

VULCAN MATERIALS CO

Form 10-Q

July 31, 2007

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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C.20549**

**FORM 10-Q**

(Mark One)

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

**For the Quarter ended June 30, 2007**

**OR**

**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**

(State or other jurisdiction  
of incorporation)

**1-4033**

(Commission file number)

**63-0366371**

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

**1200 Urban Center Drive**

**Birmingham, Alabama 35242**

(Address of principal executive offices) (zip code)

**(205) 298-3000**

Registrant's telephone number including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

**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<br>at June 30, 2007 |
|-----------------------------|--|
| Common Stock, \$1 Par Value | 95,550,384                             |

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FORM 10-Q  
QUARTER ENDED JUNE 30, 2007  
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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements  
Vulcan Materials Company  
and Subsidiary Companies**

|   | (Amounts in thousands)        |   |   |
|---|-------------------------------|---|---|
| <b>Consolidated Balance Sheets</b><br>(Condensed and unaudited) | <b>June 30</b><br><b>2007</b> | <b>December</b><br><b>31</b><br><b>2006</b> | <b>June 30</b><br><b>2006</b><br>(As Adjusted<br><b>See Note 2)</b> |
| <b>Assets</b>   |                               |   |   |
| Cash and cash equivalents                                       | \$ 34,593                     | \$ 55,230                                   | \$ 71,191   |
| Accounts and notes receivable:                                  |                               |   |   |
| Accounts and notes receivable, gross                            | 464,165                       | 394,815                                     | 612,484   |
| Less: Allowance for doubtful accounts                           | (3,246)                       | (3,355)                                     | (4,238)   |
| Accounts and notes receivable, net                              | 460,919                       | 391,460                                     | 608,246   |
| Inventories:  |                               |   |   |
| Finished products   | 251,486                       | 214,508                                     | 204,114   |
| Raw materials   | 11,803                        | 9,967                                       | 10,138  |
| Products in process   | 2,494                         | 1,619                                       | 1,959   |
| Operating supplies and other                                    | 20,329                        | 17,443                                      | 18,452  |
| Inventories   | 286,112                       | 243,537                                     | 234,663   |
| Deferred income taxes   | 18,531                        | 25,579                                      | 19,281  |
| Prepaid expenses  | 14,711                        | 15,388                                      | 13,830  |
| Total current assets  | 814,866                       | 731,194                                     | 947,211   |
| Investments and long-term receivables                           | 5,004                         | 6,664                                       | 6,729   |
| Property, plant and equipment:                                  |                               |   |   |
| Property, plant and equipment, cost                             | 4,119,748                     | 3,897,618                                   | 3,668,316   |
| Less: Reserve for depr., depl. & amort.                         | (2,114,125)                   | (2,028,504)                                 | (1,953,064)   |
| Property, plant and equipment, net                              | 2,005,623                     | 1,869,114                                   | 1,715,252   |
| Goodwill  | 650,205                       | 620,189                                     | 630,802   |
| Other assets  | 213,951                       | 200,673                                     | 189,500   |
| Total assets  | \$ 3,689,649                  | \$ 3,427,834                                | \$ 3,489,494  |
| <b>Liabilities and Shareholders Equity</b>                      |                               |   |   |
| Current maturities of long-term debt                            | \$ 727                        | \$ 630                                      | \$ 32,547   |
| Short-term borrowings   | 224,000                       | 198,900                                     | 217,000   |
| Trade payables and accruals                                     | 161,032                       | 154,215                                     | 186,978   |
| Other current liabilities                                       | 126,350                       | 133,763                                     | 181,022   |
| Total current liabilities                                       | 512,109                       | 487,508                                     | 617,547   |

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|   |              |              |              |
|---|--------------|--------------|--------------|
| Long-term debt                                      | 321,365      | 322,064      | 322,645      |
| Deferred income taxes                               | 293,199      | 287,905      | 278,778      |
| Other noncurrent liabilities                        | 340,386      | 319,458      | 289,608      |
| Total liabilities                                   | 1,467,059    | 1,416,935    | 1,508,578    |
| Other commitments and contingencies (Notes 13 & 19) |              |              |              |
| Shareholders' equity:                               |              |              |              |
| Common stock, \$1 par value                         | 139,705      | 139,705      | 139,705      |
| Capital in excess of par value                      | 248,153      | 191,695      | 172,079      |
| Retained earnings                                   | 3,124,385    | 2,982,526    | 2,803,275    |
| Accumulated other comprehensive income (loss)       | 2,924        | (4,953)      | (2,213)      |
| Treasury stock at cost                              | (1,292,577)  | (1,298,074)  | (1,131,930)  |
| Shareholders' equity                                | 2,222,590    | 2,010,899    | 1,980,916    |
| Total liabilities and shareholders' equity          | \$ 3,689,649 | \$ 3,427,834 | \$ 3,489,494 |

See accompanying Notes to Condensed Consolidated Financial Statements

**Table of Contents****Vulcan Materials Company  
and Subsidiary Companies**

(Amounts and shares in thousands, except per share data)

| <b>Consolidated Statements of Earnings</b><br>(Condensed and unaudited) | <b>Three Months Ended</b><br><b>June 30</b> |   | <b>Six Months Ended</b><br><b>June 30</b> |   |
|---|---|---|---|---|
|   | <b>2007</b>                                 | <b>2006</b><br>(As<br>Adjusted<br>See Note 2) | <b>2007</b>                               | <b>2006</b><br>(As<br>Adjusted<br>See Note 2) |
| Net sales   | \$ 807,818                                  | \$ 807,781                                    | \$ 1,438,005                              | \$ 1,450,053                                  |
| Delivery revenues   | 71,026                                      | 80,381  | 128,026                                   | 146,797                                       |
| Total revenues  | 878,844                                     | 888,162                                       | 1,566,031                                 | 1,596,850                                     |
| Cost of goods sold  | 522,585                                     | 549,898                                       | 985,577                                   | 1,028,277                                     |
| Delivery costs  | 71,026                                      | 80,381  | 128,026                                   | 146,797                                       |
| Cost of revenues  | 593,611                                     | 630,279                                       | 1,113,603                                 | 1,175,074                                     |
| Gross profit  | 285,233                                     | 257,883                                       | 452,428                                   | 421,776                                       |
| Selling, administrative and general expenses                            | 71,308                                      | 65,151  | 145,710                                   | 130,163                                       |
| Gain on sale of property, plant and equipment, net                      | 4,852                                       | 1,304   | 51,239                                    | 2,061   |
| Other operating expense (income), net                                   | 1,544                                       | (24,088)                                      | 3,578                                     | (23,463)                                      |
| Operating earnings  | 217,233                                     | 218,124                                       | 354,379                                   | 317,137                                       |
| Other (expense) income, net   | (113)                                       | 10,756  | 1,089                                     | 22,849  |
| Interest income   | 1,117                                       | 1,472   | 2,440                                     | 4,119   |
| Interest expense  | 8,091                                       | 5,690   | 14,726                                    | 11,975  |
| Earnings from continuing operations before<br>income taxes              | 210,146                                     | 224,662                                       | 343,182                                   | 332,130                                       |
| Provision for income taxes  | 66,465                                      | 72,314  | 110,162                                   | 107,878                                       |
| Earnings from continuing operations                                     | 143,681                                     | 152,348                                       | 233,020                                   | 224,252                                       |
| Discontinued operations (Note 3):                                       |   |   |   |   |
| Loss from results of discontinued operations                            | (2,787)                                     | (2,868)                                       | (3,564)                                   | (5,900)                                       |
| Income tax benefit  | 1,117                                       | 1,153   | 1,429                                     | 2,366   |
| Loss on discontinued operations, net of tax                             | (1,670)                                     | (1,715)                                       | (2,135)                                   | (3,534)                                       |
| Net earnings  | \$ 142,011                                  | \$ 150,633                                    | \$ 230,885                                | \$ 220,718                                    |
| Basic earnings (loss) per share:  |   |   |   |   |
| Earnings from continuing operations                                     | \$ 1.50                                     | \$ 1.53                                       | \$ 2.44                                   | \$ 2.24                                       |

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|  |           |           |            |            |
|--|-----------|-----------|------------|------------|
| Discontinued operations  | (0.01)    | (0.02)    | (0.02)     | (0.03)     |
| Net earnings per share   | \$ 1.49   | \$ 1.51   | \$ 2.42    | \$ 2.21    |
| Diluted earnings (loss) per share:   |           |           |            |            |
| Earnings from continuing operations  | \$ 1.46   | \$ 1.50   | \$ 2.38    | \$ 2.20    |
| Discontinued operations  | (0.01)    | (0.02)    | (0.02)     | (0.04)     |
| Net earnings per share   | \$ 1.45   | \$ 1.48   | \$ 2.36    | \$ 2.16    |
| Weighted-average common shares outstanding:                                    |           |           |            |            |
| Basic  | 95,578    | 99,430    | 95,376     | 99,988     |
| Assuming dilution  | 98,157    | 101,636   | 98,023     | 102,153    |
| Cash dividends declared per share of common stock                              | \$ 0.46   | \$ 0.37   | \$ 0.92    | \$ 0.74    |
| Depreciation, depletion, accretion and amortization from continuing operations | \$ 63,903 | \$ 55,170 | \$ 124,705 | \$ 108,843 |
| Effective tax rate from continuing operations                                  | 31.6%     | 32.2%     | 32.1%      | 32.5%      |
| See accompanying Notes to Condensed Consolidated Financial Statements          |           |           |            |            |
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and Subsidiary Companies**

(Amounts in thousands)

| <b>Consolidated Statements of Cash Flows</b><br>(Condensed and unaudited)                | <b>Six Months Ended<br/>June 30</b> |  |
|--|-------------------------------------|--|
|  | <b>2007</b>                         | <b>2006<br/>(As Adjusted<br/>-<br/>See Note 2)</b> |
| <b>Operating Activities</b>  |                                     |  |
| Net earnings   | \$ 230,885                          | \$ 220,718   |
| Adjustments to reconcile net earnings to net cash provided by operating activities:      |                                     |  |
| Depreciation, depletion, accretion and amortization                                      | 124,705                             | 108,861  |
| Net gain on sale of property, plant and equipment  | (51,239)                            | (2,061)  |
| Net gain on sale of contractual rights   |                                     | (24,849)   |
| Contributions to pension plans   | (584)                               | (778)  |
| Share-based compensation   | 8,282                               | 8,354  |
| Increase in assets before initial effects of business acquisitions and dispositions      | (113,828)                           | (143,068)  |
| Increase in liabilities before initial effects of business acquisitions and dispositions | 19,570                              | 33,588   |
| Other, net   | 148                                 | (6,664)  |
| Net cash provided by operating activities  | 217,939                             | 194,101  |
| <b>Investing Activities</b>  |                                     |  |
| Purchases of property, plant and equipment   | (234,800)                           | (187,273)  |
| Proceeds from sale of property, plant and equipment                                      | 55,492                              | 4,742  |
| Proceeds from sale of contractual rights, net of cash transaction fees                   |                                     | 24,888   |
| Proceeds from sale of Chemicals business   | 8,418                               | 3,930  |
| Payment for businesses acquired, net of acquired cash                                    | (58,861)                            | (20,355)   |
| Proceeds from sales and maturities of medium-term investments                            |                                     | 175,140  |
| Decrease in investments and long-term receivables  | 1,660                               | 240  |
| Other, net   | 718                                 | 543  |
| Net cash provided by (used for) investing activities                                     | (227,373)                           | 1,855  |
| <b>Financing Activities</b>  |                                     |  |
| Net short-term borrowings  | 25,100                              | 217,000  |
| Payment of short-term debt and current maturities  | (320)                               | (240,305)  |
| Payment of long-term debt  | (47)                                |  |
| Purchases of common stock  | (4,800)                             | (335,224)  |
| Dividends paid   | (87,610)                            | (73,855)   |
| Proceeds from exercise of stock options  | 32,963                              | 19,537   |
| Excess tax benefits from exercise of stock options                                       | 23,511                              | 9,626  |
| Other, net   |                                     | 3,318  |



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|  |           |           |
|--|-----------|-----------|
| Net cash used for financing activities           | (11,203)  | (399,903) |
| Net decrease in cash and cash equivalents        | (20,637)  | (203,947) |
| Cash and cash equivalents at beginning of period | 55,230    | 275,138   |
| Cash and cash equivalents at end of period       | \$ 34,593 | \$ 71,191 |

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 Annual Report on Form 10-K for the year ended December 31, 2006 (Form 10-K) and Current Report on Form 8-K filed on July 12, 2007 updating the historical financial statements included in our Form 10-K for the retrospective application of a change in accounting principle, as described in Note 2 (FSP AUG AIR-1 caption).

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.

We recognized adjustments to our liability for prior year unrecognized tax benefits of \$1,310,000 during the second quarter of 2007 and \$1,860,000 during the first half of 2007. As of June 30, 2007, our total liability for unrecognized tax benefits amounts to \$13,620,000, of which \$11,860,000 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 \$2,670,000 as of June 30, 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.

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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** On January 1, 2007, we adopted FASB Staff Position (FSP) No. AUG AIR-1, Accounting for Planned Major Maintenance Activities (FSP AUG AIR-1). This FSP amended 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 for the accrual of estimated costs for the next scheduled overhaul over the period leading up to the overhaul. At the time of the overhaul, 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. 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 table reflects the effect of the retrospective application of FSP AUG AIR-1 on our Condensed Consolidated Balance Sheet (in thousands of dollars):

|  | As Previously<br>Reported | June 30, 2006<br>Adjustment<br>Amount | As Adjusted |
|--|---------------------------|---------------------------------------|-------------|
| Selected Balance Sheet Data:               |                           |                                       |             |
| Deferred income taxes                      | \$ 19,441                 | \$ (160)                              | \$ 19,281   |
| Total current assets                       | 947,371                   | (160)                                 | 947,211     |
| Other assets                               | 185,292                   | 4,208                                 | 189,500     |
| Total assets                               | 3,485,446                 | 4,048                                 | 3,489,494   |
| Other current liabilities                  | 187,193                   | (6,171)                               | 181,022     |
| Total current liabilities                  | 623,718                   | (6,171)                               | 617,547     |
| Total liabilities                          | 1,514,749                 | (6,171)                               | 1,508,578   |
| Retained earnings                          | 2,793,056                 | 10,219                                | 2,803,275   |
| Shareholders' equity                       | 1,970,697                 | 10,219                                | 1,980,916   |
| Total liabilities and shareholders' equity | 3,485,446                 | 4,048                                 | 3,489,494   |

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The following tables reflect 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 June 30, 2006 |                   |             |
|---|----------------------------------|-------------------|-------------|
|   | As Previously Reported           | Adjustment Amount | As Adjusted |
| Selected Statement of Earnings Data:                    |                                  |                   |             |
| Net sales   | \$807,781                        | \$                | \$807,781   |
| Cost of goods sold                                      | 550,045                          | (147)             | 549,898     |
| Cost of revenues  | 630,426                          | (147)             | 630,279     |
| Gross profit  | 257,736                          | 147               | 257,883     |
| Selling, administrative and general expenses            | 65,180                           | (29)              | 65,151      |
| Operating earnings                                      | 217,948                          | 176               | 218,124     |
| Earnings from continuing operations before income taxes | 224,486                          | 176               | 224,662     |
| Provision for income taxes                              | 75,080                           | (2,766)           | 72,314      |
| Earnings from continuing operations                     | 149,406                          | 2,942             | 152,348     |
| Net earnings  | 147,691                          | 2,942             | 150,633     |
| Basic earnings per share                                | \$ 1.49                          | \$ 0.02           | \$ 1.51     |
| Diluted earnings per share                              | \$ 1.45                          | \$ 0.03           | \$ 1.48     |

|   | Six Months Ended June 30, 2006 |                   |             |
|---|--------------------------------|-------------------|-------------|
|   | As Previously Reported         | Adjustment Amount | As Adjusted |
| Selected Statement of Earnings Data:                    |                                |                   |             |
| Net sales   | \$1,450,053                    | \$                | \$1,450,053 |
| Cost of goods sold                                      | 1,028,654                      | (377)             | 1,028,277   |
| Cost of revenues  | 1,175,451                      | (377)             | 1,175,074   |
| Gross profit  | 421,399                        | 377               | 421,776     |
| Selling, administrative and general expenses            | 130,222                        | (59)              | 130,163     |
| Operating earnings                                      | 316,701                        | 436               | 317,137     |
| Earnings from continuing operations before income taxes | 331,694                        | 436               | 332,130     |
| Provision for income taxes                              | 110,551                        | (2,673)           | 107,878     |
| Earnings from continuing operations                     | 221,143                        | 3,109             | 224,252     |
| Net earnings  | 217,609                        | 3,109             | 220,718     |
| Basic earnings per share                                | \$ 2.18                        | \$ 0.03           | \$ 2.21     |
| Diluted earnings per share                              | \$ 2.13                        | \$ 0.03           | \$ 2.16     |

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):