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108), which provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. Two approaches are commonly used to evaluate the materiality of misstatements or errors in financial statements: the rollover, also known as the current-period or income-statement approach, and the iron curtain, also known as the cumulative or balance-sheet approach. The rollover approach quantifies a misstatement based on the amount of the error originating in the current-period income statement. This approach could allow balance sheet items to grow each year by immaterial

amounts, until the cumulative error becomes material. The iron curtain approach quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current period. This approach does not consider the income statement effects of correcting prior year misstatements in the current year to be errors. The reliance on only one of these approaches, to the exclusion of the other, does not appropriately quantify all

misstatements that could be material to financial statement users. Accordingly, SAB 108 will require quantification of financial statement errors based on the effects of the error on each of a company s financial statements and the related financial statement disclosures. This model is commonly referred to as a dual approach because it essentially requires quantification of errors under both the iron curtain and the rollover approaches. From a transition perspective, SAB 108 permits companies to record the cumulative effect of initially applying the dual approach in the first year ending after November 15, 2006 by recording any necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The adoption of SAB 108 had no effect on our results of operations, financial position or liquidity.

In September 2006, the FASB issued SFAS No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (FAS 158). FAS 158 requires an employer to recognize the overfunded or underfunded status of a postretirement benefit plan as an asset or liability in its balance sheet, recognize changes in funded status in the year in which the changes occur through comprehensive income and measure the plan assets and benefit obligations as of the date of its year-end balance sheet. The funded status of a benefit plan is measured as the difference between the fair value of plan assets and the projected benefit obligation for pension plans or the accumulated postretirement benefit obligation for other postretirement benefit plans. Prior to the effective date of FAS 158, information about the overfunded or underfunded status of benefit plans was disclosed in the notes to the financial statements. Under FAS 158, an employer is required to recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, Employers Accounting for Pensions (FAS 87), or SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions (FAS 106). Prior to the effective date of FAS 158, the recognition of these gains or losses and prior service costs or credits was delayed, and such amounts were presented in the notes to the financial statements as a reconciling difference between the funded status of a benefit plan and the amount recognized in an employer s balance sheet. Amounts recognized in accumulated other comprehensive income pursuant to FAS 158 will be adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of FAS 87 and FAS 106.

The FAS 158 requirement to recognize the funded status of a benefit plan in an employer s balance sheet was effective as of December 31, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end balance sheet is effective for fiscal years ending after December 15, 2008. Our December 31, 2006 adoption of the recognition provisions of FAS 158 resulted in an increase to our noncurrent prepaid pension asset of $8.9 million, an increase to our noncurrent pension and postretirement liabilities of $11.8 million, an increase to deferred tax assets of $1.1 million and a charge to the ending balance of accumulated other comprehensive income of $1.8 million, net of tax. The adoption of the recognition provisions of FAS 158 had no impact on our results of operations or cash flows for the year ended December 31, 2006. We are currently evaluating the timing of our adoption of the measurement date provisions of FAS 158 and the estimated impact such adoption will have on our financial statements.

Critical Accounting Policies

We follow certain significant accounting policies when preparing our consolidated financial statements. A summary of these policies is included in Note 1 to the consolidated financial statements. The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect reported amounts of assets, liabilities, revenues and expenses, and the related disclosures of contingent assets and contingent liabilities at the date of the financial statements. We evaluate these estimates and judgments on an ongoing basis and base our estimates on historical experience, current conditions

and various other assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Our actual results may materially differ from these estimates.

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We believe the following critical accounting policies require the most significant judgments and estimates used in the preparation of our consolidated financial statements.

ECU Earn-out

In connection with the June 2005 sale of our Chemicals business, as described in Note 2 to the consolidated financial statements, we entered into two separate earn-out agreements that require the purchaser (Basic Chemicals) to make future payments subject to certain conditions. One of these earn-out agreements (the ECU earn-out) is based on ECU (electrochemical unit) and natural gas prices during the five-year period beginning July 1, 2005, and qualifies as a derivative financial instrument under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133). The ECU earn-out is payable annually and is capped at $150 million.

FAS 133 requires all derivatives to be recognized on the balance sheet and measured at fair value. The fair value of the ECU earn-out is adjusted quarterly based on expected future cash flows. We have not designated the ECU earn-out as a hedging instrument and, accordingly, gains and losses resulting from changes in the fair value, if any, are recognized in current earnings. Pursuant to the Securities and Exchange Commission Staff Accounting Bulletin Topic 5:Z:5, Classification and Disclosure of Contingencies Relating to Discontinued Operations (SAB Topic 5:Z:5), changes in fair value are recorded within continuing operations. The carrying amount (fair value) of the ECU earn-out is classified in the accompanying Consolidated Balance Sheets as current (less than one year) or long term (longer than one year) based on our expectation of the timing of future cash flows. The current and long-term portions are reflected in accounts and notes receivable other and other noncurrent assets, respectively, in our accompanying Consolidated Balance Sheets. Cash receipts from the ECU earn-out totaled $127.9 million in 2006, and the fair value of the ECU earn-out was $20.2 million and $119.4 million at December 31, 2006 and 2005, respectively.

The discounted cash flow model utilized to determine the fair value of the ECU earn-out requires significant estimates and judgments as described hereafter. An ECU is defined as the price of one short ton of chlorine plus the price of 1.1 short tons of caustic soda. The expected future prices for an ECU and natural gas are critical variables in the discounted cash flow model. Our estimates of these variables are derived from industry ECU pricing and current natural gas futures contracts. Differences between expected future prices and actual results could materially affect the fair value of the ECU earn-out. In addition, significant judgment is required to assess the likelihood of the amounts and timing of each possible outcome. Future estimates of the ECU earn-out s fair value could vary from period to period. Further, there can be no assurance as to the future amount received under this earn-out, if any. Additional disclosures regarding the ECU earn-out are presented in Notes 2 and 5 to the consolidated financial statements.

Impairment of Long-lived Assets Excluding Goodwill

We evaluate the carrying value of long-lived assets, including intangible assets subject to amortization, when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the estimated undiscounted cash flows from such assets are less than their carrying value. In that event, a loss is recognized equal to the amount by which the carrying value exceeds the fair value of the long-lived assets. Our estimate of net future cash flows is based on historical experience and assumptions of future trends, which may be different from actual results. We periodically review the appropriateness of the estimated useful lives of our long-lived assets.

Reclamation Costs

Reclamation costs resulting from the normal use of long-lived assets are recognized over the period the asset is in use only if there is a legal obligation to incur these costs upon retirement of the assets. Additionally, reclamation costs resulting from the normal use under a mineral lease are recognized over the lease term only if there is a legal

obligation to incur these costs upon expiration of the lease. The obligation, which cannot be reduced by estimated offsetting cash flows, is recorded at fair value as a liability at the obligating event date and is accreted through charges to operating expenses. This fair value is also capitalized as part of the carrying amount of the underlying

asset and depreciated over the estimated useful life of the asset. If the obligation is settled for other than the carrying amount of the liability, a gain or loss is recognized on settlement.

In determining the fair value of the obligation, we estimate the cost for a third party to perform the legally required reclamation tasks including a reasonable profit margin. This cost is then increased for both future estimated inflation and an estimated market risk premium related to the estimated years to settlement. Once calculated, this cost is then discounted to fair value using present value techniques with a credit-adjusted, risk-free rate commensurate with the estimated years to settlement.

In estimating the settlement date, we evaluate the current facts and conditions to determine the most likely settlement date. If this evaluation identifies alternative estimated settlement dates, we use a weighted-average settlement date considering the probabilities of each alternative.

Reclamation obligations are reviewed at least annually for a revision to the cost or a change in the estimated settlement date. Additionally, reclamation obligations are reviewed in the period that a triggering event occurs that would result in either a revision to the cost or a change in the estimated settlement date.

Examples of events that would trigger a change in the cost include a new reclamation law or amendment of an existing mineral lease. Examples of events that would trigger a change in the estimated settlement date include the acquisition of additional reserves or the closure of a facility.

For additional information regarding reclamation obligations (commonly known as asset retirement obligations), see Note 17 to the consolidated financial statements.

Pension and Other Postretirement Benefits

We follow the guidance of FAS 87, FAS 106 and FAS 158 when accounting for pension and postretirement benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and the performance of plan assets. The provisions of FAS 87 and FAS 106 provide for the delayed recognition of differences between actual results and expected or estimated results. This delayed recognition of actual results allows for a smoothed recognition in earnings of changes in benefit obligations and plan performance over the working lives of the employees who benefit under the plans. FAS 158 partially supersedes the delayed recognition principles of FAS 87 and FAS 106 by requiring that differences between actual results and expected or estimated results be recognized in full in other comprehensive income. Amounts recognized in other comprehensive income pursuant to FAS 158 are reclassified to earnings in accordance with the recognition principles of FAS 87 and FAS 106. The primary assumptions are as follows:

Discount Rate The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future.

Expected Return on Plan Assets We project the future return on plan assets based principally on prior performance and our expectations for future returns for the types of investments held by the plan as well as the expected long-term asset allocation of the plan. These projected returns reduce the recorded net benefit costs.

Rate of Compensation Increase For salary-related plans only, we project employees annual pay increases, which are used to project employees pension benefits at retirement.

Rate of Increase in the Per Capita Cost of Covered Healthcare Benefits We project the expected increases in the cost of covered healthcare benefits.

Beginning in 2005, we accelerated the date for actuarial measurement of our pension and other postretirement benefit obligations from December 31 to November 30.

During 2006, we reviewed our assumptions related to the discount rate, the expected return on plan assets, the rate of compensation increase (for salary-related plans) and the rate of increase in the per capita cost of covered healthcare benefits. We consult with our actuaries and investment advisors, as appropriate, when selecting these assumptions.

In selecting the discount rate, we consider fixed-income security yields, specifically high-quality bonds. At November 30, 2006, the discount rate for our plans decreased to 5.70% from 5.75% at November 30, 2005 for purposes of determining our liability under FAS 87 (pensions) and remained 5.50% for purposes of determining our liability under FAS 106 (other postretirement benefits). An analysis of the duration of plan liabilities and the yields for corresponding high-quality bonds is used in the selection of the discount rate.

In estimating the expected return on plan assets, we consider past performance and future expectations for the types of investments held by the plan as well as the expected long-term allocation of plan assets to these investments. At November 30, 2006, the expected return on plan assets remained 8.25%.

In projecting the rate of compensation increase, we consider past experience in light of movements in inflation rates. At November 30, 2006, the inflation component of the assumed rate of compensation remained 2.25%. In addition, based on future expectations of merit and productivity increases, the weighted-average component of the salary increase assumption remained 2.50%.

In selecting the rate of increase in the per capita cost of covered healthcare benefits, we consider past performance and forecasts of future healthcare cost trends. At November 30, 2006, our assumed rate of increase in the per capita cost of covered healthcare benefits increased to 9.0% for 2007, decreasing 1.0% per year until reaching 5.0% in 2011 and remaining level thereafter.

Changes to the assumptions listed above would have an impact on the projected benefit obligations, the accrued other postretirement benefit liabilities, and the annual net periodic pension and other postretirement benefit cost. The following table reflects the sensitivities associated with a hypothetical change in certain assumptions (in millions of dollars):

	(Favorable) Unfavorable			
	0.5% Increase		**0.5% Decrease**	
	Increase (Decrease) in Benefit Obligation	**Increase (Decrease) in Benefit Cost**	**Increase (Decrease) in Benefit Obligation**	**Increase (Decrease) in Benefit Cost**
Actuarial Assumptions				
Discount rate:				
Pension	$(38.3)	$ (2.4)	$42.6	$ 2.8
Other postretirement benefits	(3.7)	(0.2)	4.0	0.2
Expected return on plan assets	not applicable	(2.7)	not applicable	2.7
Rate of compensation increase (for salary-related plans)	9.1	1.3	(8.0)	(1.3)
Rate of increase in the per capita cost of covered healthcare benefits	4.4	0.7	(3.9)	(0.6)

As of the November 30, 2006 measurement date, the pension plans fair value of assets increased from $557.0 million to $611.1 million due primarily to favorable investment returns. Earnings on assets above or below the expected return are reflected in the calculation of pension expense through the calculation of the market-related value, which recognizes changes in fair value averaged on a systematic basis over five years.

As a result of the June 2005 sale of our Chemicals business, as described in Note 2 to the consolidated financial statements, during 2006, we recognized a settlement charge of $0.8 million representing an acceleration of unrecognized losses due to lump-sum payments to certain retirees from our former Chemicals business. Additionally, during 2005 we recognized an acceleration of a portion of the current unrecognized prior service cost of $1.5 million (curtailment loss) for the pension plans and a benefit of $0.2 million (curtailment gain) for the postretirement medical and life insurance plans in accordance with SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (FAS 88). In addition, we granted special termination benefits in relation to the divestiture, including immediate vesting of

pension benefits and an extension of eligibility for enhanced early retirement pension benefits and postretirement medical benefits. These benefits have been treated as special termination benefits under FAS 88 and resulted in one-time, noncash charges during 2005 of $5.6 million for the pension plans and $0.8 million for the postretirement medical plans. For 2005, the divestiture reduced our pension and other postretirement benefits expense by approximately $2.1 million and $1.6 million, respectively. As a result of the divestiture, our future pension and postretirement obligations referable to the divested operations were reduced as of December 31, 2005 by approximately $18.2 million and $19.6 million, respectively.

During 2007, we expect to recognize net periodic pension expense of approximately $8.6 million and net periodic postretirement costs of approximately $9.5 million compared with $9.3 million and $8.7 million, respectively, in 2006. This expectation is based on changes to our actuarial assumptions for discount rate, expected return on plan assets and rate of compensation increase, as well as other actuarial gains and losses. Normal cash payments made for pension benefits in 2007 under the unfunded plans are estimated at $1.6 million. We expect to make no contributions to the funded pension plans during 2007.

The Pension Protection Act of 2006 (PPA), enacted on August 17, 2006, significantly changes the funding requirements after 2007 for single-employer defined benefit pension plans, among other provisions. Funding requirements under the PPA will largely be based on a plan s funded status, with faster amortization of any shortfalls or surpluses. We do not believe this new legislation will have a material impact on the funding requirements of our defined benefit pension plans during 2008.

For additional information regarding pension and other postretirement benefits, see Note 10 to the consolidated financial statements.

Environmental Compliance

We incur environmental compliance costs, which include maintenance and operating costs for pollution control facilities, the cost of ongoing monitoring programs, the cost of remediation efforts and other similar costs. Environmental expenditures that pertain to current operations or that relate to future revenues are expensed or capitalized consistent with our capitalization policy. Expenditures that relate to an existing condition caused by past operations that do not contribute to future revenues are expensed. Costs associated with environmental assessments and remediation efforts are accrued when management determines that a liability is probable and the cost can be reasonably estimated. When a range of probable loss can be estimated, we accrue the most likely amount. In the event that no amount in the range of probable loss is considered most likely, the minimum loss in the range is accrued. As of December 31, 2006 the spread between the minimum and maximum loss in the range was $8.3 million. Accrual amounts may be based on engineering cost estimations, recommendations of third-party consultants, or costs associated with past compliance efforts that were similar in nature and scope. Our Safety, Health and Environmental Affairs Management Committee reviews cost estimates, including key assumptions, for accruing environmental compliance costs; however, a number of factors, including adverse agency rulings and encountering unanticipated conditions as remediation efforts progress, may cause actual results to differ materially from accrued costs.

Claims and Litigation Including Self-insurance

We are involved with claims and litigation, including items covered under our self-insurance program. We are self-insured for losses related to workers compensation up to $2.0 million per occurrence, and automotive and general/ product liability up to $3.0 million per occurrence. We have excess coverage on a per occurrence basis beyond these deductible levels.

Under our self-insurance program, we aggregate certain claims and litigation costs that are reasonably predictable based on our historical loss experience and accrue losses, including future legal defense costs, based on actuarial studies. Certain claims and litigation costs due to their unique nature are not included in our actuarial studies. We use both internal and outside legal counsel to assess the probability of loss, and establish an accrual when the claims and litigation represent a probable loss and the cost can be reasonably estimated. Legal defense costs are accrued when incurred. Accrued liabilities under our self-insurance program were $45.2 million, $42.5 million and $45.6 million as of December 31, 2006, 2005 and 2004, respectively. Accrued liabilities for

self-insurance reserves as of December 31, 2006 were discounted at 3.56%. As of December 31, 2006, the undiscounted amount was $49.2 million as compared with the discounted liability of $45.2 million. Expected payments (undiscounted) for the next five years are projected as follows: 2007, $19.5 million; 2008, $8.2 million; 2009, $6.3 million; 2010, $4.4 million; and 2011, $3.1 million.

Significant judgment is used in determining the timing and amount of the accruals for probable losses, and the actual liability could differ materially from the accrued amounts.

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, we estimate the annual tax rate based on projected taxable income for the full year and record a quarterly income 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.

In accordance with SFAS No. 109, Accounting for Income Taxes, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets represent items to be used as a tax deduction or credit in future tax returns for which we have already properly recorded the tax benefit in the income statement. At least quarterly, we assess the likelihood that the deferred tax asset balance will be recovered from future taxable income. We take into account such factors as prior earnings history, expected future earnings, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of a realization of a deferred tax asset. To the extent recovery is unlikely, a valuation allowance is established against the deferred tax asset, increasing our income tax expense in the year such determination is made.

APB Opinion No. 23, Accounting for Income Taxes, Special Areas, does not require U.S. income taxes to be provided on foreign earnings when such earnings are indefinitely reinvested offshore. We periodically evaluate our investment strategies with respect to each foreign tax jurisdiction in which we operate to determine whether foreign earnings will be indefinitely reinvested offshore and, accordingly, whether U.S. income taxes should be provided when such earnings are recorded.

We establish accruals for certain tax contingencies when, despite the belief that our tax return positions are fully supported, we believe that certain positions are likely to be challenged and it is probable that our positions will not be fully sustained. The methodology utilized in establishing our tax contingency accrual involves estimating the risk to each exposure item and accruing at the appropriate amount. The tax contingency accruals are adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. Our effective tax rate includes the net impact of tax contingency accruals and subsequent adjustments as considered appropriate by management.

A number of years may elapse before a particular matter for which we have recorded a contingent liability is audited and finally resolved. The number of years with open tax audits varies by jurisdiction. In the United States, the Internal Revenue Service concluded an audit of our 2002 and 2003 tax years in the fourth quarter of 2006. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe our tax contingency accruals are adequate to address known tax contingencies. Favorable resolution of such contingencies

could be recognized as a reduction in our effective tax rate in the period of resolution. Unfavorable settlement of any particular issue could increase the effective tax rate and may require the use of cash in the period of resolution. As of December 31, 2006, the accrual for tax contingencies was $9.5 million. Our tax contingency accruals are presented in the balance sheet within current liabilities.

Our largest permanent item in computing both our effective tax rate and taxable income is the deduction allowed for percentage depletion. The impact of percentage depletion on the effective tax rate is reflected in Note 9 to the consolidated financial statements. The deduction for percentage depletion does not necessarily change proportionately to changes in pretax earnings. Due to the magnitude of the impact of percentage depletion on our effective tax rate and taxable income, a significant portion of the financial reporting risk is related to this estimate.

The American Jobs Creation Act of 2004 created a new deduction for certain domestic production activities as described in Section 199 of the Internal Revenue Code. Generally and subject to certain limitations, the deduction is set at 3% for 2005 and 2006, increases to 6% in 2007 through 2009 and reaches 9% in 2010 and thereafter. The estimated impact of this deduction on the 2006 and 2005 effective tax rates is reflected in Note 9 of the consolidated financial statements.

Special Note Regarding Forward-looking Information

Our disclosures and analyses in this report contain forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. Specifically, forward-looking statements are set forth in the Looking Forward section of the Letter to Shareholders and the section of Management s Discussion and Analysis entitled 2007 Outlook. Whenever possible, we have identified these forward-looking statements by words such as anticipate, may, believe, estimate, project, expect, intend and words of similar import. Forward-looking statements involve certai assumptions, risks and uncertainties that could cause actual results to differ materially from those projected. These assumptions, risks and uncertainties include, but are not limited to, those associated with general economic and business conditions; changes in interest rates; the timing and amount of federal, state and local funding for infrastructure; changes in the level of spending for residential and private nonresidential construction; the highly competitive nature of the construction materials industry; pricing; weather and other natural phenomena; energy costs; costs of hydrocarbon-based raw materials; increasing healthcare costs; the timing and amount of any future payments to be received under two earn-outs contained in the agreement for the divestiture of our Chemicals business; our ability to manage and successfully integrate acquisitions; and other assumptions, risks and uncertainties set forth in our Annual Report on Form 10-K. We undertake no obligation to publicly update any forward-looking statements, as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our future filings with the Securities and Exchange Commission or in any of our press releases.

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ITEM 8. *Financial Statements and Supplementary Data*

The Shareholders of Vulcan Materials Company:

Vulcan Materials Company s management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as required by the Sarbanes-Oxley Act of 2002 and as defined in Exchange Act Rule 13a-15(f). A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Under management s supervision, an evaluation of the design and effectiveness of Vulcan Materials Company s internal control over financial reporting was conducted based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Vulcan Materials Company s internal control over financial reporting was effective as of December 31, 2006.

Deloitte & Touche LLP, an independent registered public accounting firm, as auditors of Vulcan Materials Company s consolidated financial statements, has issued an attestation report on management s assessment of the effectiveness of Vulcan Materials Company s internal control over financial reporting as of December 31, 2006. Deloitte & Touche LLP s report, which expresses unqualified opinions on management s assessment and on the effectiveness of Vulcan Materials Company s internal control over financial reporting, is included herein.

Donald M. James
Chairman and
Chief Executive Officer

Daniel F. Sansone
Senior Vice President,
Chief Financial Officer

February 26, 2007

Report of Independent Registered Public Accounting Firm Internal Control Over Financial Reporting

The Board of Directors and Shareholders of Vulcan Materials Company:

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that Vulcan Materials Company and its subsidiary companies (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment about the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 of the Company and our report dated February 26, 2007 (July 11, 2007 as to the effect of the retrospective application of a new accounting standard as discussed in Note 18) expressed an unqualified opinion on those financial statements and includes an explanatory paragraph concerning the adoption of SFAS 123(R), Share-Based Payment; SFAS 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R); and EITF Issue No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry, and an explanatory paragraph referring to the Company s retrospective application of FSP No. AUG AIR-1, Accounting for Planned Major Maintenance Activities.

/s/ Deloitte & Touche LLP

Birmingham, Alabama
February 26, 2007

Report of Independent Registered Public Accounting Firm Consolidated Financial Statements

The Board of Directors and Shareholders of Vulcan Materials Company:

We have audited the accompanying consolidated balance sheets of Vulcan Materials Company and its subsidiary companies (the Company) as of December 31, 2006, 2005 and 2004, and the related consolidated statements of earnings, shareholders equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial statements present fairly, in all material respects, the financial position of Vulcan Materials Company and its subsidiary companies as of December 31, 2006, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, during 2006, the Company adopted SFAS 123(R), Share-Based Payment; SFAS 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R); and EITF Issue No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry.

As discussed in Note 18 to the consolidated financial statements, the accompanying 2006, 2005 and 2004 financial statements have been adjusted for the retrospective application of FSP No. AUG AIR-1, Accounting for Planned Major Maintenance Activities.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007 expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Birmingham, Alabama
February 26, 2007 (July 11, 2007 as to the effect of the retrospective application of a new accounting standard as discussed in Note 18)

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Consolidated Statements of Earnings

	For the Years Ended December 31		
	2006	2005	2004
	Amounts and shares in thousands, except per share data		
Net sales	**$ 3,041,093**	$ 2,614,965	$ 2,213,160
Delivery revenues	**301,382**	280,362	241,175
Total revenues	**3,342,475**	2,895,327	2,454,335
Cost of goods sold	**2,109,189**	1,906,151	1,628,811
Delivery costs	**301,382**	280,362	241,175
Cost of revenues	**2,410,571**	2,186,513	1,869,986
Gross profit	**931,904**	708,814	584,349
Selling, administrative and general expenses	**264,276**	232,411	196,232
Gain on sale of property, plant and equipment, net	**5,557**	8,295	23,801
Other operating (income) expense, net	**(21,904)**	7,862	8,189
Operating earnings	**695,089**	476,836	403,729
Other income, net	**28,541**	24,378	8,314
Interest income	**6,171**	16,627	5,599
Interest expense	**26,310**	37,146	40,280
Earnings from continuing operations before income taxes	**703,491**	480,695	377,362
Provision for income taxes			
Current	**221,094**	132,250	107,200
Deferred	**2,219**	4,317	7,666
Total provision for income taxes	**223,313**	136,567	114,866
Earnings from continuing operations	**480,178**	344,128	262,496
Discontinued operations (Note 2)			
Earnings (loss) from results of discontinued operations	**(16,624)**	83,683	48,839
Minority interest in earnings of a consolidated subsidiary		(11,232)	(9,037)
Income tax benefit (provision)	**6,660**	(27,529)	(13,630)
Earnings (loss) on discontinued operations, net of income taxes	**(9,964)**	44,922	26,172
Net earnings	**$ 470,214**	$ 389,050	$ 288,668
Basic earnings (loss) per share			
Earnings from continuing operations	**$ 4.92**	$ 3.37	$ 2.56
Discontinued operations	**$ (0.10)**	$ 0.44	$ 0.26
Net earnings per share	**$ 4.82**	$ 3.81	$ 2.82

Diluted earnings (loss) per share						
Earnings from continuing operations	**$**	**4.81**	$	3.31	$	2.53
Discontinued operations	**$**	**(0.10)**	$	0.43	$	0.25
Net earnings per share	**$**	**4.71**	$	3.74	$	2.78
Dividends declared per share	**$**	**1.48**	$	1.16	$	1.04
Weighted-average common shares outstanding		**97,577**		102,179		102,447
Weighted-average common shares outstanding, assuming dilution		**99,777**		104,085		103,664

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

Consolidated Balance Sheets

	As of December 31		
	2006	2005	2004
	Amounts and shares in thousands, except per share data		
ASSETS			
Current assets			
Cash and cash equivalents	**$ 55,230**	$ 275,138	$ 271,450
Medium-term investments		175,140	179,210
Accounts and notes receivable			
Customers, less allowance for doubtful accounts: 2006 $3,355; 2005 $4,277; 2004 $5,196	**344,114**	329,299	268,719
Other	**47,346**	147,071	12,894
Inventories	**243,537**	197,752	177,184
Deferred income taxes	**25,579**	23,046	34,341
Prepaid expenses	**15,388**	17,138	15,846
Assets held for sale			458,223
Total current assets	**731,194**	1,164,584	1,417,867
Investments and long-term receivables	**6,664**	6,942	7,226
Property, plant and equipment, net	**1,869,114**	1,603,967	1,536,493
Goodwill	**620,189**	617,083	600,181
Other assets	**200,673**	197,847	105,779
Total assets	**$ 3,427,834**	$ 3,590,423	$ 3,667,546
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Current maturities of long-term debt	**$ 630**	$ 272,067	$ 3,226
Short-term borrowings	**198,900**		
Trade payables and accruals	**154,215**	142,221	95,312
Accrued salaries, wages and management incentives	**74,084**	68,544	45,355
Accrued interest	**4,671**	10,691	10,740
Current portion of income taxes	**11,980**	37,870	40,830
Other accrued liabilities	**43,028**	39,356	35,811
Liabilities of assets held for sale			188,435
Total current liabilities	**487,508**	570,749	419,709
Long-term debt	**322,064**	323,392	604,522
Deferred income taxes	**287,905**	277,761	351,191
Deferred management incentive and other compensation	**69,966**	61,779	55,108
Other postretirement benefits	**85,308**	69,537	70,646
Asset retirement obligations	**114,829**	105,774	90,906
Noncurrent self-insurance reserve	**33,519**	31,616	33,291
Other noncurrent liabilities	**15,836**	16,166	21,383

Total liabilities	**1,416,935**	1,456,774	1,646,756
Other commitments and contingencies (Note 12)			
Shareholders equity			
Common stock, $1 par value 139,705 shares issued as of 2006, 2005 and 2004	**139,705**	139,705	139,705
Capital in excess of par value	**191,695**	136,675	76,222
Retained earnings	**2,982,526**	2,644,535	2,373,730
Accumulated other comprehensive loss	**(4,953)**	(2,213)	(1,309)
Treasury stock at cost	**(1,298,074)**	(785,053)	(567,558)
Total shareholders equity	**2,010,899**	2,133,649	2,020,790
Total liabilities and shareholders equity	**$ 3,427,834**	$ 3,590,423	$ 3,667,546

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

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Consolidated Statements of Cash Flows

	For the Years Ended December 31		
	2006	2005	2004
	Amounts in thousands		
Operating Activities			
Net earnings	**$ 470,214**	$ 389,050	$ 288,668
Adjustments to reconcile net earnings to net cash provided by operating activities Depreciation, depletion, accretion and amortization	**226,370**	222,868	246,388
Net gain on sale of property, plant and equipment	**(5,557)**	(9,414)	(23,973)
Net gain on sale of contractual rights	**(24,841)**		
Contributions to pension plans	**(1,433)**	(29,100)	(7,327)
Share-based compensation	**14,352**	17,170	4,212
(Increase) decrease in assets before initial effects of business acquisitions and dispositions			
Accounts and notes receivable	**(56,599)**	(64,782)	(14,876)
Inventories	**(28,552)**	(6,210)	5,815
Deferred income taxes	**(2,534)**	11,296	(29)
Prepaid expenses	**1,801**	(1,291)	(1,827)
Customer long-term receivables			108
Other assets	**9,895**	(55,055)	(6,672)
Increase (decrease) in liabilities before initial effects of business acquisitions and dispositions			
Accrued interest and income taxes	**(35,806)**	(3,008)	16,766
Trade payables and other accruals	**2,968**	40,224	7,636
Deferred income taxes	**11,848**	(73,467)	11,801
Other noncurrent liabilities	**(1,602)**	41,066	49,351
Other, net	**(1,175)**	(6,163)	4,574
Net cash provided by operating activities	**579,349**	473,184	580,615
Investing Activities			
Purchases of property, plant and equipment	**(435,207)**	(215,646)	(203,800)
Proceeds from sale of property, plant and equipment	**7,918**	10,629	48,377
Proceeds from sale of contractual rights, net of cash transaction fees	**24,849**		
Proceeds from sale of Chemicals business, net of cash transaction fees	**141,916**	209,254	
Payment for minority partner s interest in consolidated Chemicals joint venture		(65,172)	
Payment for businesses acquired, net of acquired cash	**(20,531)**	(93,965)	(34,555)
Purchases of medium-term investments		(313,490)	(378,463)
Proceeds from sales and maturities of medium-term investments	**175,140**	317,560	473,147
Change in investments and long-term receivables	**304**	596	789
Other, net	**604**	1,062	
Net cash used for investing activities	**(105,007)**	(149,172)	(94,505)

Financing Activities			
Net short-term borrowings (payments)	**198,900**		(29,000)
Payment of short-term debt and current maturities	**(272,532)**	(3,350)	(249,794)
Payment of long-term debt		(8,253)	(195)
Purchases of common stock	**(522,801)**	(228,479)	
Dividends paid	**(144,082)**	(118,229)	(106,331)
Proceeds from exercise of stock options	**28,889**	37,940	21,508
Excess tax benefits from exercise of stock options	**17,376**		
Other, net		47	1,383
Net cash used for financing activities	**(694,250)**	(320,324)	(362,429)
Net (decrease) increase in cash and cash equivalents	**(219,908)**	3,688	123,681
Cash and cash equivalents at beginning of year	**275,138**	271,450	147,769
Cash and cash equivalents at end of year	**$ 55,230**	$ 275,138	$ 271,450

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

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Consolidated Statements of Shareholders Equity

	For the Years Ended December 31					
	2006		2005		2004	
	Shares	Amount	Shares	Amount	Shares	Amount
	Amounts and shares in thousands, except per share data					
Common stock, $1 par value Authorized: 480,000 shares in 2006, 2005 and 2004						
Issued at beginning of year	**139,705**	**$ 139,705**	139,705	$ 139,705	139,705	$ 139,705
Issued at end of year	**139,705**	**139,705**	139,705	139,705	139,705	139,705
Capital in excess of par value						
Balance at beginning of year		**136,675**		76,222		49,664
Issuances of stock under share-based compensation plans		**22,915**		27,996		15,032
Share-based compensation expense		**14,352**		17,170		4,212
Excess tax benefits from exercise of stock options		**17,376**		15,287		7,314
Accrued dividends on share-based compensation awards		**377**				
Balance at end of year		**191,695**		136,675		76,222
Retained earnings						
Balance at beginning of year		**2,644,535**		2,373,730		2,185,839
Cumulative effect of accounting change (Note 18)		**12,236**				5,532
Balance at beginning of year adjusted for accounting change		**2,656,771**		2,373,730		2,191,371
Net earnings		**470,214**		389,050		288,668
Cash dividends on common stock		**(144,082)**		(118,229)		(106,331)
Accrued dividends on share-based compensation awards		**(377)**				

Other				(16)		22
Balance at end of year		**2,982,526**		2,644,535		2,373,730
Accumulated other comprehensive (loss) income, net of taxes						
Balance at beginning of year		**(2,213)**		(1,309)		2,649
Fair value adjustment to cash flow hedges, net of reclassification adjustment		**75**		62		(2,711)
Minimum pension liability adjustment		**(1,027)**		(966)		(1,247)
Balance at end of year before adjustment for initial effects of FAS 158		**(3,165)**		(2,213)		(1,309)
Adjustment for initial effects of FAS 158, funded status of pension and postretirement benefit plans (Note 1)		**(1,788)**				
Balance at end of year		**(4,953)**		(2,213)		(1,309)
Common stock held in treasury						
Balance at beginning of year	**(39,379)**	**(785,053)**	(37,046)	(567,558)	(37,894)	(575,021)
Purchase of common shares	**(6,757)**	**(522,801)**	(3,589)	(228,479)		
Issuances of stock under share-based compensation plans	**1,037**	**9,780**	1,256	10,984	848	7,463
Balance at end of year	**(45,099)**	**(1,298,074)**	(39,379)	(785,053)	(37,046)	(567,558)
Total		**$ 2,010,899**		$ 2,133,649		$ 2,020,790
Comprehensive income						
Net earnings		**$ 470,214**		$ 389,050		$ 288,668
Other comprehensive loss		**(952)**		(904)		(3,958)
Total comprehensive income		**$ 469,262**		$ 388,146		$ 284,710

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

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

Nature of Operations

Vulcan Materials Company (the Company, Vulcan, we, our), a New Jersey corporation, is the nation s largest prod of construction aggregates, primarily crushed stone, sand and gravel; and a major producer of asphalt mix and concrete. See Note 15 for additional disclosure regarding nature of operations.

Due to the 2005 sale of our Chemicals business as presented in Note 2, the operating results of the Chemicals business have been presented as discontinued operations in the accompanying Consolidated Statements of Earnings. Additionally, as of December 31, 2004, the assets and liabilities of the Chemicals business are reported in the Consolidated Balance Sheets as assets held for sale and liabilities of assets held for sale, respectively.

Principles of Consolidation

The consolidated financial statements include the accounts of Vulcan Materials Company and all our majority or wholly owned subsidiary companies. All significant intercompany transactions and accounts have been eliminated in consolidation.

Cash Equivalents

We classify as cash equivalents all highly liquid securities with a maturity of three months or less at the time of purchase. The carrying amount of these securities approximates fair value due to their short-term maturities.

Medium-term Investments

Our medium-term investments consist of highly liquid securities with a contractual maturity in excess of three months at the time of purchase. We classify our medium-term investments as either available-for-sale or held-to-maturity. Investments classified as available-for-sale consist of variable rate demand obligations and are reported at fair value, which is equal to cost. Investments classified as held-to-maturity consist of fixed rate debt securities and are reported at cost. The reported values of these investments by major security type as of December 31 are summarized below (in thousands of dollars):

	2006	2005	2004
Bonds, notes and other securities:			
Variable rate demand obligations	$	$ 165,140	$ 179,210
Other debt securities		10,000	
Total	$	$ 175,140	$ 179,210

While the contractual maturities for the variable rate demand obligations noted above are generally long term (longer than one year), these securities have certain economic characteristics of current (less than one year) investments because of their rate-setting mechanisms. Therefore, all our medium-term investments as of December 31, 2005 and 2004 were classified as current assets based on our investing practices and intent.

Proceeds, gross realized gains and gross realized losses from sales and maturities of medium-term investments for the years ended December 31 are summarized below (in thousands of dollars):

	2006	2005	2004
Proceeds	**$175,140**	$317,560	$473,147
Gross realized gains	**insignificant**	insignificant	insignificant
Gross realized losses	**insignificant**	insignificant	insignificant

There were no transfers from either the available-for-sale or held-to-maturity categories to the trading category during the three years ended December 31, 2006. There were no gross unrealized holding gains or losses related to

Notes to Consolidated Financial Statements (Continued)

medium-term investments classified as available-for-sale or held-to-maturity as of December 31, 2006, 2005 and 2004.

Accounts and Notes Receivable

Accounts and notes receivable from customers result from our extending credit to trade customers for the purchase of our products. The terms generally provide for payment within 30 days of being invoiced. On occasion, when necessary to conform to regional industry practices, we sell product under extended payment terms, which may result in either secured or unsecured short-term notes; or, on occasion, notes with durations of less than one year are taken in settlement of existing accounts receivable. Other accounts and notes receivable result from short-term transactions (less than one year) other than the sale of our products, such as interest receivable; insurance claims; freight claims; tax refund claims; bid deposits; rents receivable; etc. Additionally, as of December 31, 2006 and December 31, 2005, other accounts and notes receivable include the current portion of the contingent earn-out agreements referable to the Chemicals business sale as described in Note 2. Receivables are aged and appropriate allowances for doubtful accounts and bad debt expense are recorded.

Inventories

Inventories and supplies are stated at the lower of cost or market. We use the last-in, first-out (LIFO) method of valuation for most of our inventories because it results in a better matching of costs with revenues. Such costs include fuel, parts and supplies, raw materials, direct labor and production overhead. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on our estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory valuation. Substantially all operating supplies inventory is carried at average cost.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation, depletion and amortization. The cost of properties held under capital leases is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease.

Repair and Maintenance

Repair and maintenance costs generally are charged to operating expense as incurred. Renewals and betterments that add materially to the utility or useful lives of property, plant and equipment are capitalized and subsequently depreciated. Costs for planned major maintenance activities, primarily related to periodic overhauls on our oceangoing vessels, are accrued over the interim period between scheduled overhauls, generally no more than five years.

Depreciation, Depletion, Accretion and Amortization

Depreciation is computed by the straight-line method at rates based on the estimated service lives of the various classes of assets, which include machinery and equipment (3 to 30 years), buildings (7 to 20 years) and land improvements (7 to 20 years).

Cost depletion on depletable quarry land is computed by the unit-of-production method based on estimated recoverable units.

Accretion reflects the period-to-period increase in the carrying amount of the liability for asset retirement obligations. It is computed using the same credit-adjusted, risk-free rate used to initially measure the liability at fair value.

Leaseholds are amortized over varying periods not in excess of applicable lease terms or estimated useful life.

Notes to Consolidated Financial Statements (Continued)

Amortization of intangible assets subject to amortization is computed based on the estimated life of the intangible assets.

Depreciation, depletion and amortization expense for assets held for sale ceased October 2004 upon our classification of the Chemicals business as discontinued operations. Depreciation, depletion, accretion and amortization expense for the years ended December 31 is outlined below (in thousands of dollars):

	2006	2005	2004
Depreciation			
Continuing operations	**$ 209,195**	$ 207,107	$ 198,098
Discontinued operations	**19**	21	34,031
Total	**$ 209,214**	$ 207,128	$ 232,129
Depletion			
Continuing operations	**$ 6,768**	$ 6,823	$ 5,727
Discontinued operations			
Total	**$ 6,768**	$ 6,823	$ 5,727
Accretion			
Continuing operations	**$ 5,499**	$ 4,826	$ 4,345
Discontinued operations		447	1,030
Total	**$ 5,499**	$ 5,273	$ 5,375
Amortization of Leaseholds and Capitalized Leases			
Continuing operations	**$ 155**	$ 297	$ 297
Discontinued operations			
Total	**$ 155**	$ 297	$ 297
Amortization of Intangibles			
Continuing operations	**$ 4,734**	$ 3,347	$ 2,860
Discontinued operations			
Total	**$ 4,734**	$ 3,347	$ 2,860
Total Depreciation, Depletion, Accretion and Amortization			
Continuing operations	**$ 226,351**	$ 222,400	$ 211,327
Discontinued operations	**19**	468	35,061
Total	**$ 226,370**	$ 222,868	$ 246,388

Goodwill

Goodwill represents the excess of the cost of net assets acquired in business combinations over their fair value. Goodwill is reviewed for impairment annually, as of January 1, or more frequently if certain indicators arise in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (FAS 142). Goodwill is tested for impairment on a reporting unit level, as defined by FAS 142. Currently we have seven reporting units composed of seven regional divisions. The carrying value of each reporting unit is determined by assigning assets and liabilities, including goodwill, to those reporting units as of the January 1 measurement date. Further, we determine the fair values of the reporting units using present value techniques. If an impairment review indicates that goodwill is impaired, a charge is recorded. There were no charges for goodwill impairment in the years ended December 31, 2006, 2005 and 2004.

Notes to Consolidated Financial Statements (Continued)

Changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2006, 2005 and 2004 are summarized below (in thousands of dollars):

	Construction Materials	Chemicals*	Total
Goodwill as of December 31, 2003	$ 579,442	$ 375	$ 579,817
Goodwill of acquired businesses	20,739		20,739
Less goodwill as of December 31, 2004 classified as assets held for sale		375	375
Goodwill as of December 31, 2004	$ 600,181	$	$ 600,181
Goodwill of acquired businesses	18,836		18,836
Purchase price allocation adjustments	(1,934)		(1,934)
Goodwill as of December 31, 2005	$ 617,083	$	$ 617,083
Goodwill of acquired businesses**	8,800		8,800
Purchase price allocation adjustments	(5,694)		(5,694)
Goodwill as of December 31, 2006	**$ 620,189**	**$ -**	**$ 620,189**

* Goodwill for the former Chemicals segment is classified as assets held for sale as of December 31, 2004.

** The goodwill of acquired businesses for 2006 relates to the acquisitions listed in Note 19. We are currently evaluating the final purchase price allocation for some of these acquisitions; therefore, the goodwill amount is subject to change. When finalized, the goodwill from the 2006 acquisitions is expected to be fully deductible for income tax purposes.

Fair Value of Financial Instruments

The carrying values of our cash equivalents, medium-term investments, accounts and notes receivable, trade payables, accrued expenses and short-term borrowings approximate their fair values because of the short-term nature of these instruments. Additional fair value disclosures for derivative instruments and interest-bearing debt are presented in Notes 5 and 6, respectively.

Derivative Instruments Excluding ECU Earn-out

We previously used derivative instruments (interest rate swap agreements) to manage interest rate risk, and we previously used derivative instruments (primarily commodity swap and option contracts) to manage volatility related to natural gas prices in our discontinued operations Chemicals business. We may periodically use derivative

instruments to reduce our exposure to interest rate risk, currency exchange risk or price fluctuations on natural gas or other commodity energy sources subject to our risk management policies. We do not use derivative financial instruments for speculative or trading purposes. Additional disclosures regarding our derivative financial instruments are presented in Note 5.

ECU Earn-out

In connection with the June 2005 sale of our Chemicals business, as described in Note 2, we entered into two separate earn-out agreements that require the purchaser, Basic Chemicals Company, LLC (Basic Chemicals), to make future payments subject to certain conditions. One of these earn-out agreements (the ECU earn-out) is based on ECU (electrochemical unit) and natural gas prices during the five-year period beginning July 1, 2005, and qualifies as a derivative financial instrument under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133). The ECU earn-out is payable annually and is capped at $150 million.

Notes to Consolidated Financial Statements (Continued)

FAS 133 requires all derivatives to be recognized on the balance sheet and measured at fair value. The fair value of the ECU earn-out is adjusted quarterly based on expected future cash flows. We have not designated the ECU earn-out as a hedging instrument and, accordingly, gains and losses resulting from changes in the fair value, if any, are recognized in current earnings. Pursuant to the Securities and Exchange Commission Staff Accounting Bulletin Topic 5:Z:5, Classification and Disclosure of Contingencies Relating to Discontinued Operations (SAB Topic 5:Z:5), changes in fair value are recorded within continuing operations. The carrying amount (fair value) of the ECU earn-out is classified in the accompanying Consolidated Balance Sheets as current (less than one year) or long term (longer than one year) based on our expectation of the timing of future cash flows. The current and long-term portions are reflected in accounts and notes receivable other and other noncurrent assets, respectively, in our accompanying Consolidated Balance Sheets. Cash receipts from the ECU earn-out totaled $127,859,000 in 2006, and the fair value of the ECU earn-out was $20,213,000 and $119,350,000 at December 31, 2006 and 2005, respectively.

The discounted cash flow model utilized to determine the fair value of the ECU earn-out requires significant estimates and judgments described hereafter. An ECU is defined as the price of one short ton of chlorine plus the price of 1.1 short tons of caustic soda. The expected future prices for an ECU and natural gas are critical variables in the discounted cash flow model. Our estimates of these variables are derived from industry ECU pricing and current natural gas futures contracts. Differences between expected future prices and actual results could materially affect the fair value of the ECU earn-out. In addition, significant judgment is required to assess the likelihood of the amounts and timing of each possible outcome. Future estimates of the ECU earn-out s fair value could vary from period to period. Further, there can be no assurance as to the future amount received under this earn-out, if any. Additional disclosures regarding the ECU earn-out are presented in Notes 2 and 5.

Impairment of Long-lived Assets Excluding Goodwill

We evaluate the carrying value of long-lived assets, including intangible assets subject to amortization, when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the estimated undiscounted cash flows from such assets are less than their carrying value. In that event, a loss is recognized equal to the amount by which the carrying value exceeds the fair value of the long-lived assets. Our estimate of net future cash flows is based on historical experience and assumptions of future trends, which may be different from actual results. We periodically review the appropriateness of the estimated useful lives of our long-lived assets.

Revenue Recognition

Revenue is recognized at the time the sale price is fixed, the product s title is transferred to the buyer and collectibility of the sales proceeds is reasonably assured. Total revenues include sales of products to customers, net of any discounts and taxes, and third-party delivery revenues billed to customers.

Stripping Costs

As a result of our January 1, 2006 adoption of Emerging Issues Task Force Issue No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry (EITF 04-6), we changed our accounting policy for stripping costs.

In the mining industry, the costs of removing overburden and waste materials to access mineral deposits are referred to as stripping costs. Per EITF 04-6, stripping costs incurred during the production phase are considered costs of extracted minerals under a full absorption costing system, inventoried, and recognized in cost of sales in the same

period as the revenue from the sale of the inventory. Additionally, capitalization of such costs would be appropriate only to the extent inventory exists at the end of a reporting period.

Prior to the adoption of EITF 04-6, we expensed stripping costs as incurred with only limited exceptions when specific criteria were met. For additional information regarding the adoption of EITF 04-6, see Note 18.

Notes to Consolidated Financial Statements (Continued)

Other Costs

Costs are charged to earnings as incurred for the start-up of new plants and for normal recurring costs of mineral exploration and research and development. Research and development costs for continuing operations totaled $1,704,000 in 2006, $1,554,000 in 2005 and $1,341,000 in 2004.

Share-based Compensation

Our 1996 Long-term Incentive Plan expired effective May 1, 2006. Effective May 12, 2006, our shareholders approved the 2006 Omnibus Long-term Incentive Plan (Plan), which authorizes the granting of stock options and other types of share-based awards to key salaried employees and nonemployee directors. The maximum number of shares that may be issued under the Plan is 5,400,000.

Prior to January 1, 2006, we accounted for our share-based compensation awards under the intrinsic value recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations. Additionally, we complied with the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation (FAS 123) and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (FAS 148). Under the provisions of these pronouncements, compensation expense for our share-based compensation awards was determined as follows. Compensation expense for deferred stock unit awards was based on the market value of our underlying common stock on the date of grant and was recognized in net earnings ratably over the 10-year maximum vesting life. Compensation expense for performance share awards was recognized over the 3-year term of the award and was adjusted each period based on internal financial performance measures, changes in the market value of our common stock, and total shareholder return versus a preselected comparison group. Generally, no compensation expense was recognized in net earnings for our stock option awards, as all options granted had an exercise price equal to the market value of our underlying common stock on the date of grant. Expense recognized for stock options in periods prior to our adoption of SFAS No. 123 (revised 2004), Share-Based Payment [FAS 123(R)], resulted from the accounting treatment required under the provisions of APB 25 for modifications to awards. These modifications were primarily for terminated Chemicals employees.

On January 1, 2006, we adopted the fair value recognition provisions of FAS 123(R) using the modified-prospective transition method. Under this transition method, compensation cost is recognized beginning with the effective date: (a) based on the requirements of FAS 123(R) for all share-based awards granted after the effective date and (b) based on the requirements of FAS 123 for all awards granted to employees prior to the effective date of FAS 123(R) that remain unvested on the effective date. Accordingly, we did not restate our results for prior periods. The most notable change with the adoption is that compensation expense associated with stock options is now recognized in our Consolidated Statements of Earnings, rather than being disclosed in a pro forma footnote to our consolidated financial statements. Additionally, prior to adoption, for pro forma and actual reporting, we recognized compensation cost for all share-based compensation awards over the nominal (stated) vesting period. We will continue to follow this nominal vesting period approach for awards granted prior to our January 1, 2006 adoption of FAS 123(R). For awards granted subsequent to our adoption of FAS 123(R), compensation cost will be recognized over the shorter of:

- the nominal vesting period or
- the period until the employee s award becomes nonforfeitable upon reaching eligible retirement age under the terms of the award.

As a result of adopting FAS 123(R), for the year ended December 31, 2006, we recognized a pretax charge related to stock options of approximately $9.3 million, resulting in a decrease to earnings from continuing operations and net earnings of approximately $5.7 million, or $0.06 per both basic and diluted share.

We receive an income tax deduction for stock options equal to the excess of the market value of our common stock on the date of exercise over the stock option exercise price. Prior to the adoption of FAS 123(R), we presented the tax benefits from the exercise of stock options as a component of operating cash flows. FAS 123(R) requires the

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Notes to Consolidated Financial Statements (Continued)

tax benefits resulting from tax deductions in excess of the compensation cost recognized (excess tax benefits) to be classified as financing cash flows. The $17,376,000 in excess tax benefits classified as financing cash inflows for the year ended December 31, 2006 in the accompanying Consolidated Statements of Cash Flows relates to the exercise of stock options and would have been classified as operating cash inflows if we had not adopted FAS 123(R).

A summary of unrecognized compensation expense as of December 31, 2006 related to share-based awards granted under our long-term incentive plans is presented below (in thousands of dollars):

	Unrecognized Compensation Expense	Expected Weighted-Average Recognition (Years)
Deferred stock units	$ 6,004	2.8
Performance shares	2,261	1.0
Stock options	9,995	1.3
Total/weighted-average	$ 18,260	1.8

During the year ended December 31, 2006, we recognized pretax compensation expense related to our share-based compensation awards of $22,670,000 and related income tax benefits of $8,901,000. If share-based compensation expense for the years ended December 31, 2005 and 2004 had been determined and recorded based on the fair value method prescribed by FAS 123, which was superseded by FAS 123(R), our net earnings and net earnings per share would have been as follows (amounts in thousands, except per share data):

	2005	2004
Net earnings, as reported	$ 389,050	$ 288,668
Add: Total share-based employee compensation expense included in reported net earnings under intrinsic value based methods for all awards, net of related tax effects(1)	19,285	4,495
Deduct: Total share-based employee compensation expense determined under fair value based method for all awards (including $9,082 related to the December 2005 option grant), net of related tax effects(2)	(25,349)	(8,767)
Pro forma net earnings	$ 382,986	$ 284,396
Earnings per share:		
Basic as reported	$ 3.81	$ 2.82
Basic pro forma	$ 3.75	$ 2.78
Diluted as reported	$ 3.74	$ 2.78
Diluted pro forma	$ 3.68	$ 2.74

(1) Reflects compensation expense related to deferred stock units, stock option modifications primarily for terminated Chemicals employees and performance share awards.

(2) Reflects compensation expense related to deferred stock units, stock options and performance share awards.

Since 1996, we have customarily granted long-term share-based incentive compensation awards for each calendar year in February of that year. In anticipation of our adoption of FAS 123(R), we granted stock option awards in December 2005 in lieu of long-term share-based incentive awards that would customarily have been made in February 2006. The stock options awarded in December 2005 were fully vested on the date of grant; however, shares obtained upon exercise of the options are restricted from sale until January 1, 2009. By granting fully vested stock option awards during December 2005, we reduced future compensation expense that we would otherwise have recognized in our Consolidated Statements of Earnings if these awards were granted during February 2006, after the effective date of FAS 123(R).

Notes to Consolidated Financial Statements (Continued)

The exercise price of all the stock options awarded in December 2005 was equal to the market price of our underlying common stock on the date of grant; therefore, no compensation expense was recorded in the Consolidated Statements of Earnings in accordance with APB 25. Furthermore, since the stock options awarded in December 2005 were fully vested on the grant date, the pro forma expense referable to these options, which amounted to $9.1 million, net of tax, or $0.09 per diluted share, was included in our pro forma disclosure for 2005 above.

Reclamation Costs

Reclamation costs resulting from the normal use of long-lived assets are recognized over the period the asset is in use only if there is a legal obligation to incur these costs upon retirement of the assets. Additionally, reclamation costs resulting from the normal use under a mineral lease are recognized over the lease term only if there is a legal obligation to incur these costs upon expiration of the lease. The obligation, which cannot be reduced by estimated offsetting cash flows, is recorded at fair value as a liability at the obligating event date and is accreted through charges to operating expenses. This fair value is also capitalized as part of the carrying amount of the underlying asset and depreciated over the estimated useful life of the asset. If the obligation is settled for other than the carrying amount of the liability, a gain or loss is recognized on settlement.

In determining the fair value of the obligation, we estimate the cost for a third party to perform the legally required reclamation tasks including a reasonable profit margin. This cost is then increased for both future estimated inflation and an estimated market risk premium related to the estimated years to settlement. Once calculated, this cost is then discounted to fair value using present value techniques with a credit-adjusted, risk-free rate commensurate with the estimated years to settlement.

In estimating the settlement date, we evaluate the current facts and conditions to determine the most likely settlement date. If this evaluation identifies alternative estimated settlement dates, we use a weighted-average settlement date considering the probabilities of each alternative.

Reclamation obligations are reviewed at least annually for a revision to the cost or a change in the estimated settlement date. Additionally, reclamation obligations are reviewed in the period that a triggering event occurs that would result in either a revision to the cost or a change in the estimated settlement date. Examples of events that would trigger a change in the cost include a new reclamation law or amendment of an existing mineral lease. Examples of events that would trigger a change in the estimated settlement date include the acquisition of additional reserves or the closure of a facility.

For additional information regarding reclamation obligations (commonly known as asset retirement obligations), see Note 17.

Pension and Other Postretirement Benefits

We follow the guidance of SFAS No. 87, Employers Accounting for Pensions (FAS 87), SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions (FAS 106), and SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (FAS 158), when accounting for pension and postretirement benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and the performance of plan assets. The provisions of FAS 87 and FAS 106 provide for the delayed recognition of differences between actual results and expected or estimated results. This delayed recognition of actual results allows for a smoothed recognition in earnings of changes in benefit obligations and plan performance over the working lives of the employees who benefit under the

plans. FAS 158 partially supersedes the delayed recognition principles of FAS 87 and FAS 106 by requiring that differences between actual results and expected or estimated results be recognized in full in other comprehensive income. Amounts recognized in other comprehensive income

Notes to Consolidated Financial Statements (Continued)

pursuant to FAS 158 are reclassified to earnings in accordance with the recognition principles of FAS 87 and FAS 106. The primary assumptions are as follows:

Discount Rate The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future.

Expected Return on Plan Assets We project the future return on plan assets based principally on prior performance and our expectations for future returns for the types of investments held by the plan as well as the expected long-term asset allocation of the plan. These projected returns reduce the recorded net benefit costs.

Rate of Compensation Increase For salary-related plans only, we project employees annual pay increases, which are used to project employees pension benefits at retirement.

Rate of Increase in the Per Capita Cost of Covered Healthcare Benefits We project the expected increases in the cost of covered healthcare benefits.

For additional information regarding pension and other postretirement benefits, see Note 10.

Environmental Compliance

We incur environmental compliance costs, which include maintenance and operating costs for pollution control facilities, the cost of ongoing monitoring programs, the cost of remediation efforts and other similar costs. Environmental expenditures that pertain to current operations or that relate to future revenues are expensed or capitalized consistent with our capitalization policy. Expenditures that relate to an existing condition caused by past operations that do not contribute to future revenues are expensed. Costs associated with environmental assessments and remediation efforts are accrued when management determines that a liability is probable and the cost can be reasonably estimated. When a range of probable loss can be estimated, we accrue the most likely amount. In the event that no amount in the range of probable loss is considered most likely, the minimum loss in the range is accrued. As of December 31, 2006, the spread between the minimum and maximum loss in the range was $8,273,000. Accrual amounts may be based on engineering cost estimations, recommendations of third-party consultants, or costs associated with past compliance efforts that were similar in nature and scope. Our Safety, Health and Environmental Affairs Management Committee reviews cost estimates, including key assumptions, for accruing environmental compliance costs; however, a number of factors, including adverse agency rulings and encountering unanticipated conditions as remediation efforts progress, may cause actual results to differ materially from accrued costs.

Claims and Litigation Including Self-insurance

We are involved with claims and litigation, including items covered under our self-insurance program. We are self-insured for losses related to workers compensation up to $2,000,000 per occurrence, and automotive and general/product liability up to $3,000,000 per occurrence. We have excess coverage on a per occurrence basis beyond these deductible levels.

Under our self-insurance program, we aggregate certain claims and litigation costs that are reasonably predictable based on our historical loss experience and accrue losses, including future defense costs, based on actuarial studies. Certain claims and litigation costs due to their unique nature are not included in our actuarial studies. We use both internal and outside legal counsel to assess the probability of loss, and establish an accrual when the claims and

litigation represent a probable loss and the cost can be reasonably estimated. Legal defense costs are accrued when incurred. Accrued liabilities under our self-insurance program were $45,197,000, $42,508,000 and $45,557,000 as of December 31, 2006, 2005 and 2004, respectively. Accrued liabilities for self-insurance reserves as of December 31, 2006 were discounted at 3.56%. As of December 31, 2006, the undiscounted amount was $49,193,000 as compared with the discounted liability of $45,197,000. Expected payments (undiscounted) for the next five years are projected as follows: 2007, $19,509,000; 2008, $8,248,000; 2009, $6,287,000; 2010, $4,433,000; and 2011, $3,062,000.

Notes to Consolidated Financial Statements (Continued)

Significant judgment is used in determining the timing and amount of the accruals for probable losses, and the actual liability could differ materially from the accrued amounts.

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, we estimate the annual tax rate based on projected taxable income for the full year and record a quarterly income 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.

In accordance with SFAS No. 109, Accounting for Income Taxes, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets represent items to be used as a tax deduction or credit in future tax returns for which we have already properly recorded the tax benefit in the income statement. At least quarterly, we assess the likelihood that the deferred tax asset balance will be recovered from future taxable income. We take into account such factors as prior earnings history, expected future earnings, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of a realization of a deferred tax asset. To the extent recovery is unlikely, a valuation allowance is established against the deferred tax asset, increasing our income tax expense in the year such determination is made.

APB Opinion No. 23, Accounting for Income Taxes, Special Areas, does not require U.S. income taxes to be provided on foreign earnings when such earnings are indefinitely reinvested offshore. We periodically evaluate our investment strategies with respect to each foreign tax jurisdiction in which we operate to determine whether foreign earnings will be indefinitely reinvested offshore and, accordingly, whether U.S. income taxes should be provided when such earnings are recorded.

We establish accruals for certain tax contingencies when, despite the belief that our tax return positions are fully supported, we believe that certain positions are likely to be challenged and it is probable that our positions will not be fully sustained. The methodology utilized in establishing our tax contingency accrual involves estimating the risk to each exposure item and accruing at the appropriate amount. The tax contingency accruals are adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. Our effective tax rate includes the net impact of tax contingency accruals and subsequent adjustments as considered appropriate by management.

A number of years may elapse before a particular matter for which we have recorded a contingent liability is audited and finally resolved. The number of years with open tax audits varies by jurisdiction. In the United States, the Internal Revenue Service concluded an audit of our 2002 and 2003 tax years in the fourth quarter of 2006. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe our tax contingency accruals are adequate to address known tax contingencies. Favorable resolution of such contingencies could be recognized as a reduction in our effective tax rate in the year of resolution. Unfavorable settlement of any particular issue could increase the effective tax rate and may require the use of cash in the period of resolution. As of December 31, 2006, the accrual for tax contingencies was $9,500,000. Our tax contingency accruals are presented in

the balance sheet within current liabilities.

Our largest permanent item in computing both our effective tax rate and taxable income is the deduction allowed for percentage depletion. The impact of percentage depletion on the effective tax rate is reflected in Note 9. The deduction for percentage depletion does not necessarily change proportionately to changes in pretax earnings.

Notes to Consolidated Financial Statements (Continued)

Due to the magnitude of the impact of percentage depletion on our effective tax rate and taxable income, a significant portion of the financial reporting risk is related to this estimate.

The American Jobs Creation Act of 2004 created a new deduction for certain domestic production activities as described in Section 199 of the Internal Revenue Code. Generally and subject to certain limitations, the deduction is set at 3% for 2005 and 2006, increases to 6% in 2007 through 2009 and reaches 9% in 2010 and thereafter. The estimated impact of this new deduction on the 2006 and 2005 effective tax rates is reflected in Note 9.

Comprehensive Income

We report comprehensive income in our Consolidated Statements of Shareholders Equity. Comprehensive income includes charges and credits to equity from nonowner sources. Comprehensive income comprises two subsets: net earnings and other comprehensive income (loss). Historically, other comprehensive income (loss) includes fair value adjustments to cash flow hedges and minimum pension liability adjustments. Effective December 31, 2006, accumulated other comprehensive income includes actuarial gains or losses and prior service costs recognized in accordance with FAS 158.

Earnings Per Share (EPS)

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

	2006	**2005**	**2004**
Weighted-average common shares outstanding	**97,577**	102,179	102,447
Dilutive effect of:			
Stock options	**1,758**	1,448	921
Other	**442**	458	296
Weighted-average common shares outstanding, assuming dilution	**99,777**	104,085	103,664

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. The number of antidilutive common stock equivalents for the years ended December 31 are as follows (in thousands of shares):

	2006	**2005**	**2004**
Antidilutive common stock equivalents	**6**	1,192	2

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes, by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, the financial statement effects of a tax position should initially be recognized when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold should initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority.
FIN 48 is effective for fiscal years beginning after December 15, 2006; we adopted FIN 48 as of January 1, 2007. We do not expect the adoption of FIN 48 to have a material effect on our results of operations, financial position or liquidity.

Notes to Consolidated Financial Statements (Continued)

In September 2006, the FASB issued FASB Staff Position (FSP) No. AUG AIR-1, Accounting for Planned Major Maintenance Activities (FSP AUG AIR-1). This FSP amends certain provisions in the American Institute of Certified Public Accountants Industry Audit Guide, Audits of Airlines (Airline Guide). The Airline Guide is the principal source of guidance on the accounting for planned major maintenance activities and permits four alternative methods of accounting for such activities. This guidance principally affects our accounting for periodic overhauls on our oceangoing vessels. Prior to January 1, 2007, we applied the accrue-in-advance method as prescribed by the Airline Guide, which required the accrual of estimated costs for the next scheduled overhaul over the period leading up to the overhaul. At that time, the actual cost of the overhaul is charged to the accrual, with any deficiency or excess charged or credited to expense. FSP AUG AIR-1 prohibits the use of the accrue-in-advance method and is effective for fiscal years beginning after December 15, 2006. The FSP must be applied retrospectively to the beginning of the earliest period presented in the financial statements. We adopted FSP AUG AIR-1 as of January 1, 2007 using the deferral method as prescribed by the Airline Guide.

Under the deferral method, the actual cost of each overhaul is capitalized and amortized to the next overhaul. As a result of the retrospective application of this new accounting standard, we recorded the following cumulative effect adjustments to our January 1, 2004 Consolidated Balance Sheet: an increase in noncurrent assets of $2,555,000; a decrease in current liabilities of $5,134,000; a decrease in deferred tax assets of $46,000; an increase in deferred tax liabilities of $2,111,000; and an increase in retained earnings of $5,532,000. The effect of the retrospective application of FSP AUG AIR-1 on our Consolidated Balance Sheets as of December 31, 2006, 2005 and 2004, and the related Consolidated Statements of Earnings and Statements of Cash Flows for the years then ended are presented in Note 18.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (FAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value; accordingly, it does not expand the use of fair value in any new circumstances. Fair value under FAS 157 is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data; for example, a reporting entity s own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. FAS 157 is effective for fiscal years beginning after November 15, 2007; we expect to adopt FAS 157 as of January 1, 2008.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108), which provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. Two approaches are commonly used to evaluate the materiality of misstatements or errors in financial statements: the rollover, also known as the current-period or income-statement approach, and the iron curtain, also known as the cumulative or balance-sheet approach. The rollover approach quantifies a misstatement based on the amount of the error originating in the current-period income statement. This approach could allow balance sheet items to grow each year by immaterial amounts, until the cumulative error becomes material. The iron curtain approach quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current period. This approach does not consider the income statement effects of correcting prior year misstatements in the current year to be errors. The reliance on only one of these approaches, to the exclusion of the other, does not appropriately quantify all misstatements that could be material to financial statement users. Accordingly, SAB 108 will require quantification of financial statement errors based on the effects of the error on each of a company s financial statements and the related

financial statement disclosures. This model is commonly referred to as a dual approach because it essentially requires quantification of errors under both the iron curtain and the rollover approaches. From a transition perspective, SAB 108 permits companies to record the cumulative effect of initially applying the dual approach in the first year ending after November 15, 2006 by recording any necessary correcting adjustments to the carrying

Notes to Consolidated Financial Statements (Continued)

values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The adoption of SAB 108 had no effect on our results of operations, financial position or liquidity.

In September 2006, the FASB issued SFAS No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (FAS 158). FAS 158 requires an employer to recognize the overfunded or underfunded status of a postretirement benefit plan as an asset or liability in its balance sheet and to recognize changes in the funded status in the year in which the changes occur through comprehensive income and measure the plan assets and benefit obligations as of the date of its year-end balance sheet. The funded status of a benefit plan is measured as the difference between the fair value of plan assets and the projected benefit obligation for pension plans or the accumulated postretirement benefit obligation for other postretirement benefit plans. Prior to the effective date of FAS 158, information about the overfunded or under-funded status of benefit plans was disclosed in the notes to the financial statements. Under FAS 158, an employer is required to recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, Employers Accounting for Pensions (FAS 87), or SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions (FAS 106). Prior to the effective date of FAS 158, the recognition of these gains or losses and prior service costs or credits was delayed, and such amounts were presented in the notes to the financial statements as a reconciling difference between the funded status of a benefit plan and the amount recognized in an employer s balance sheet. Amounts recognized in accumulated other comprehensive income pursuant to FAS 158 will be adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of FAS 87 and FAS 106.

The FAS 158 requirement to recognize the funded status of a benefit plan in an employer s balance sheet was effective as of December 31, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end balance sheet is effective for fiscal years ending after December 15, 2008. Our December 31, 2006 adoption of the recognition provisions of FAS 158 resulted in an increase to our noncurrent prepaid pension asset of $8,949,000, an increase to our noncurrent pension and postretirement liabilities of $11,844,000, an increase to deferred tax assets of $1,107,000 and a charge to the ending balance of accumulated other comprehensive income of $1,788,000, net of tax. The adoption of the recognition provisions of FAS 158 had no impact on our results of operations or cash flows for the year ended December 31, 2006. We are currently evaluating the timing of our adoption of the measurement date provisions of FAS 158 and the estimated impact such adoption will have on our financial statements.

Use of Estimates in the Preparation of Financial Statements

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect reported amounts of assets, liabilities, revenues and expenses, and the related disclosures of contingent assets and contingent liabilities at the date of the financial statements. We evaluate these estimates and judgments on an ongoing basis and base our estimates on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ materially from these estimates under different assumptions or conditions.

Note 2 Discontinued Operations, Assets Held for Sale and Liabilities of Assets Held for Sale

In June 2005, we sold substantially all the assets of our Chemicals business, known as Vulcan Chemicals, to Basic Chemicals, a subsidiary of Occidental Chemical Corporation. These assets consisted primarily of chloralkali facilities in Wichita, Kansas; Geismar, Louisiana and Port Edwards, Wisconsin; and the facilities of our Chloralkali joint venture located in Geismar. The purchaser also assumed certain liabilities relating to the Chemicals business,

Notes to Consolidated Financial Statements (Continued)

including the obligation to monitor and remediate all releases of hazardous materials at or from the three plant facilities. The decision to sell the Chemicals business was based on our desire to focus our resources on the Construction Materials business.

In consideration for the sale of the Chemicals business, Basic Chemicals made an initial cash payment of $214.0 million and assumed certain liabilities relating to the business as described below. Concurrent with the sale transaction, we acquired the minority partner s 49% interest in the joint venture for an initial cash payment of $62.7 million, and conveyed such interest to Basic Chemicals. The net initial cash proceeds of $151.3 million were subject to adjustments for actual working capital balances at the closing date, transaction costs and income taxes. In 2006 we received additional cash proceeds of $10.1 million related to adjustments for actual working capital balances at the closing date.

Basic Chemicals is required to make payments under two separate earn-out agreements subject to certain conditions. The first earn-out agreement is based on ECU and natural gas prices during the five-year period beginning July 1, 2005, and is capped at $150 million (ECU earn-out or ECU derivative). The ECU earn-out is accounted for as a derivative instrument; accordingly, it is reported at fair value. Changes to the fair value of the ECU derivative, if any, are recorded within continuing operations pursuant to SAB Topic 5:Z:5. Future estimates of this derivative s fair value could vary materially from period to period. 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 will be shared equally between Vulcan and Basic Chemicals. The primary determinant of the value for this earn-out is growth in 5CP sales volume.

The net cash proceeds from the 2005 sale of the Chemicals business for the years ended December 31 are summarized below (in millions of dollars):

	2006	2005
Proceeds from sale of Chemicals business, net of cash transaction fees:		
Initial proceeds from Basic Chemicals	$	$ 214.0
Working capital adjustment received	**10.1**	
Transaction costs		(4.7)
5CP earn-out	**3.9**	
ECU earn-out	**127.9**	
Subtotal cash received	**$ 141.9**	$ 209.3
Payment for minority partner s interest in consolidated Chemicals joint venture:		
Initial payment for minority partner s interest	$	$ (62.7)
Working capital adjustments paid		(2.5)
Subtotal cash paid	$	$ (65.2)
Net cash proceeds from the 2005 sale of the Chemicals business	**$ 141.9**	$ 144.1

The fair value of the consideration received in connection with the sale of the Chemicals business, including anticipated cash flows from the two earn-out agreements, is expected to exceed the net carrying value of the assets and liabilities sold. However, SFAS No. 5, Accounting for Contingencies, precludes the recognition of a contingent gain until realization is assured beyond a reasonable doubt. Accordingly, no gain was recognized on the Chemicals sale and the value recorded at the June 7, 2005 closing date referable to these two earn-outs was limited to $128.2 million.

Notes to Consolidated Financial Statements (Continued)

The combined carrying amount of the ECU and 5CP earn-outs (reflected in accounts and notes receivable other and other noncurrent assets in the accompanying Consolidated Balance Sheets) as of December 31, 2006 and December 31, 2005 was $49.5 million and $148.4 million, of which $29.2 million and $105.7 million were classified as current, respectively. During 2006, we received payments of $127.9 million under the ECU earn-out and $3.9 million under the 5CP earn-out, and recognized gains related to changes in the fair value of the ECU earn-out of $28.7 million (reflected as a component of other income, net in our Consolidated Statements of Earnings). Additionally, the final resolution during 2006 of adjustments for working capital balances at the closing date resulted in an increase to the carrying amount of the 5CP earn-out of $4.1 million. At December 31, 2006, the carrying amount of the ECU earn-out was $20.2 million (classified entirely as current) and the carrying amount of the 5CP earn-out was $29.2 million (of which $9.0 million was classified as current). Since changes in the fair value of the ECU earn-out are reported in continuing operations, any gain or loss on disposal of the Chemicals business will ultimately be recognized to the extent remaining cash receipts under the 5CP earn-out exceed or fall short of its $29.2 million carrying amount.

As a result of the 2005 sale of our Chemicals business, we incurred approximately $23.7 million of pretax exit and disposal charges and transaction fees. These costs consist of a $7.8 million expense under SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (FAS 88); $10.4 million for employee severance expenses, primarily referable to outstanding share-based incentive awards; and $5.5 million for various transaction fees. As of December 31, 2005, we had recognized substantially all of the $23.7 million of pretax exit and disposal charges and transaction fees.

We are potentially liable for a cash transaction bonus payable in the future to certain key former Chemicals employees. This transaction bonus will be payable only if cash receipts realized from the two earn-out agreements described above exceed an established minimum threshold. Based on our evaluation of possible cash receipts from the earn-outs, the likely range for the contingent payments to certain key former Chemicals employees is between $0 and approximately $5 million. As of December 31, 2006, the calculated transaction bonus would be $0 and, as such, no liability for these contingent payments has been recorded.

Under the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets (FAS 144), the financial results of the Chemicals business are classified as discontinued operations in the accompanying Consolidated Statements of Earnings for all periods presented.

Net sales, total revenues and pretax earnings (loss) from discontinued operations, excluding minority interest, are as follows (in millions of dollars):

	2006	2005	2004
Net sales	**$**	$ 339.7	$ 611.9
Total revenues		364.4	666.8
Pretax earnings (loss)	**(16.6)**	83.7	48.8

The pretax loss from discontinued operations of $16.6 million during 2006 primarily reflects charges related to general and product liability costs and environmental remediation costs associated with our former Chemicals businesses. Included in these costs are approximately $7,350,000 in contingency accruals related to a claim filed by the city of Modesto, California. See Note 12 for additional information regarding this claim.

As of December 31, 2004, assets and liabilities of our discontinued operations are classified as held for sale in the accompanying Consolidated Balance Sheets under two captions: assets held for sale and liabilities of assets held for sale. In accordance with FAS 144, depreciation expense and amortization expense were suspended on assets held

Notes to Consolidated Financial Statements (Continued)

for sale upon the October 2004 Board approval of the disposal plan. The major classes of assets and liabilities of our discontinued operations at December 31, 2004 were as follows (in millions of dollars):

	2004
Accounts and notes receivable	$ 88.5
Inventories	37.5
Prepaid expenses	0.9
Investments and long-term receivables	9.4
Property, plant and equipment, net	321.4
Goodwill	0.4
Other assets	0.1
Total assets	$ 458.2
Current liabilities	$ 61.5
Asset retirement obligations	17.5
All other noncurrent liabilities	8.4
Minority interest in a consolidated subsidiary	101.0
Total liabilities including minority interest	$ 188.4

Note 3 Inventories

Inventories at December 31 are as follows (in thousands of dollars):

	2006	2005	2004
Finished products	**$ 214,508**	$ 170,539	$ 158,350
Raw materials	**9,967**	9,602	6,512
Products in process	**1,619**	1,589	937
Operating supplies and other	**17,443**	16,022	11,385
Total inventories	**$ 243,537**	$ 197,752	$ 177,184

In addition to the amounts presented in the table above, as of December 31, 2004, inventories of $37,528,000 related to our discontinued operations Chemicals business were classified as assets held for sale.

The above amounts include inventories valued under the LIFO method totaling $181,851,000, $146,830,000 and $132,288,000 at December 31, 2006, 2005 and 2004, respectively. During 2005 and 2004, reductions in LIFO inventory layers resulted in liquidations of LIFO inventory layers carried at lower costs prevailing in prior years as compared with the cost of current-year purchases. The effect of the LIFO liquidation on 2005 results was to decrease

cost of goods sold by $706,000; increase earnings from continuing operations by $436,000 ($0.00 per share effect); and increase net earnings by $436,000 ($0.00 per share effect). The effect of the LIFO liquidation on 2004 results was to decrease cost of goods sold by $511,000; increase pretax earnings from discontinued operations by $1,729,000; increase earnings from continuing operations by $316,000 ($0.00 per share effect); and increase net earnings by $1,383,000 ($0.01 per share effect).

Estimated current cost exceeded LIFO cost at December 31, 2006, 2005 and 2004 by $57,979,000, $44,315,000 and $33,212,000, respectively. We use the LIFO method of valuation for most of our inventories as it results in a better matching of costs with revenues. We provide supplemental income disclosures to facilitate comparisons with companies not on LIFO. The supplemental income calculation is derived by tax-effecting the historic change in the LIFO reserve for the periods presented. If all inventories valued at LIFO cost had been valued under the methods (substantially average cost) used prior to the adoption of the LIFO method, the approximate

Notes to Consolidated Financial Statements (Continued)

effect on net earnings would have been an increase of $9,579,000 ($0.10 per share effect) in 2006, an increase of $5,712,000 ($0.05 per share effect) in 2005 and an increase of $779,000 ($0.01 per share effect) in 2004.

Note 4 Property, Plant and Equipment

Balances of major classes of assets and allowances for depreciation, depletion and amortization at December 31 are as follows (in thousands of dollars):

	2006	2005	2004
Land and land improvements	**$ 757,157**	$ 713,208	$ 670,608
Buildings	**87,681**	83,070	81,987
Machinery and equipment	**2,751,459**	2,499,651	2,376,820
Leaseholds	**7,514**	5,838	5,650
Deferred asset retirement costs	**116,595**	97,233	74,996
Construction in progress	**177,212**	82,708	54,132
Total	**3,897,618**	3,481,708	3,264,193
Less allowances for depreciation, depletion and amortization	**2,028,504**	1,877,741	1,727,700
Property, plant and equipment, net	**$ 1,869,114**	$ 1,603,967	$ 1,536,493

In addition to the amounts presented in the table above, as of December 31, 2004, property, plant and equipment, net of $321,434,000 related to our discontinued operations Chemicals business were classified as assets held for sale.

We capitalized interest costs of $5,000,000 in 2006, $1,934,000 in 2005 and $1,980,000 in 2004 with respect to qualifying construction projects. Total interest costs incurred before recognition of the capitalized amount were $31,310,000 in 2006, $39,080,000 in 2005 and $42,260,000 in 2004.

The impairment losses noted in the following paragraphs represent the amount by which the carrying value exceeded the fair value of the long-lived assets. The write-downs at operating facilities resulted from decreased utilization related to changes in the marketplace; the valuations were based on discounted cash flow analysis. The impairment losses relating to the discontinued operations Chemicals business have been included within the earnings (loss) from results of discontinued operations caption of the accompanying Consolidated Statements of Earnings.

During 2006, we recorded asset impairment losses totaling $226,000 related to long-lived assets. This impairment loss resulted from various write-downs related to continuing operations.

During 2005, we recorded asset impairment losses totaling $697,000 related to long-lived assets. This impairment loss resulted from various write-downs related to continuing operations.

During 2004, we recorded asset impairment losses totaling $1,370,000 related to long-lived assets. This impairment loss resulted from the write-down of owned property surrounding our Wichita, Kansas Chemicals facility and is

reflected in discontinued operations.

Note 5 Derivative Instruments

We may periodically use derivative instruments to reduce our exposure to interest rate risk, currency exchange risk or price fluctuations on natural gas or other commodity energy sources subject to our risk management policies.

In connection with the sale of our Chemicals business, we entered into an earn-out agreement that requires the purchaser, Basic Chemicals, to make future payments based on ECU and natural gas prices during the five-year period beginning July 1, 2005, not to exceed $150 million. We have not designated the ECU earn-out as a hedging

Notes to Consolidated Financial Statements (Continued)

instrument and, accordingly, gains and losses resulting from changes in the fair value, if any, are recognized in current earnings. Further, pursuant to SAB Topic 5:Z:5, changes in fair value are recorded in continuing operations. During the years ended December 31, 2006 and December 31, 2005, we recorded gains of $28,722,000 and $20,420,000, respectively, which are reflected in other income, net of other charges, in our Consolidated Statements of Earnings.

In November 2003, we entered into an interest rate swap agreement for a stated (notional) amount of $50,000,000 under which we paid the six-month London Interbank Offered Rate (LIBOR) plus a fixed spread and received a fixed rate of interest of 6.40% from the counterparty to the agreement. We designated this instrument as an effective fair value hedge in accordance with FAS 133. Accordingly, the mark-to-market value of the hedge was reflected in our Consolidated Balance Sheets with an adjustment to record the underlying hedged debt at its fair value. The interest rate swap agreement terminated February 1, 2006, coinciding with the maturity of our 6.40% five-year notes issued in 2001 in the amount of $240,000,000. For the prior periods presented, December 31, 2005 and December 31, 2004, the estimated fair value of our interest rate swap agreement reflected projected payments of $465,000 and $256,000, respectively.

Natural gas used in our discontinued operations Chemicals business was subject to price volatility caused by supply conditions, political and economic variables, and other unpredictable factors. We used over-the-counter commodity swap and option contracts to manage the volatility related to future natural gas purchases. We designated these instruments as effective cash flow hedges in accordance with FAS 133. There were no open contracts as of December 31, 2006 and December 31, 2005. As of December 31, 2004, our consolidated financial statements reflected the fair value of the open contracts as an unfavorable component of accumulated other comprehensive income of $99,000, offset by the income tax benefit of $37,000.

There was no impact to earnings due to hedge ineffectiveness during the years ended December 31, 2006, 2005 and 2004.

Note 6 Credit Facilities, Short-term Borrowings and Long-term Debt

Short-term borrowings at December 31 are summarized as follows (in thousands of dollars):

	2006	2005	2004
Bank borrowings	**$ 2,500**	$	$
Commercial paper	**196,400**		
Total short-term borrowings	**$ 198,900**	$	$

Short-term borrowings outstanding as of December 31, 2006 consisted of $2,500,000 of bank borrowings at 5.575% maturing January 2007 and $196,400,000 of commercial paper having maturities ranging from 2 to 36 days and interest rates ranging from 5.28% to 5.36%. We plan to reissue most, if not all, of these notes when they mature. These short-term borrowings are used for general corporate purposes, including working capital requirements. There were no short-term borrowings outstanding as of December 31, 2005 and 2004.

Our policy is to maintain committed credit facilities at least equal to our outstanding commercial paper. Unsecured bank lines of credit totaling $760,000,000 were maintained at December 31, 2006, of which $10,000,000 expires January 2007, $200,000,000 expires September 2007 and $550,000,000 expires June 2011. As of December 31, 2006, $2,500,000 of the lines of credit were drawn. Interest rates are determined at the time of borrowing based on current market conditions.

All lines of credit extended to us in 2006, 2005 and 2004 were based solely on a commitment fee; thus, no compensating balances were required. In the normal course of business, we maintain balances for which we are credited with earnings allowances. To the extent the earnings allowances are not sufficient to fully compensate banks for the services they provide, we pay the fee equivalent for the differences.

All our debt obligations, both short-term borrowings and long-term debt, are unsecured as of December 31, 2006.

Notes to Consolidated Financial Statements (Continued)

Long-term debt at December 31 is summarized as follows (in thousands of dollars):

	2006	2005	2004
6.40% 5-year notes issued 2001*	**$**	$ 239,535	$ 239,744
6.00% 10-year notes issued 1999	**250,000**	250,000	250,000
Private placement notes	**49,335**	82,209	83,139
Medium-term notes	**21,000**	21,000	23,000
Tax-exempt bonds			8,200
Other notes	**2,359**	2,715	3,665
Total debt excluding short-term borrowings	**$ 322,694**	$ 595,459	$ 607,748
Less current maturities of long-term debt	**630**	272,067	3,226
Total long-term debt	**$ 322,064**	$ 323,392	$ 604,522
Estimated fair value of long-term debt	**$ 332,611**	$ 339,291	$ 645,502

* Includes a reduction in valuation for the fair value of interest rate swaps, as follows: December 31, 2005 $465 thousand and December 31, 2004 $256 thousand.

Scheduled debt payments during 2006 included $240,000,000 (listed in the table above net of the $465,000 decrease for the interest rate swap) in February to retire the 6.40% 5-year notes issued in 2001 and $32,000,000 in December to retire private placement notes issued in 1996. Scheduled debt payments during 2005 included $2,000,000 in November to retire an 8.07% medium-term note issued in 1991.

During 1999, we accessed the public debt market by issuing $500,000,000 of 5-year and 10-year notes in two related series (tranches) of $250,000,000 each. The 5.75% 5-year coupon notes matured in April 2004 and the 6.00% 10-year notes mature in April 2009.

In 1999, we purchased all the outstanding common shares of CalMat Co. The private placement notes were issued by CalMat in December 1996 in a series of four tranches at interest rates ranging from 7.19% to 7.66%. Principal payments on the notes began in December 2003 and end in December 2011.

During 1991, we issued $81,000,000 of medium-term notes ranging in maturity from 3 to 30 years, and in interest rates from 7.59% to 8.85%. The $21,000,000 in medium-term notes outstanding as of December 31, 2006 have a weighted-average maturity of 8.2 years with a weighted-average interest rate of 8.85%.

During 2005, we called and redeemed $8,200,000 of variable-rate, tax-exempt bond issues maturing in 2009.

Other notes of $2,359,000 as of December 31, 2006 were issued at various times to acquire land or businesses.

The aggregate principal payments of long-term debt, including current maturities, for the five years subsequent to December 31, 2006 are: 2007 $692,000; 2008 $33,546,000; 2009 $250,143,000; 2010 $151,000; and 2011 $20,160,000.

The aggregate interest payments of long-term debt, including current maturities for the five years subsequent to December 31, 2006 are: 2007 $20,605,000; 2008 $20,570,000; 2009 $10,554,000; 2010 $3,045,000; and 2011 $3,053,000.

Our debt agreements do not subject us to contractual restrictions with regard to working capital or the amount we may expend for cash dividends and purchases of our stock. The percentage of consolidated debt to total capitalization, as defined in our bank credit facility agreements, must be less than 60%. Our total debt as a percentage of total capital was 20.7% as of December 31, 2006; 21.9% as of December 31, 2005; and 23.2% as of December 31, 2004.

The estimated fair value amounts of long-term debt presented in the table above have been determined by discounting expected future cash flows based on interest rates on U.S. Treasury bills, notes or bonds, as appropriate.

Notes to Consolidated Financial Statements (Continued)

The fair value estimates are based on information available to management as of December 31, 2006, 2005 and 2004. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since those dates.

Note 7 Operating Leases

Total rental expense from continuing operations under operating leases primarily for machinery and equipment, exclusive of rental payments made under leases of one month or less, is summarized as follows (in thousands of dollars):

	2006	2005	2004
Minimum rentals	**$ 28,364**	$ 22,758	$ 18,388
Contingent rentals (based principally on usage)	**33,021**	26,372	17,613
Total	**$ 61,385**	$ 49,130	$ 36,001

Future minimum operating lease payments under all leases with initial or remaining noncancelable lease terms in excess of one year, exclusive of mineral leases, as of December 31, 2006 are payable as follows: 2007 $16,582,000; 2008 $14,685,000; 2009 $10,720,000; 2010 $7,124,000; 2011 $6,344,000; and total $24,648,000 thereafter. Lease agreements frequently include renewal options and require that we pay for utilities, taxes, insurance and maintenance expense. Options to purchase are also included in some lease agreements.

Note 8 Accrued Environmental Costs

Our Consolidated Balance Sheets as of December 31 include accrued environmental remediation costs as follows (in thousands of dollars):

	2006	2005	2004
Continuing operations:			
Construction Materials	**$ 7,792**	$ 5,164	$ 5,802
Chemicals	**5,602**	4,380	4,034
Discontinued operations			10,290
Total	**$ 13,394**	$ 9,544	$ 20,126

The long-term portion of the reserves noted above as continuing operations is included in other noncurrent liabilities in the accompanying Consolidated Balance Sheets and amounted to $9,873,000, $7,417,000 and $7,144,000 at December 31, 2006, 2005 and 2004, respectively. The short-term portion of these reserves is included in other accrued liabilities in the accompanying Consolidated Balance Sheets. The December 31, 2004 balance of $10,290,000 noted above as discontinued operations is included within the liabilities of assets held for sale caption of the accompanying

Consolidated Balance Sheets as described in Note 2.

The accrued environmental remediation costs in the Construction Materials business relate primarily to the former CalMat and Tarmac facilities acquired in 1999 and 2000, respectively. The continuing operations balances noted above for Chemicals relate to retained environmental remediation costs from the 2003 sale of the Performance Chemicals business and the 2005 sale of the Chloralkali business.

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Notes to Consolidated Financial Statements (Continued)

Note 9 Income Taxes

The components of earnings from continuing operations before income taxes are as follows (in thousands of dollars):

	2006	2005	2004
Domestic	**$ 678,080**	$ 456,614	$ 364,819
Foreign	**25,411**	24,081	12,543
Total	**$ 703,491**	$ 480,695	$ 377,362

Provision (benefit) for income taxes consists of the following (in thousands of dollars):

	2006	2005	2004
Current			
Federal	**$ 178,468**	$ 108,457	$ 85,622
State and local	**36,695**	17,974	17,439
Foreign	**5,931**	5,819	4,139
Total	**221,094**	132,250	107,200
Deferred			
Federal	**627**	1,953	7,911
State and local	**2,254**	3,155	322
Foreign	**(662)**	(791)	(567)
Total	**2,219**	4,317	7,666
Total provision	**$ 223,313**	$ 136,567	$ 114,866

The effective income tax rate varied from the federal statutory income tax rate due to the following:

	2006	2005	2004
Federal statutory tax rate	**35.0%**	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
Depletion	**(4.6)**	(5.9)	(5.7)
State and local income taxes, net of federal income tax benefit	**3.5**	3.4	3.1
U.S. Production Activities Deduction	**(0.8)**	(0.7)	
	(0.2)	(2.7)	(1.2)

Provision for uncertain tax positions, prior year tax liabilities and refund claims			
Miscellaneous items	**(1.2)**	(0.7)	(0.8)
Effective tax rate	**31.7%**	28.4%	30.4%

Notes to Consolidated Financial Statements (Continued)

Deferred income taxes on the balance sheet result from temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. The components of the net deferred income tax liability at December 31 are as follows (in thousands of dollars):

	2006	2005	2004
Deferred tax assets related to:			
Postretirement benefits	**$ 30,049**	$ 29,356	$ 27,603
Accruals for asset retirement obligations and environmental accruals	**10,788**	22,379	32,317
Accounts receivable, principally allowance for doubtful accounts	**1,429**	1,808	3,007
Inventory adjustments	**11,989**	8,748	7,454
Deferred compensation, vacation pay and incentives	**25,221**	30,322	30,926
Self-insurance reserves	**17,589**	16,618	17,800
Other items	**18,669**	2,455	3,943
Total deferred tax assets	**115,734**	111,686	123,050
Deferred tax liabilities related to:			
Fixed assets	**300,936**	301,726	398,267
Pensions	**26,665**	22,576	17,679
Goodwill	**34,697**	27,489	19,607
Other items	**15,762**	14,610	4,347
Total deferred tax liabilities	**378,060**	366,401	439,900
Net deferred tax liability	**$ 262,326**	$ 254,715	$ 316,850

The above amounts are reflected in the accompanying Consolidated Balance Sheets as of December 31 as follows (in thousands of dollars):

	2006	2005	2004
Deferred income taxes:			
Current assets	**$ (25,579)**	$ (23,046)	$ (34,341)
Deferred liabilities	**287,905**	277,761	351,191
Net deferred tax liability	**$ 262,326**	$ 254,715	$ 316,850

Note 10 Benefit Plans

The measurement date for our pension and other postretirement benefit plans is November 30 for 2006 and 2005 and December 31 for 2004. In 2005, we accelerated the date for actuarial measurement of our obligation from December

31 to November 30. We believe that the one-month acceleration of the measurement date is a preferred change as it allows us more time to review the completeness and accuracy of actuarial measurements, which improves our internal control procedures. The effect of the change in measurement date on the respective obligations and assets of the plans did not have a material cumulative effect on annual expense or accrued benefit cost.

In the following tables, the use of n/a signifies not applicable.

Pension Plans

We sponsor three funded, noncontributory defined benefit pension plans. These plans cover substantially all employees other than those covered by union-administered plans. Normal retirement age is 65, but the plans contain

Notes to Consolidated Financial Statements (Continued)

provisions for earlier retirement. Benefits for the Salaried Plan are based on salaries or wages and years of service; the Construction Materials Hourly Plan and the Chemicals Hourly Plan provide benefits equal to a flat dollar amount for each year of service.

Additionally, we sponsor unfunded, nonqualified pension plans that are included in the tables below. The projected benefit obligation, accumulated benefit obligation and fair value of assets for these plans were: $37,081,000, $31,351,000 and $0 at December 31, 2006; $30,642,000, $27,048,000 and $0 at December 31, 2005; and $26,492,000, $23,461,000 and $0 at December 31, 2004.

The following table sets forth the combined funded status of the plans and their reconciliation with the related amounts recognized in our consolidated financial statements at December 31 (in thousands of dollars):

	2006	2005	2004
Change in Benefit Obligation			
Benefit obligation at beginning of year	**$ 535,686**	$ 524,332	$ 455,493
Service cost	**18,322**	20,013	18,913
Interest cost	**32,122**	30,706	29,243
Amendments	**(1,441)**	(1,094)	280
Discontinued operations		(18,169)	
Actuarial loss	**26,531**	7,325	43,106
Benefits paid	**(31,579)**	(27,427)	(22,703)
Benefit obligation at end of year	**$ 579,641**	$ 535,686	$ 524,332
Change in Plan Assets			
Fair value of assets at beginning of year	**$ 557,036**	$ 519,550	$ 478,617
Actual return on plan assets	**84,209**	35,897	56,309
Employer contribution	**1,518**	29,016	7,327
Benefits paid	**(31,579)**	(27,427)	(22,703)
Fair value of assets at end of year	**$ 611,184**	$ 557,036	$ 519,550
Funded status	**$ 31,543**	$ 21,350	$ (4,782)
Unrecognized net actuarial loss	**n/a**	6,967	18,511
Unrecognized prior service cost	**n/a**	6,448	11,285
Net amount recognized	**$ 31,543**	$ 34,765	$ 25,014
Amounts Recognized in the Consolidated Balance Sheets			
Noncurrent assets (2006)/Prepaid benefit cost (2005 and 2004)	**$ 68,517**	$ 61,703	$ 56,639
Current liabilities	**(1,584)**		
Noncurrent liabilities (2006)/Accrued benefit liability (2005 and 2004)	**(35,390)**	(30,918)	(34,851)
Intangible asset	**n/a**	396	1,206
Accumulated other comprehensive loss	**n/a**	3,584	2,020

Net amount recognized	**$ 31,543**	$ 34,765	$ 25,014
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial gain	**$ (9,389)**	n/a	n/a
Prior service cost	**3,939**	n/a	n/a
Minimum pension liability	**n/a**	$ 3,584	$ 2,020
Total amount recognized	**$ (5,450)**	$ 3,584	$ 2,020

Effective January 1, 2006, retirees from the salaried pension plan who retired on or before January 1, 2004 were granted a cost-of-living increase, with a maximum increase of 15%. As it is no longer our intention to grant

Notes to Consolidated Financial Statements (Continued)

cost-of-living increases, no further increases are assumed for determining future pension expense. The effect of this change is reflected as an amendment in the 2005 change in benefit obligation table above.

The accumulated benefit obligation for all defined benefit pension plans was $533,906,000 at December 31, 2006; $496,806,000 at December 31, 2005; and $476,247,000 at December 31, 2004.

The following table sets forth the components of net periodic benefit cost, amounts recognized in other comprehensive income and weighted-average assumptions of the plans at December 31 (amounts in thousands, except percentages):

	2006	2005	2004
Components of Net Periodic Pension Benefit Cost			
Service cost	**$ 18,322**	$ 20,013	$ 18,913
Interest cost	**32,122**	30,706	29,243
Expected return on plan assets	**(43,970)**	(42,065)	(40,806)
Amortization of prior service cost	**1,067**	2,211	2,505
Recognized actuarial loss (gain)	**1,737**	1,318	(167)
Net periodic pension benefit cost	**$ 9,278**	$ 12,183	$ 9,688
Assumptions			
Weighted-average assumptions used to determine benefit obligation at November 30 for 2006 and 2005 and December 31 for 2004			
Discount rate	**5.70%**	5.75%	5.75%
Rate of compensation increase (for salary-related plans):			
Inflation	**2.25%**	2.25%	2.25%
Merit/Productivity	**2.50%**	2.50%	2.50%
Total rate of compensation increase	**4.75%**	4.75%	4.75%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31			
Discount rate	**5.75%**	5.40%	6.25%
Expected return on assets	**8.25%**	8.25%	8.25%
Rate of compensation increase (for salary-related plans):			
Inflation	**2.25%**	2.25%	2.80%
Merit/Productivity	**2.50%**	2.50%	2.20%
Total rate of compensation increase	**4.75%**	4.75%	5.00%

During 2006, we recognized a settlement charge of $826,000 representing an acceleration of unrecognized losses due to lump-sum payments to certain retirees from our former Chemicals business. The disposition of the Chloralkali business resulted in a curtailment loss of $1,533,000 in 2005.

The estimated net actuarial loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic pension benefit cost during 2007 are $1,104,000 and $754,000, respectively.

Notes to Consolidated Financial Statements (Continued)

Plan assets are composed primarily of marketable domestic and international equity securities, corporate and government debt securities and other specialty investments. Our pension plan allocation range for 2007 and asset allocation percentages at December 31, 2006, 2005 and 2004 are presented below:

Asset Category	Allocation Range 2007		Percentage of Plan Assets at December 31 2006	2005	2004
Equity securities	50%	77%	**66%**	72%	71%
Debt securities	15%	27%	**17%**	20%	20%
Real estate					
Other	10%	25%	**17%**	8%	9%
Total			**100%**	100%	100%

Equity securities include domestic equities in the Russell 3000 Index and foreign equities in the Europe, Australia and Far East (EAFE) and International Finance Corporation (IFC) Emerging Market Indices. Debt securities include domestic debt instruments while the other asset category includes investments in venture capital, buyout funds, mezzanine debt private partnerships and an interest in a commodity index fund as well as cash reserves.

We establish our pension investment policy by evaluating asset/liability studies periodically performed by our consultants. These studies estimate trade-offs between expected returns on our investments and the variability in anticipated cash contributions to fund our pension liabilities. Our policy accepts a relatively high level of variability in potential pension fund contributions in exchange for higher expected returns on our investments and lower expected future contributions. We believe this policy is prudent given our strong pension funding, balance sheet and cash flows.

Our current strategy for implementing this policy is to invest a relatively high proportion in publicly traded equities, a moderate amount in long-term publicly traded debt and a relatively small amount in private, nonliquid opportunities for higher returns, such as venture capital, commodities, buyouts and mezzanine debt.

The policy, set by the Board s Finance and Pension Funds Committee, is articulated through guideline ranges and targets for each asset category: domestic equities, foreign equities, bonds, specialty investments and cash reserves. Management implements the strategy within these guidelines and reviews the financial results quarterly, while the Finance and Pension Funds Committee reviews them semiannually.

Assumptions regarding our expected return on plan assets are based primarily on judgments made by management and the Board committee. These judgments take into account the expectations of our pension plan consultants and actuaries and our investment advisors, and the opinions of market professionals. We base our expected return on long-term investment expectations. Accordingly, the expected return has remained 8.25% since our 1986 adoption of FAS 87 and has not varied due to short-term results above or below our long-term expectations.

Total employer contributions for the pension plans are presented below (in thousands of dollars):

	Pension
Employer Contributions	
2004	$ 7,327
2005	29,100
2006	1,433
2007 (estimated)	1,584

Notes to Consolidated Financial Statements (Continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands of dollars):

	Pension
Estimated Future Benefit Payments	
2007	$ 26,196
2008	27,751
2009	29,591
2010	31,035
2011	32,821
2012 2016	197,093

Certain of our hourly employees in unions are covered by multiemployer defined benefit pension plans. Contributions to these plans approximated $7,352,000 in 2006, $5,825,000 in 2005 and $5,738,000 in 2004. The actuarial present value of accumulated plan benefits and net assets available for benefits for employees in the union-administered plans are not determinable from available information. A total of 24% of our hourly labor force were covered by collective bargaining agreements. Of our hourly workforce covered by collective bargaining agreements, 51% were covered by agreements that expire in 2007.

In addition to the pension plans noted above, we have two unfunded supplemental retirement plans. The accrued costs for these supplemental retirement plans were $1,201,000 at December 31, 2006; $1,281,000 at December 31, 2005; and $1,259,000 at December 31, 2004.

The Pension Protection Act of 2006 (PPA), enacted on August 17, 2006, significantly changes the funding requirements after 2007 for single-employer defined benefit pension plans, among other provisions. Funding requirements under the PPA will largely be based on a plan s funded status, with faster amortization of any shortfalls or surpluses. We do not believe this new legislation will have a material impact on the funding requirements of our defined benefit pension plans during 2008.

Postretirement Plans

In addition to pension benefits, we provide certain healthcare benefits and life insurance for some retired employees. Substantially all our salaried employees and, where applicable, hourly employees may become eligible for those benefits if they reach a qualifying age and meet certain service requirements while working for us. Generally, Company-provided healthcare benefits terminate when covered individuals become eligible for Medicare benefits or reach age 65, whichever occurs first.

Notes to Consolidated Financial Statements (Continued)

The following table sets forth the combined funded status of the plans and their reconciliation with the related amounts recognized in our consolidated financial statements at December 31 (in thousands of dollars):

	2006	2005	2004
Change in Benefit Obligation			
Benefit obligation at beginning of year	**$ 89,735**	$ 100,878	$ 94,850
Service cost	**3,617**	4,188	4,369
Interest cost	**4,760**	5,160	5,677
Amendments	**(82)**		
Discontinued operations		(19,604)	
Actuarial (gain) loss	**(101)**	5,116	640
Benefits paid	**(7,124)**	(6,003)	(4,658)
Benefit obligation at end of year	**$ 90,805**	$ 89,735	$ 100,878
Change in Plan Assets			
Fair value of assets at beginning of year	**$**	$	$
Actual return on plan assets			
Fair value of assets at end of year	**$**	$	$
Funded status	**$ (90,805)**	$ (89,735)	$ (100,878)
Unrecognized net actuarial loss	**n/a**	15,410	31,342
Unrecognized prior service cost	**n/a**	(767)	(1,110)
Net amount recognized	**$ (90,805)**	$ (75,092)	$ (70,646)
Amounts Recognized in the Consolidated Balance Sheets			
Current liabilities	**$ (5,497)**	$ (5,555)	$
Noncurrent liabilities (2006)/Accrued postretirement benefits (2005 and 2004)	**(85,308)**	(69,537)	(70,646)
Net amount recognized	**$ (90,805)**	$ (75,092)	$ (70,646)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss	**$ 14,272**	n/a	n/a
Prior service cost (credit)	**(680)**	n/a	n/a
Total amount recognized	**$ 13,592**	n/a	n/a

Notes to Consolidated Financial Statements (Continued)

The following table sets forth the components of net periodic benefit cost, amounts recognized in other comprehensive income, weighted-average assumptions and assumed trend rates of the plans at December 31 (amounts in thousands, except percentages):

	2006	2005	2004
Components of Net Periodic Postretirement Benefit Cost			
Service cost	**$ 3,617**	$ 4,188	$ 4,369
Interest cost	**4,760**	5,160	5,677
Expected return on plan assets			
Amortization of prior service credit	**(168)**	(167)	(194)
Amortization of actuarial loss	**478**	1,215	1,078
Net periodic postretirement benefit cost	**$ 8,687**	$ 10,396	$ 10,930
Assumptions			
Weighted-average assumptions used to determine benefit obligation at November 30 for 2006 and 2005 and December 31 for 2004			
Discount rate	**5.50%**	5.50%	5.50%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31			
Discount rate	**5.50%**	5.31%	6.25%
Expected return on assets	**n/a**	n/a	n/a
Assumed Healthcare Cost Trend Rates at December 31			
Healthcare cost trend rate assumed for next year	**9%**	9%	10%
Rate to which the cost trend rate gradually declines	**5%**	5%	5%
Year that the rate reaches the rate it is assumed to maintain	**2011**	2010	2010

The estimated net actuarial loss and prior service credit that will be amortized from accumulated other comprehensive income into net periodic postretirement benefit cost during 2007 are $582,000 and $168,000, respectively.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in the assumed healthcare cost trend rate would have the following effects (in thousands of dollars):

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost	$ 988	$ (850)
Effect on postretirement benefit obligation	8,823	(7,737)

The disposition of the Chloralkali business resulted in a curtailment gain of $176,000 during 2005.

Total employer contributions for the postretirement plans are presented below (in thousands of dollars):

		Postretirement
Employer Contributions		
2004	$	4,658
2005		6,003
2006		6,566
2007(estimated)		5,497

Notes to Consolidated Financial Statements (Continued)

The employer contributions shown above are equal to the cost of benefits during the year. The plans are not funded and are not subject to any regulatory funding requirements.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands of dollars):

Estimated Future Benefit Payments	Postretirement
2007	$ 5,497
2008	5,852
2009	6,384
2010	6,848
2011	7,264
2012 2016	40,125

Contributions by participants to the postretirement benefit plans were $857,000, $716,000 and $618,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Pension and Other Postretirement Benefits Assumptions

During 2006, we reviewed our assumptions related to the discount rate, the expected return on plan assets, the rate of compensation increase (for salary-related plans) and the rate of increase in the per capita cost of covered healthcare benefits. We consult with our actuaries and investment advisors, as appropriate, when selecting these assumptions.

In selecting the discount rate, we consider fixed-income security yields, specifically high-quality bonds. At November 30, 2006, the discount rate for our plans decreased to 5.70% from 5.75% at November 30, 2005 for purposes of determining our liability under FAS 87 (pensions) and remained 5.50% for purposes of determining our liability under FAS 106 (other postretirement benefits). An analysis of the duration of plan liabilities and the yields for corresponding high-quality bonds is used in the selection of the discount rate.

In estimating the expected return on plan assets, we consider past performance and future expectations for the types of investments held by the plan as well as the expected long-term allocation of plan assets to these investments. At November 30, 2006, the expected return on plan assets remained 8.25%.

In projecting the rate of compensation increase, we consider past experience in light of movements in inflation rates. At November 30, 2006, the inflation component of the assumed rate of compensation remained 2.25%. In addition, based on future expectations of merit and productivity increases, the weighted-average component of the salary increase assumption remained 2.50%.

In selecting the rate of increase in the per capita cost of covered healthcare benefits, we consider past performance and forecasts of future healthcare cost trends. At November 30, 2006, our assumed rate of increase in the per capita cost of covered healthcare benefits increased to 9.0% for 2007, decreasing 1.0% per year until reaching 5.0% in 2011 and remaining level thereafter.

Defined Contribution Plans

We sponsor three defined contribution plans, which cover substantially all salaried and nonunion hourly employees. Expense recognized in connection with these plans totaled $12,017,000, $10,477,000 and $10,137,000 for 2006, 2005 and 2004, respectively.

Impact of Sale of the Chemicals Business

In connection with the sale of the Chemicals business, as described in Note 2, we retained the accumulated benefit obligation for the Chemicals Hourly Pension Plan, as all active participants ceased employment with the

Notes to Consolidated Financial Statements (Continued)

Company. We also retained the accumulated benefit obligation for salaried employees who ceased participation in the Salaried Pension Plan as a result of their termination. Both of these accumulated benefit obligations are fully funded by assets held in our Master Pension Trust.

Additionally, we retained the accumulated benefit obligation for any unfunded, nonqualified pension plans related to Chemicals salaried employees who ceased participation as a result of their termination. The retention of the unfunded accumulated benefit obligation for postretirement plans depended on whether the terminated employee reached a qualifying age and met certain service requirements prior to termination. The liabilities for these unfunded obligations are retained by Vulcan.

As a result of the divestiture, our future pension and postretirement obligations referable to the divested operations were reduced as of December 31, 2005 by approximately $18.2 million and $19.6 million, respectively. For the full year 2005, the sale reduced pension and other postretirement benefits expense approximately $2.1 million and $1.6 million, respectively.

Note 11 Incentive Plans

Share-based Compensation Plans

Our 1996 Long-term Incentive Plan expired effective May 1, 2006. Effective May 12, 2006, our shareholders approved the 2006 Omnibus Long-term Incentive Plan (Plan), which authorizes the granting of stock options and other types of share-based awards to key salaried employees and non-employee directors. The maximum number of shares that may be issued under the Plan is 5,400,000.

Deferred Stock Units Deferred stock units were granted to executive officers and key employees from 2001 through 2005. These awards vest ratably in years 6 through 10 following the date of grant, accrue dividend equivalents starting one year after grant, carry no voting rights and become payable upon vesting. A single deferred stock unit entitles the recipient to one share of common stock upon vesting. Vesting is accelerated upon retirement at age 62 or older, death, disability or change of control as defined in the award agreement. Nonvested units are forfeited upon termination of employment for any other reason. Expense provisions referable to these awards amounted to $1,142,000 in 2006, $1,167,000 in 2005 and $2,056,000 in 2004.

The fair value of deferred stock units is estimated as of the date of grant based on the market price of our stock on the grant date. Compensation cost is recognized in net earnings ratably over the 10-year maximum vesting life during which employees perform related services. For awards granted on or after January 1, 2006, expense recognition is accelerated to the retirement eligible date for individuals meeting the requirements for immediate vesting of awards upon reaching retirement age. The following table summarizes activity for our deferred stock units during the year ended December 31, 2006:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at beginning of year	301,314	$ 40.44
Granted		$

Dividend equivalents accrued	4,664	$	79.31
Vested	(2,396)	$	43.79
Cancelled/forfeited	(1,712)	$	40.38
Nonvested at December 31, 2006	**301,870**	**$**	**41.01**

The weighted-average grant date fair value of deferred stock units granted was $57.69 during 2005 and $47.65 during 2004.

Performance Shares Performance share awards were granted annually for three years beginning in 2003. Each performance share unit is equal to one share of our common stock, but carries no voting or dividend rights. The

Notes to Consolidated Financial Statements (Continued)

units ultimately paid for performance share awards may range from 0% to 200% of target. Fifty percent of the payment is based upon our three-year-average Total Shareholder Return (TSR) performance relative to the three-year-average TSR performance of a preselected comparison group of companies. The remaining 50% of the payment is based upon the achievement of established internal financial performance targets. These awards vest three years from the date of grant. Vesting is accelerated upon retirement at age 55 or older, death, disability, or change of control, as defined in the award agreement. Nonvested units are forfeited upon termination for any other reason. Awards granted prior to 2005 are paid in an equal combination of cash and shares of our common stock. The cash portion of an award, if any, is based on the market value of our common stock on the measurement date. The performance shares granted in 2005 will be paid entirely in shares of our common stock. Expense provisions referable to these awards amounted to $12,179,000 in 2006, $24,509,000 in 2005 and $5,221,000 in 2004.

The fair value of performance shares is estimated as of the date of grant using a Monte Carlo simulation model. Compensation cost for awards that will be paid in shares is recognized in net earnings ratably over the three-year maximum vesting life, is based on the awards that ultimately vest and is not adjusted for the actual target percentage achieved. Compensation cost for awards that will be paid in cash is recognized in net earnings over the three-year maximum vesting life and is adjusted based upon changes in the fair market value of our common stock and changes in our relative TSR performance and internal financial performance targets. For awards granted on or after January 1, 2006, expense recognition is accelerated to the retirement eligible date for individuals meeting the requirements for immediate vesting of awards upon reaching retirement age. The following table summarizes the activity for our performance share units during the year ended December 31, 2006:

	Number of Shares(1)		Weighted-Average Grant Date Fair Value
Nonvested at beginning of year	281,084	$	46.90
Granted		$	
Vested	(93,334)	$	37.05
Cancelled/forfeited	(2,300)	$	50.89
Nonvested at December 31, 2006	**185,450**	**$**	**51.81**

(1) The number of common shares issued related to performance shares may range from 0% to 200% of the number of performance shares shown in the table above based on the achievement of established internal financial performance targets and our three-year-average TSR performance relative to the three-year-average TSR performance of a preselected comparison group.

The weighted-average grant date fair value of performance shares granted was $55.09 during 2005 and $45.34 during 2004.

Cash payments under our performance share plan, net of applicable tax withholdings, were $6,700,000 in 2006. There were no cash payments under our performance share plan during 2005 and 2004.

Stock Options Stock options were granted with an exercise price equal to the market value of our underlying common stock on the date of grant. With the exceptions of the stock option grants awarded in December 2005 and January 2006, the options vest ratably over 5 years and expire 10 years subsequent to the grant. The options awarded in December 2005 and January 2006 were fully vested on the date of grant, expire 10 years subsequent to the grant, and shares obtained upon exercise of the options are restricted from sale until January 1, 2009 and January 24, 2009, respectively. Vesting is accelerated upon retirement at age 55 or older, death, disability, or change of control, as defined in the award agreement. Nonvested awards are forfeited upon termination for any other reason. Upon stock option exercise, we generally issue shares from treasury stock.

Notes to Consolidated Financial Statements (Continued)

The fair value of stock options is estimated as of the date of grant using the Black-Scholes option pricing model. Compensation expense for stock options is based on this grant date fair value and is recognized for awards that ultimately vest. The following table presents the weighted-average fair value and the weighted-average assumptions used in estimating the fair value of option grants for the years ended December 31:

	2006	2005	2004
Fair value	**$ 16.95**	$ 16.35	$ 6.58
Risk-free interest rate	**4.34%**	4.19%	3.58%
Dividend yields	**2.16%**	2.12%	2.10%
Volatility	**26.22%**	26.87%	20.29%
Expected term	**5.05 years**	5.56 years	7.00 years

The risk-free interest rate is based on the yield at the date of grant of a U.S. Treasury security with a maturity period equal to or approximating the option s expected term. The dividend yield assumption is based on our historical dividend payouts. The volatility assumption is based on the historical volatility of our common stock over a period equal to the option s expected term and the market-based implied volatility derived from options trading on our common stock. The expected term of options granted is based on historical experience and expectations about future exercises and represents the period of time that options granted are expected to be outstanding.

A summary of our stock option activity as of December 31, 2006, and changes during the year is presented below:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding at beginning of year	7,510,066	$ 46.38		
Granted	176,170	$ 69.60		
Exercised	(890,064)	$ 32.49		
Forfeited or expired	(27,610)	$ 57.98		
Outstanding at December 31, 2006	**6,768,562**	**$ 48.76**	**5.48**	**$ 281,835**
Vested and expected to vest	**6,524,120**	**$ 48.84**	**5.47**	**$ 271,130**
Exercisable at December 31, 2006	**5,567,366**	**$ 49.15**	**5.16**	**$ 229,680**

The aggregate intrinsic values in the table above represent the total pretax intrinsic value (the difference between our closing stock price on the last trading day of 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all options been exercised on December 31, 2006.

These values change based on the fair market value of our common stock. The aggregate intrinsic value of options exercised was $43,725,000 in 2006, $38,149,000 in 2005 and $18,801,000 in 2004.

Cash received from stock option exercises was $28,920,000 in 2006, $37,940,000 in 2005 and $21,508,000 in 2004. The excess tax benefit realized from the tax deductions for stock option exercises totaled $17,376,000 in 2006, $15,287,000 in 2005 and $7,314,000 in 2004, and is reflected as a component of shareholders equity in our Consolidated Balance Sheets.

Expense provisions referable to stock options amounted to $9,348,000 in 2006, $5,554,000 in 2005 and $2,000 in 2004. Expense recognized in 2005 and 2004 resulted from stock option award modifications, primarily for terminated Chemicals employees.

Notes to Consolidated Financial Statements (Continued)

Cash-based Compensation Plans

We have incentive plans under which cash awards may be made annually to officers and key employees. Expense provisions referable to these plans amounted to $22,491,000 in 2006, $17,574,000 in 2005 and $11,487,000 in 2004.

Note 12 Other Commitments and Contingencies

We have commitments in the form of unconditional purchase obligations as of December 31, 2006. These include commitments for the purchase of property, plant and equipment of $72,527,000 and commitments for noncapital purchases of $89,489,000. The commitments for the purchase of property, plant and equipment are due in 2007; the commitments for noncapital purchases primarily relate to transportation and electrical contracts and are due as follows: 2007, $29,279,000; 2008 2009, $20,855,000; 2010 2011, $12,227,000; and total $27,128,000 thereafter. Expenditures under the noncapital purchase commitments totaled $139,033,000 in 2006, $158,855,000 in 2005 and $196,952,000 in 2004.

We have commitments in the form of contractual obligations related to our mineral royalties as of December 31, 2006 in the amount of $91,504,000, due as follows: 2007, $11,417,000; 2008 2009, $18,164,000; 2010 2011, $10,978,000; and total $50,945,000 thereafter. Expenditures under the contractual obligations related to mineral royalties totaled $45,569,000 in 2006, $46,299,000 in 2005 and $41,456,000 in 2004.

We provide certain third parties with irrevocable standby letters of credit in the normal course of business. We use our commercial banks to issue standby letters of credit to secure our obligations to pay or perform when required to do so pursuant to the requirements of an underlying agreement or the provision of goods and services. The standby letters of credit listed below are cancelable only at the option of the beneficiary who is authorized to draw drafts on the issuing bank up to the face amount of the standby letter of credit in accordance with its terms. Since banks consider letters of credit as contingent extensions of credit, we are required to pay a fee until they expire or are cancelled. Substantially all our standby letters of credit are renewable annually at the option of the beneficiary.

Our standby letters of credit as of December 31, 2006 are summarized in the table below (in millions of dollars):

	Amount	Term	Maturity
Standby Letters of Credit			
Risk management requirement for insurance claims	$ 16.2	One year	Renewable annually
Payment surety required by contract	14.9		February 2007
Payment surety required by utilities	0.1	One year	Renewable annually
Contractual reclamation/restoration requirements	35.5	One year	Renewable annually
Total standby letters of credit	$ 66.7		

As described in Note 2, we may be required to make cash payments in the form of a transaction bonus to certain key former Chemicals employees. The transaction bonus is contingent upon the amounts received under the two earn-out agreements entered into in connection with the sale of the Chemicals business. As of December 31, 2006, the calculated transaction bonus would be $0 and, as such, no liability for these contingent payments has been recorded.

Based on our evaluation of possible cash receipts from the earn-outs, the likely range for the contingent payments is between $0 and approximately $5 million.

As described in our significant accounting policy for income taxes in Note 1, our accrual for tax contingencies is $9,500,000 as of December 31, 2006.

We are subject to occasional governmental proceedings and orders pertaining to occupational safety and health or to protection of the environment, such as proceedings or orders relating to noise abatement, air emissions or water discharges. As part of our continuing program of stewardship in safety, health and environmental matters, we have

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Notes to Consolidated Financial Statements (Continued)

been able to resolve such proceedings and to comply with such orders without any material adverse effects on our business.

We have received notices from the United States Environmental Protection Agency (EPA) or similar state or local agencies that we are considered a potentially responsible party (PRP) at a limited number of sites under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or Superfund) or similar state and local environmental laws. Generally we share the cost of remediation at these sites with other PRPs or alleged PRPs in accordance with negotiated or prescribed allocations. There is inherent uncertainty in determining the potential cost of remediating a given site and in determining any individual party s share in that cost. As a result, estimates can change substantially as additional information becomes available regarding the nature or extent of site contamination, remediation methods, other PRPs and their probable level of involvement, and actions by or against governmental agencies or private parties.

We have reviewed the nature and extent of our involvement at each Superfund site, as well as potential obligations arising under other federal, state and local environmental laws, and based our estimated accrued obligation, if any, upon our likely portion of the potential liability in relation to the total liability of all PRPs that have been identified and are believed to be financially viable. In our opinion, the ultimate resolution of claims and assessments related to these sites will not have a material adverse effect on our consolidated financial position, results of operations or cash flows, although amounts recorded in a given period could be material to our results of operations or cash flows for that period.

We are a defendant in various lawsuits in the ordinary course of business. It is not possible to determine with precision the outcome of, or the amount of liability, if any, under these lawsuits, especially where the cases involve possible jury trials with as yet undetermined jury panels. In our opinion, the disposition of these lawsuits will not adversely affect our consolidated financial position, results of operations or cash flows to a material extent. In addition to those lawsuits in which we are involved in the ordinary course of business, certain other legal proceedings are more specifically described below. Although the ultimate outcome is uncertain, it is our opinion that the disposition of these described lawsuits will not adversely affect our consolidated financial position, results of operations or cash flows to a material extent.

In November 1998, we were named one of several defendants in a claim filed by the city of Modesto in state court in San Francisco, California. The plaintiff sought to recover costs to investigate and clean up low levels of soil and groundwater contamination in Modesto, including a small number of municipal water wells, from a dry cleaning compound, perchloroethylene. This product was produced by several manufacturers, including our former Chemicals business, which was sold in June 2005. The defendants included other chemical and equipment manufacturers, distributors and dry cleaners. The trial of this case began during the first quarter of 2006. On June 9, 2006, the jury returned a joint and several verdict against six defendants, including Vulcan, for compensatory damages of $3.1 million, constituting the costs to filter two wells and pay for certain past investigation costs. On June 13, 2006, the jury returned separate punitive damages awards against three defendants, including $100 million against Vulcan. On August 1, 2006, the trial judge entered an order reducing the punitive damage verdict against Vulcan to $7.25 million and upholding the jury s findings on compensatory damages. Although the compensatory damages verdict was upheld by the court, we believe our share of the compensatory damages after setoffs from other settlements will not be material to our consolidated financial statements. Accordingly, we have not accrued any amounts related to the compensatory damages verdict. We believe that the punitive damages verdict is contrary to the evidence presented at trial, and we are continuing to review potential legal remedies. While it is not possible to predict with certainty the ultimate outcome of this litigation, pursuant to SFAS No. 5, Accounting for Contingencies, we have recorded a contingent liability related to the punitive damages claim of $7.25 million as of December 31, 2006.

As part of the first trial, the court on February 14, 2007, entered a Final Statement of Decision ruling in favor of the city of Modesto and against Vulcan and other defendants on certain claims not submitted to the jury relating to the California Polanco Act. The judge awarded additional joint and several damages of $438,000 against Vulcan and the other five defendants. In addition, the city of Modesto will be allowed to seek attorney fees against these six

Notes to Consolidated Financial Statements (Continued)

defendants, and Vulcan could also be required to pay a portion of future remediation costs at one of the four sites at issue in the trial. As of December 31, 2006, we have recorded a contingent liability related to this ruling in the amount of $100,000, representing a best estimate of our potential share of the $438,000 awarded. At this time, we cannot determine the likelihood or reasonably estimate the range of potential attorney fees or future remediation costs that Vulcan may have to pay.

In this same lawsuit, the Plaintiff seeks a second trial for soil and groundwater contamination at other locations in Modesto that were not part of the first trial, and the timing of the second trial has not been set by the court. No municipal water wells are part of the second trial. At this time, we cannot determine the likelihood or reasonably estimate a range of loss resulting from the remaining phases of the trial.

We have been named as a defendant in multiple lawsuits filed in 2001 and 2002 in state court and federal district court in Louisiana. The lawsuits claim damages for various personal injuries allegedly resulting from releases of chemicals at our former Geismar, Louisiana plant in 2001. A trial for the issues of causation and damages for ten plaintiffs was held in July 2004. Five of these plaintiffs were dismissed during the trial. A jury awarded the remaining five plaintiffs an aggregate award of $201,000. In November 2006 the trial court approved a settlement class with most of the remaining plaintiffs in the matter. A court-appointed special master is overseeing the settlement process of the November 2006 approved settlement class. A second settlement class was agreed to in principle in January 2007 for those plaintiffs who opted out of the November 2006 approved settlement class. The details of the second settlement class are currently in negotiation. We anticipate all of these matters being resolved in 2007. We have previously recorded a charge for the self-insured portion of these losses, and Vulcan s insurers are responding to amounts in excess of the self-insured retention.

In September 2001, we were named a defendant in a suit brought by the Illinois Department of Transportation (IDOT), in the Circuit Court of Cook County, Chancery Division, Illinois, alleging damage to a 0.9-mile section of Joliet Road that bisects our McCook Quarry in McCook, Illinois, a Chicago suburb. IDOT seeks damages to repair, restore, and maintain the road or, in the alternative, judgment for the cost to improve and maintain other roadways to accommodate vehicles that previously used the road. The complaint also requests that the court enjoin any McCook Quarry operations that will further damage the road. Discovery is ongoing.

We produced and marketed industrial sand from 1988 to 1994. Since July 1993, we have been sued in numerous suits in a number of states by plaintiffs alleging that they contracted silicosis or incurred personal injuries as a result of exposure to, or use of, industrial sand used for abrasive blasting. As of February 15, 2007, the number of suits totaled 101, involving an aggregate of 567 plaintiffs. Of the pending suits, 52 with 495 plaintiffs are filed in Texas. The balance of the suits have been brought by plaintiffs in state courts in California, Florida, Louisiana and Mississippi. We are seeking dismissal of all suits on the ground that plaintiffs were not exposed to our product. To date, we have been successful in getting dismissals from cases involving almost 17,000 plaintiffs.

While it is not possible to predict with certainty the ultimate outcome of these and other legal proceedings in which we are involved as of December 31, 2006, we had recorded liabilities of $7,435,000 related to the claims and litigation described above for which a loss was determined to be probable and reasonably estimable. For claims and litigation for which a loss was determined to be only reasonably possible, no liability was recorded. Furthermore, the potential range of such losses would not be material to our consolidated financial statements. In addition, losses on certain claims and litigation described above may be subject to limitations on a per occurrence basis by excess insurance, as described more fully in Note 1 under our accounting policy for claims and litigation including self-insurance.

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Notes to Consolidated Financial Statements (Continued)

Note 13 Shareholders Equity

On February 10, 2006, the Board of Directors increased to 10,000,000 shares the existing authorization to purchase common stock. As of December 31, 2006, 3,455,539 shares remained under the purchase authorization.

The number and cost of shares purchased during each of the last three years and shares held in treasury at year end are shown below:

	2006	2005	2004
Shares purchased:			
Number	**6,757,361**	3,588,738	
Total cost (thousands)	**$ 522,801**	$ 228,479	$
Average cost	**$ 77.37**	$ 63.67	$
Shares in treasury at year end:			
Number	**45,098,644**	39,378,985	37,045,535
Average cost	**$ 28.78**	$ 19.94	$ 15.32

Of the 6,757,361 shares purchased in 2006, 6,680,794 shares were purchased in the open market and 76,567 shares were purchased directly from employees to satisfy income tax withholding requirements on shares issued pursuant to incentive compensation plans.

Note 14 Other Comprehensive Income (Loss)

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

The amount of income tax (expense) benefit allocated to each component of other comprehensive income (loss) for the years ended December 31, 2006, 2005 and 2004 is summarized as follows (in thousands of dollars):

	Before-tax Amount	Tax (Expense) Benefit	Net-of-tax Amount
December 31, 2006			
Fair value adjustment to cash flow hedges	**$ 115**	**$ (40)**	**$ 75**
Minimum pension liability adjustment	**(1,662)**	**635**	**(1,027)**
Total other comprehensive income (loss)	**$ (1,547)**	**$ 595**	**$ (952)**
December 31, 2005			

Reclassification adjustment for cash flow hedge amounts included in net earnings	$	99	$	(37)	$	62
Minimum pension liability adjustment		(1,564)		598		(966)
Total other comprehensive income (loss)	$	(1,465)	$	561	$	(904)
December 31, 2004						
Fair value adjustment to cash flow hedges	$	(9,396)	$	3,534	$	(5,862)
Less reclassification adjustment for amounts included in net earnings		5,051		(1,900)		3,151
Minimum pension liability adjustment		(2,020)		773		(1,247)
Total other comprehensive income (loss)	$	(6,365)	$	2,407	$	(3,958)

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Notes to Consolidated Financial Statements (Continued)

Note 15 Enterprise Data Continuing Operations

Our Construction Materials business is organized in seven regional divisions that produce and sell aggregates and related products and services. All these divisions exhibit similar economic characteristics, product processes, products and services, types and classes of customers, methods of distribution and regulatory environments. Accordingly, they have been aggregated into one reporting segment for financial statement purposes. During 2006, we served markets in 21 states, the District of Columbia and Mexico with a full line of aggregates, and 5 additional states with railroad ballast. Customers use aggregates primarily in the construction and maintenance of highways, streets and other public works and in the construction of housing and commercial, industrial and other nonresidential facilities.

The majority of our activities are domestic. Long-lived assets outside the United States, which primarily consist of property, plant and equipment, were $146,457,000 in 2006, $105,182,000 in 2005 and $111,207,000 in 2004. We sell a relatively small amount of construction aggregates outside the United States. Nondomestic net sales were $20,595,000 in 2006, $13,490,000 in 2005 and $7,580,000 in 2004. Due to the sale of our Chemicals business as described in Note 2, we have one reportable segment, Construction Materials, which constitutes continuing operations.

Net sales by product are summarized below (in millions of dollars):

	2006	2005	2004
Net Sales by Product			
Aggregates	**$ 2,131.9**	$ 1,884.0	$ 1,622.1
Asphalt mix	**500.2**	371.4	272.6
Concrete	**260.7**	252.1	225.0
Other	**148.3**	107.5	93.5
Total	**$ 3,041.1**	$ 2,615.0	$ 2,213.2

Note 16 Supplemental Cash Flow Information

Supplemental information referable to the Consolidated Statements of Cash Flows is summarized below (in thousands of dollars):

	2006	2005	2004
Cash payments:			
Interest (exclusive of amount capitalized)	**$ 32,616**	$ 37,331	$ 44,191
Income taxes	**219,218**	211,985	90,129
Noncash investing and financing activities:			
Accrued liabilities for purchases of property, plant and equipment	**32,941**	14,244	5,898
Debt issued for purchases of property, plant and equipment	**177**		

Proceeds receivable from exercise of stock options	**31**	
Amounts referable to business acquisitions:		
Liabilities assumed		4,684
Noncash proceeds from the sale of the Chemicals business:		
Earn-outs (Note 2)		127,979
Working capital adjustments		14,255

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Notes to Consolidated Financial Statements (Continued)

Note 17 Asset Retirement Obligations

SFAS 143, Accounting for Asset Retirement Obligations (FAS 143) applies to legal obligations associated with the retirement of long-lived assets resulting from the acquisition, construction, development and/or normal use of the underlying assets.

FAS 143 requires recognition of a liability for an asset retirement obligation in the period in which it is incurred at its estimated fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the estimated useful life of the asset. The liability is accreted through charges to operating expenses. If the asset retirement obligation is settled for other than the carrying amount of the liability, we recognize a gain or loss on settlement.

We record all asset retirement obligations for which we have legal obligations for land reclamation at estimated fair value. Essentially all these asset retirement obligations relate to our underlying land parcels, including both owned properties and mineral leases. FAS 143 results in ongoing recognition of costs related to the depreciation of the assets and accretion of the liability. For the years ended December 31, we recognized operating costs related to FAS 143 as follows: 2006 $16,197,000; 2005 $14,867,000, including $447,000 related to discontinued operations; and 2004 $12,076,000, including $1,118,000 related to discontinued operations. FAS 143 operating costs for our continuing operations are reported in cost of goods sold. FAS 143 asset retirement obligations are reported within other noncurrent liabilities in our accompanying Consolidated Balance Sheets.

A reconciliation of the carrying amount of our asset retirement obligations for the years ended December 31, 2006, 2005 and 2004 is as follows (in thousands of dollars):

Asset retirement obligations as of December 31, 2003	$ 107,683
Liabilities incurred	173
Liabilities (settled)	(9,291)
Accretion expense	5,375
Revisions up (down)	4,468
Less asset retirement obligations classified as liabilities of assets held for sale	(17,502)
Asset retirement obligations as of December 31, 2004	$ 90,906
Liabilities incurred	3,767
Liabilities (settled)	(12,437)
Accretion expense	4,826
Revisions up (down)	18,712
Asset retirement obligations as of December 31, 2005	$ 105,774
Liabilities incurred	1,021
Liabilities (settled)	(16,806)
Accretion expense	5,499
Revisions up (down)	19,341

Asset retirement obligations as of December 31, 2006	**$ 114,829**

Upward revisions to our asset retirement obligations for the years ended December 31, 2006 and 2005 are largely attributable to one aggregates facility located in California, which we operate under a mineral lease. Extremely wet weather conditions in 2005 and 2006, which flooded certain areas at the site, resulted in higher than expected costs to extract water, dry materials, re-compact affected areas and haul away certain materials with high moisture content. During 2005 we identified certain material generated in our extraction process that contained substances that precluded it from being used as fill material. Estimated costs to examine, handle and haul such material resulted in upward revisions to our asset retirement obligations. Delays in executing an amended lease

Notes to Consolidated Financial Statements (Continued)

agreement, which resulted in delays in performing our reclamation plan, and changes to the reclamation plan that resulted from ongoing operational logistics, caused inefficiencies related to double handling and stockpiling materials that were not anticipated in previous cost estimates. Altogether, upward revisions to our asset retirement obligations related to this site amounted to approximately $10.3 million during 2006 and $11.1 million during 2005.

Other net upward revisions to our asset retirement obligations during 2006 and 2005 relate primarily to changes in cost estimates and settlement dates at numerous aggregates facilities.

Note 18 Accounting Changes

2007 FSP AUG AIR-1

In September 2006, the FASB issued FASB Staff Position (FSP) No. AUG AIR-1, Accounting for Planned Major Maintenance Activities (FSP AUG AIR-1). This FSP amends certain provisions in the American Institute of Certified Public Accountants Industry Audit Guide, Audits of Airlines (Airline Guide). The Airline Guide is the principal source of guidance on the accounting for planned major maintenance activities and permits four alternative methods of accounting for such activities. This guidance principally affects our accounting for periodic overhauls on our oceangoing vessels. Prior to January 1, 2007, we applied the accrue-in-advance method as prescribed by the Airline Guide, which required the accrual of estimated costs for the next scheduled overhaul over the period leading up to the overhaul. At that time, the actual cost of the overhaul was charged to the accrual, with any deficiency or excess charged or credited to expense. FSP AUG AIR-1 prohibits the use of the accrue-in-advance method, and was effective for fiscal years beginning after December 15, 2006. Accordingly, we adopted this FSP effective January 1, 2007, and have elected to use the deferral method of accounting for planned major maintenance as prescribed by the Airline Guide and allowed by FSP AUG AIR-1. Under the deferral method, the actual cost of each overhaul is capitalized and amortized over the period until the next overhaul. Additionally, the FSP must be applied retrospectively to the beginning of the earliest period presented in the financial statements. As a result of the retrospective application of this change in accounting standard, we have adjusted our financial statements for all periods presented to reflect using the deferral method of accounting for planned major maintenance.

The retrospective application using the deferral method resulted in the following changes to the January 1, 2004 Consolidated Balance Sheet: an increase in noncurrent assets of $2,555,000; a decrease in current liabilities of $5,134,000; a decrease in deferred tax assets of $46,000; an increase in deferred tax liabilities of $2,111,000; and an increase in retained earnings of $5,532,000. The following tables reflect the effect of the retrospective application of FSP AUG AIR-1 on our Consolidated Balance Sheets (in thousands of dollars):

	December 31, 2006		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Balance Sheet Data:			
Deferred income taxes	$ 25,764	$ (185)	$ 25,579
Total current assets	731,379	(185)	731,194
Other assets	196,879	3,794	200,673
Total assets	3,424,225	3,609	3,427,834

Other accrued liabilities	49,207	(6,179)	43,028
Total current liabilities	493,687	(6,179)	487,508
Total shareholders equity	2,001,111	9,788	2,010,899
Total liabilities and shareholders equity	3,424,225	3,609	3,427,834

Notes to Consolidated Financial Statements (Continued)

	December 31, 2005		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Balance Sheet Data:			
Deferred income taxes	$ 23,184	$ (138)	$ 23,046
Total current assets	1,164,722	(138)	1,164,584
Other assets	196,170	1,677	197,847
Total assets	3,588,884	1,539	3,590,423
Other accrued liabilities	47,621	(8,265)	39,356
Total current liabilities	579,014	(8,265)	570,749
Deferred income taxes	275,065	2,696	277,761
Total liabilities	1,462,343	(5,569)	1,456,774
Total shareholders equity	2,126,541	7,108	2,133,649
Total liabilities and shareholders equity	3,588,884	1,539	3,590,423

	December 31, 2004		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Balance Sheet Data:			
Deferred income taxes	$ 34,433	$ (92)	$ 34,341
Total current assets	1,417,959	(92)	1,417,867
Other assets	103,274	2,505	105,779
Total assets	3,665,133	2,413	3,667,546
Other accrued liabilities	42,791	(6,980)	35,811
Total current liabilities	426,689	(6,980)	419,709
Deferred income taxes	348,613	2,578	351,191
Total liabilities	1,651,158	(4,402)	1,646,756
Total shareholders equity	2,013,975	6,815	2,020,790
Total liabilities and shareholders equity	3,665,133	2,413	3,667,546

Notes to Consolidated Financial Statements (Continued)

The following tables reflect the effect of the retrospective application of FSP AUG AIR-1 on our Consolidated Statements of Earnings (in thousands of dollars, except per share data):

	Year Ended December 31, 2006		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Statement of Earnings Data:			
Net sales	$ 3,041,093	$	$ 3,041,093
Cost of goods sold	2,109,099	90	2,109,189
Cost of revenues	2,410,481	90	2,410,571
Gross profit	931,994	(90)	931,904
Selling, administrative and general expenses	264,396	(120)	264,276
Operating earnings	695,059	30	695,089
Earnings from continuing operations before income taxes	703,461	30	703,491
Provision for income taxes	225,963	(2,650)	223,313
Earnings from continuing operations	477,498	2,680	480,178
Net earnings	467,534	2,680	470,214
Basic earnings per share	$ 4.79	$ 0.03	$ 4.82
Diluted earnings per share	$ 4.69	$ 0.02	$ 4.71

	Year Ended December 31, 2005		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Statement of Earnings Data:			
Net sales	$ 2,614,965	$	$ 2,614,965
Cost of goods sold	1,906,489	(338)	1,906,151
Cost of revenues	2,186,851	(338)	2,186,513
Gross profit	708,476	338	708,814
Selling, administrative and general expenses	232,531	(120)	232,411
Operating earnings	476,378	458	476,836
Earnings from continuing operations before income taxes	480,237	458	480,695
Provision for income taxes	136,402	165	136,567
Earnings from continuing operations	343,835	293	344,128
Net earnings	388,757	293	389,050
Basic earnings per share	$ 3.80	$ 0.01	$ 3.81
Diluted earnings per share	$ 3.73	$ 0.01	$ 3.74

Notes to Consolidated Financial Statements (Continued)

	Year Ended December 31, 2004		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Statement of Earnings Data:			
Net sales	$ 2,213,160	$	$ 2,213,160
Cost of goods sold	1,630,487	(1,676)	1,628,811
Cost of revenues	1,871,662	(1,676)	1,869,986
Gross profit	582,673	1,676	584,349
Selling, administrative and general expenses	196,352	(120)	196,232
Operating earnings	401,933	1,796	403,729
Earnings from continuing operations before income taxes	375,566	1,796	377,362
Provision for income taxes	114,353	513	114,866
Earnings from continuing operations	261,213	1,283	262,496
Net earnings	287,385	1,283	288,668
Basic earnings per share	$ 2.81	$ 0.01	$ 2.82
Diluted earnings per share	$ 2.77	$ 0.01	$ 2.78

The following tables reflect the effect of the retrospective application of FSP AUG AIR-1 on our Consolidated Statement of Cash Flows (in thousands of dollars):

	Year Ended December 31, 2006		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Statement of Cash Flows Data:			
Net earnings	$ 467,534	$ 2,680	$ 470,214
Depreciation, depletion, accretion and amortization	224,696	1,674	226,370
Increase in deferred income tax assets	(2,580)	46	(2,534)
Decrease in other assets	13,686	(3,791)	9,895
Increase in trade payables and other accruals	881	2,087	2,968
Increase in deferred income tax liabilities	14,544	(2,696)	11,848
Net cash provided by operating activities	579,349		579,349

	Year Ended December 31, 2005		
	As Previously Reported	Adjustment Amount	As Adjusted
Selected Statement of Cash Flows Data:			
Net earnings	$ 388,757	$ 293	$ 389,050
Depreciation, depletion, accretion and amortization	220,956	1,912	222,868

Decrease in deferred income tax assets	11,249	47	11,296
Increase in other assets	(53,971)	(1,084)	(55,055)
Increase in trade payables and other accruals	41,510	(1,286)	40,224
Decrease in deferred income tax liabilities	(73,585)	118	(73,467)
Net cash provided by operating activities	473,184		473,184

	Year Ended December 31, 2004		
	As Previously Reported	**Adjustment Amount**	**As Adjusted**
Selected Statement of Cash Flows Data:			
Net earnings	$ 287,385	$ 1,283	$ 288,668
Depreciation, depletion, accretion and amortization	245,050	1,338	246,388
Increase in deferred income tax assets	(75)	46	(29)
Increase in other assets	(5,384)	(1,288)	(6,672)
Increase in trade payables and other accruals	9,482	(1,846)	7,636
Increase in deferred income tax liabilities	11,334	467	11,801
Net cash provided by operating activities	580,615		580,615

Notes to Consolidated Financial Statements (Continued)

Under the deferral method of accounting for planned major maintenance, the cumulative undistributed earnings at a certain wholly owned foreign subsidiary were greater than the cumulative undistributed earnings previously recorded under the accrue-in-advance method of accounting. During 2006, we determined that the cumulative undistributed earnings at this foreign subsidiary would be indefinitely reinvested offshore, and accordingly reversed the associated deferred tax liability pursuant to Accounting Principles Board Opinion No. 23 Accounting for Income Taxes Special Areas. The $2,650,000 favorable adjustment to the provision for income taxes for the year ended December 31, 2006 resulted primarily from the reversal of the deferred tax liability associated with the increase in undistributed earnings at this wholly owned foreign subsidiary.

2006 EITF 04-6

On January 1, 2006, we adopted EITF 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry. In the mining industry, the costs of removing overburden and waste materials to access mineral deposits are referred to as stripping costs. Per EITF 04-6, stripping costs incurred during the production phase are considered costs of the extracted minerals under a full absorption costing system, inventoried, and recognized in costs of sales in the same period as the revenue from the sale of the inventory. Additionally, capitalization of such costs would be appropriate only to the extent inventory exists at the end of a reporting period.

Prior to the adoption of EITF 04-6, we expensed stripping costs as incurred with only limited exceptions when specific criteria were met. The January 1, 2006 adoption of EITF 04-6 resulted in an increase in current assets (finished product inventory) of $16,791,000; a decrease in other assets (capitalized quarrying costs) of $659,000; an increase in deferred tax liabilities of $3,896,000; and a cumulative effect of adoption that increased retained earnings by $12,236,000.

2006 FAS 123(R)

See Note 1 under the caption Share-based Compensation .

2006 FAS 158

See Note 1 under the caption Recent Accounting Pronouncements .

Note 19 Acquisitions

In 2006, we acquired the assets of the following facilities for cash payments of approximately $20,481,000, including acquisition costs and net of acquired cash:

- an aggregates production facility and asphalt mix plant in Indiana
- an aggregates production facility in North Carolina
- an aggregates production facility in Virginia

As a result of these acquisitions, we recognized $8,800,000 of goodwill and $5,146,000 of amortizable intangible assets, all of which are expected to be fully deductible for income tax purposes.

Purchase price allocations for 2006 acquisitions are preliminary and subject to adjustment.

During 2006, we made cash payments of $50,000 for contingent consideration related to a 2005 acquisition.

In 2005, we acquired the assets of the following facilities for cash payments of approximately $93,965,000, including acquisition costs and net of acquired cash:

- five aggregates production facilities and five asphalt mix plants in Arizona
- an aggregates production facility in Georgia

Notes to Consolidated Financial Statements (Continued)

four aggregates production facilities in Indiana

an aggregates production facility in Tennessee

The acquisition payments reported above exclude escrowed funds of $5,800,000 of contingent consideration related to the acquisition of the Arizona facilities and $50,000 of contingent consideration related to the acquisition of the Tennessee facility. Upon resolution of such contingencies, distributions to the seller, if any, will be considered additional acquisition costs.

As a result of these acquisitions, we recognized $18,836,000 of goodwill and $32,165,000 of amortizable intangible assets, all of which are expected to be fully deductible for income tax purposes.

In 2004, we acquired the assets of the following facilities for cash payments of approximately $34,555,000, including acquisition costs and net of acquired cash:

an aggregates production facility in South Carolina

three aggregates production facilities in Tennessee

an aggregates production facility in Virginia

Goodwill recognized in these transactions totaled $20,739,000 and is expected to be fully deductible for income tax purposes.

The amount by which the total cost of these acquisitions exceeded the fair value of the net assets acquired, including identifiable intangibles, was recognized as goodwill.

All the 2006, 2005 and 2004 acquisitions described above were accounted for as purchases and, accordingly, the results of operations of the acquired businesses are included in the accompanying consolidated financial statements from their respective dates of acquisition. Had the businesses been acquired at the beginning of fiscal 2006 and 2005, respectively, on a pro forma basis, revenue, net earnings and earnings per share would not differ materially from the amounts reflected in the accompanying consolidated financial statements for 2006 and 2005.

Note 20 Subsequent Event

On February 19, 2007, we signed a definitive agreement to acquire 100% of the stock of Florida Rock Industries, Inc. (Florida Rock), a leading producer of construction aggregates, cement, concrete and concrete products in the Southeast and Mid-Atlantic states, in exchange for cash and stock valued at approximately $4.6 billion based on the February 16, 2007 closing price of Vulcan common stock. Under the terms of the agreement, Vulcan shareholders will receive one share of common stock in a new holding company (whose subsidiaries will be Vulcan Materials and Florida Rock) for each Vulcan share. Florida Rock shareholders can elect to receive either 0.63 shares of the new holding company or $67.00 in cash for each Florida Rock share, subject to proration to ensure that in the aggregate 70% of Florida Rock shares will be converted into cash and 30% of Florida Rock shares will be converted into stock. We intend to finance the transaction with approximately $3.2 billion in debt and approximately $1.4 billion in stock based on the February 16, 2007 closing price of Vulcan common stock. We have received a firm commitment from

Goldman, Sachs & Co. to provide bridge financing for the transaction. The transaction is intended to be non-taxable for Vulcan shareholders and non-taxable for Florida Rock shareholders to the extent they receive stock. The acquisition has been unanimously approved by the Boards of Directors of each company and is subject to approval by a majority of Florida Rock shareholders, regulatory approvals and customary closing conditions. The transaction is expected to close in mid-year 2007.

End of Notes to Consolidated Financial Statements

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Financial Terminology

Acquisitions

The sum of net assets (assets less liabilities, including acquired debt) obtained in a business combination. Net assets are recorded at their fair value at the date of the combination, and include tangible and intangible items.

Capital Employed

The sum of interest-bearing debt, other noncurrent liabilities and shareholders   equity. Average capital employed is a 12-month average.

Capital Expenditures

Capital expenditures include capitalized replacements of and additions to property, plant and equipment, including capitalized leases, renewals and betterments. Capital expenditures exclude the property, plant and equipment obtained by business acquisitions.

We classify our capital expenditures into three categories based on the predominant purpose of the project expenditures. Thus, a project is classified entirely as a replacement if that is the principal reason for making the expenditure even though the project may involve some cost-saving and/or capacity improvement aspects. Likewise, a profit-adding project is classified entirely as such if the principal reason for making the expenditure is to add operating facilities at new locations (which occasionally replace facilities at old locations), to add product lines, to expand the capacity of existing facilities, to reduce costs, to increase mineral reserves, to improve products, etc.

Capital expenditures classified as environmental control do not reflect those expenditures for environmental control activities, including industrial health programs that are expensed currently. Such expenditures are made on a continuing basis and at significant levels. Frequently, profit-adding and major replacement projects also include expenditures for environmental control purposes.

Net Sales

Total customer revenues from continuing operations for our products and services excluding third-party delivery revenues, net of discounts and taxes, if any.

Ratio of Earnings to Fixed Charges

The sum of earnings from continuing operations before income taxes, amortization of capitalized interest and fixed charges net of interest capitalization credits, divided by fixed charges. Fixed charges are the sum of interest expense before capitalization credits, amortization of financing costs and one-third of rental expense.

Total Debt as a Percentage of Total Capital

The sum of short-term borrowings, current maturities and long-term debt, divided by total capital. Total capital is the sum of total debt and shareholders   equity.

Shareholders   Equity

The sum of common stock (less the cost of common stock in treasury), capital in excess of par value, retained earnings and accumulated other comprehensive income (loss), as reported in the balance sheet. Average shareholders equity is a 12-month average.

Total Shareholder Return

Average annual rate of return using both stock price appreciation and quarterly dividend reinvestment. Stock price appreciation is based on a point-to-point calculation, using end-of-year data.

Net Sales, Total Revenues, Net Earnings and Earnings Per Share

	2006	2005
	Amounts in millions, except per share data	
Net Sales		
First quarter	**$ 642.3**	$ 479.4
Second quarter	**807.8**	705.3
Third quarter	**848.3**	749.4
Fourth quarter	**742.7**	680.9
Total	**$ 3,041.1**	$ 2,615.0
Total Revenues		
First quarter	**$ 708.7**	$ 528.6
Second quarter	**888.2**	782.1
Third quarter	**929.3**	830.0
Fourth quarter	**816.3**	754.6
Total	**$ 3,342.5**	$ 2,895.3
Gross Profit		
First quarter	**$ 163.9**	$ 92.5
Second quarter	**257.9**	210.4
Third quarter	**272.9**	227.2
Fourth quarter	**237.2**	178.7
Total	**$ 931.9**	$ 708.8
Operating Earnings (Loss)		
First quarter	**$ 99.0**	$ 38.0
Second quarter	**218.1**	153.5
Third quarter	**206.4**	164.9
Fourth quarter	**171.6**	120.4
Total	**$ 695.1**	$ 476.8
Earnings (Loss) from Continuing Operations Before Cumulative Effect of Accounting Changes		
First quarter	**$ 71.9**	$ 21.6
Second quarter	**152.3**	102.0
Third quarter	**140.9**	128.3
Fourth quarter	**115.1**	92.2
Total	**$ 480.2**	$ 344.1

Basic Earnings (Loss) Per Share from Continuing Operations Before Cumulative Effect of Accounting Changes				
First quarter	**$**	**0.72**	$	0.21
Second quarter		**1.53**		1.00
Third quarter		**1.47**		1.25
Fourth quarter		**1.20**		0.91
Total	**$**	**4.92**	$	3.37

	2006	2005
	Amounts in millions, except per share data	
Diluted Earnings (Loss) Per Share from Continuing Operations Before Cumulative Effect of Accounting Changes		
First quarter	**$ 0.70**	$ 0.21
Second quarter	**1.50**	0.98
Third quarter	**1.44**	1.23
Fourth quarter	**1.17**	0.89
Total	**$ 4.81**	$ 3.31
Net Earnings (Loss)		
First quarter	**$ 70.1**	$ 54.5
Second quarter	**150.6**	121.6
Third quarter	**135.7**	122.2
Fourth quarter	**113.8**	90.7
Total	**$ 470.2**	$ 389.0
Basic Net Earnings (Loss) Per Share		
First quarter	**$ 0.70**	$ 0.53
Second quarter	**1.51**	1.19
Third quarter	**1.42**	1.19
Fourth quarter	**1.19**	0.90
Full year	**$ 4.82**	$ 3.81
Diluted Net Earnings (Loss) Per Share		
First quarter	**$ 0.68**	$ 0.52
Second quarter	**1.48**	1.17
Third quarter	**1.39**	1.17
Fourth quarter	**1.16**	0.88
Full year	**$ 4.71**	$ 3.74

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Exhibit 12

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
For the Years Ended December 31

	2006	2005	2004	2003	2002
			Amounts in thousands		
Fixed charges:					
Interest expense before capitalization credits	$ 31,310	$ 39,080	$ 42,260	$ 55,345	$ 56,601
Amortization of financing costs	363	711	611	291	298
One-third of rental expense	27,240	22,520	16,553	15,140	16,976
Total fixed charges	$ 58,913	$ 62,311	$ 59,424	$ 70,776	$ 73,875
Earnings from continuing operations before income taxes	$ 703,491	$ 480,695	$ 377,362	$ 335,080	$ 329,195
Fixed charges	58,913	62,311	59,424	70,776	73,875
Capitalized interest credits	(5,000)	(1,934)	(1,980)	(2,116)	(2,896)
Amortization of capitalized interest	1,241	1,054	839	624	463
Earnings before income taxes as adjusted	$ 758,645	$ 542,126	$ 435,645	$ 404,364	$ 400,637
Ratio of earnings to fixed charges	12.9	8.7	7.3	5.7	5.4