

MARTIN MARIETTA MATERIALS INC
Form 10-Q
August 07, 2015

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 1-12744

MARTIN MARIETTA MATERIALS, INC.

(Exact name of registrant as specified in its charter)

North Carolina 56-1848578
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification Number)

2710 Wycliff Road, Raleigh, NC 27607-3033
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 919-781-4550

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Former name: None

Former name, former address and former fiscal year, if changes since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Class	Outstanding as of July 31, 2015
Common Stock, \$0.01 par value	67,001,255

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2015 (Unaudited) (Dollars in Thousands, Except Per Share Data)	December 31, 2014 (Audited)	June 30, 2014 (Unaudited)
ASSETS			
Current Assets:			
Cash and cash equivalents	\$44,169	\$108,651	\$34,329
Accounts receivable, net	497,468	421,001	343,784
Inventories, net	479,856	484,919	348,168
Current deferred income tax benefits	234,594	244,638	72,413
Assets held for sale	426,495	—	—
Other current assets	82,667	29,607	78,007
Total Current Assets	1,765,249	1,288,816	876,701
Property, plant and equipment	5,421,449	5,691,676	3,970,472
Allowances for depreciation, depletion and amortization	(2,371,926)	(2,288,906)	(2,195,098)
Net property, plant and equipment	3,049,523	3,402,770	1,775,374
Goodwill	2,065,882	2,068,799	616,621
Operating permits, net	447,702	499,487	16,829
Other intangibles, net	67,242	95,718	30,067
Other noncurrent assets	104,056	108,802	40,451
Total Assets	\$7,499,654	\$7,464,392	\$3,356,043
LIABILITIES AND EQUITY			
Current Liabilities:			
Bank overdraft	\$—	\$183	\$—
Accounts payable	201,235	202,476	139,442
Accrued salaries, benefits and payroll taxes	27,590	36,576	17,393
Pension and postretirement benefits	8,133	6,953	2,356
Accrued insurance and other taxes	57,078	58,356	33,014
Current maturities of long-term debt and short-term facilities	15,966	14,336	12,404
Accrued interest	16,165	16,136	7,386
Other current liabilities	37,667	61,632	32,730
Total Current Liabilities	363,834	396,648	244,725
Long-term debt	1,642,035	1,571,059	1,072,397
Pension, postretirement and postemployment benefits	272,461	249,333	82,662
Noncurrent deferred income taxes	756,526	734,583	275,279
Other noncurrent liabilities	154,365	160,021	113,981
Total Liabilities	3,189,221	3,111,644	1,789,044

Equity:

Common stock, par value \$0.01 per share	668	671	463
Preferred stock, par value \$0.01 per share	—	—	—
Additional paid-in capital	3,274,098	3,243,619	456,989
Accumulated other comprehensive loss	(112,814)	(106,159)	(42,141)
Retained earnings	1,146,821	1,213,035	1,149,388
Total Shareholders' Equity	4,308,773	4,351,166	1,564,699
Noncontrolling interests	1,660	1,582	2,300
Total Equity	4,310,433	4,352,748	1,566,999
Total Liabilities and Equity	\$7,499,654	\$7,464,392	\$3,356,043

See accompanying notes to the consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
	(In Thousands, Except Per Share Data) (Unaudited)		(In Thousands, Except Per Share Data) (Unaudited)	
Net Sales	\$850,249	\$601,937	\$1,482,124	\$981,615
Freight and delivery revenues	71,170	67,288	130,641	116,240
Total revenues	921,419	669,225	1,612,765	1,097,855
Cost of sales	650,096	466,335	1,207,710	820,177
Freight and delivery costs	71,170	67,288	130,641	116,240
Total cost of revenues	721,266	533,623	1,338,351	936,417
Gross Profit	200,153	135,602	274,414	161,438
Selling, general & administrative expenses	56,783	36,566	106,233	70,813
Acquisition-related expenses, net	2,092	5,280	3,696	15,060
Other operating expenses and (income), net	4,294	(2,485)	1,930	(4,779)
Earnings from Operations	136,984	96,241	162,555	80,344
Interest expense	19,087	12,947	38,418	25,149
Other nonoperating (income) and expenses, net	(3,011)	(292)	(2,118)	3,171
Earnings from continuing operations before taxes on income	120,908	83,586	126,255	52,024
Income tax expense	38,929	23,906	38,117	15,482
Earnings from Continuing Operations	81,979	59,680	88,138	36,542
Loss on discontinued operations, net of related tax benefit of				
\$24 and \$25, respectively	—	(56)	—	(70)
Consolidated net earnings	81,979	59,624	88,138	36,472
Less: Net earnings (loss) attributable to noncontrolling interests	41	103	73	(1,432)
Net Earnings Attributable to Martin Marietta Materials, Inc.	\$81,938	\$59,521	\$88,065	\$37,904
Net Earnings (Loss) Attributable to Martin Marietta Materials, Inc.:				
Earnings from continuing operations	\$81,938	\$59,577	\$88,065	\$37,974
Loss from discontinued operations	—	(56)	—	(70)
	\$81,938	\$59,521	\$88,065	\$37,904
Consolidated Comprehensive Earnings: (See Note 1)				
Earnings attributable to Martin Marietta Materials, Inc.	\$75,847	\$60,124	\$81,410	\$39,877
Earnings (Loss) attributable to noncontrolling interests	43	104	78	(1,430)
	\$75,890	\$60,228	\$81,488	\$38,447
Net Earnings (Loss) Attributable to Martin Marietta Materials, Inc.				

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Per Common Share:

Basic from continuing operations attributable to common shareholders	\$1.23	\$1.28	\$1.30	\$0.81
Discontinued operations attributable to common shareholders	—	—	—	—
	\$1.23	\$1.28	\$1.30	\$0.81
Diluted from continuing operations attributable to common shareholders	\$1.22	\$1.27	\$1.30	\$0.81
Discontinued operations attributable to common shareholders	—	—	—	—
	\$1.22	\$1.27	\$1.30	\$0.81
Weighted-Average Common Shares Outstanding:				
Basic	67,373	46,395	67,392	46,355
Diluted	67,633	46,529	67,654	46,477
Cash Dividends Per Common Share	\$0.40	\$0.40	\$0.80	\$0.80

See accompanying notes to the consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2015	2014
	(Dollars in Thousands) (Unaudited)	
Cash Flows from Operating Activities:		
Consolidated net earnings	\$88,138	\$36,472
Adjustments to reconcile consolidated net earnings to net cash provided by operating activities:		
Depreciation, depletion and amortization	134,958	86,147
Stock-based compensation expense	7,524	4,370
Gains on divestitures and sales of assets	(853)	(1,747)
Deferred income taxes	33,906	(6,433)
Excess tax benefits from stock-based compensation transactions	(55)	(1,922)
Other items, net	(341)	3,227
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable, net	(76,061)	(98,911)
Inventories, net	(27,661)	(4,269)
Accounts payable	(3,416)	35,842
Other assets and liabilities, net	(29,070)	17,587
Net Cash Provided by Operating Activities	127,069	70,363
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(127,990)	(84,737)
Acquisitions, net	(10,713)	(117)
Proceeds from divestitures and sales of assets	1,972	2,154
Repayments from affiliate	1,808	529
Payment of railcar construction advances	(25,234)	(14,513)
Reimbursement of railcar construction advances	25,234	14,513
Net Cash Used for Investing Activities	(134,923)	(82,171)
Cash Flows from Financing Activities:		
Borrowings of long-term debt	80,000	100,000
Repayments of long-term debt	(8,144)	(46,417)
Payments on capital lease obligations	(1,831)	(1,052)
Debt issuance costs	—	(881)
Change in bank overdraft	(183)	(2,556)
Dividends paid	(54,285)	(37,254)
Purchase of remaining interest in existing subsidiaries	—	(19,604)
Issuances of common stock	27,760	9,542
Repurchases of common stock	(100,000)	—
Excess tax benefits from stock-based compensation transactions	55	1,922

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Net Cash (Used for) Provided by Financing Activities	(56,628)	3,700
Net Decrease in Cash and Cash Equivalents	(64,482)	(8,108)
Cash and Cash Equivalents, beginning of period	108,651	42,437
Cash and Cash Equivalents, end of period	\$44,169	\$34,329
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$35,447	\$25,173
Cash paid for income taxes	\$24,334	\$3,511

See accompanying notes to the consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF TOTAL EQUITY
(Unaudited)

(in thousands)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Comprehensive Losses	Retained Earnings	Total Shareholders' Equity	Noncontrol Interests	Total Equity
Balance at December 31, 2014	67,293	\$ 671	\$ 3,243,619	\$ (106,159)	\$ 1,213,035	\$ 4,351,166	\$ 1,582	\$ 4,352,748
Consolidated net earnings		—	—	—	88,065	88,065	73	88,138
Other comprehensive (loss) earnings, net of tax		—	—	(6,655)	—	(6,655)	5	(6,650)
Dividends declared		—	—	—	(54,285)	(54,285)	—	(54,285)
Issuances of common stock for stock award plans	368	3	22,955	—	—	22,958	—	22,958
Repurchases of common stock	(670)	(6)	—	—	(99,994)	(100,000)	—	(100,000)
Stock-based compensation expense		—	7,524	—	—	7,524	—	7,524
Balance at June 30, 2015	66,991	\$ 668	\$ 3,274,098	\$ (112,814)	\$ 1,146,821	\$ 4,308,773	\$ 1,660	\$ 4,310,433

See accompanying notes to the consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Organization

Martin Marietta Materials, Inc. (the “Corporation” or “Martin Marietta”) is engaged principally in the construction aggregates business. The aggregates product line accounted for 58% of 2014 consolidated net sales and includes crushed stone, sand and gravel, and is used for construction of highways and other infrastructure projects, and in the nonresidential and residential construction industries. Aggregates products are also used in the railroad, agricultural, utility and environmental industries. These aggregates products, along with the Corporation’s aggregates-related downstream product lines, which accounted for 25% of 2014 consolidated net sales and include asphalt products, ready mixed concrete and road paving construction services, are sold and shipped from a network of more than 400 quarries, distribution facilities and plants to customers in 32 states, Canada, the Bahamas and the Caribbean Islands. The aggregates and aggregates-related downstream product lines are reported collectively as the “Aggregates business”.

The Corporation currently conducts the Aggregates business through three reportable segments: the Mid-America Group, the Southeast Group and the West Group.

AGGREGATES BUSINESS

Reportable

Segments	Mid-America Group	Southeast Group	West Group
Operating Locations	Indiana, Iowa, northern Kansas, Kentucky, Maryland, Minnesota, Missouri, eastern Nebraska, North Carolina, Ohio, South Carolina, Virginia, Washington and West Virginia	Alabama, Florida, Georgia, Mississippi, Tennessee, Nova Scotia and the Bahamas	Arkansas, Colorado, southern Kansas, Louisiana, western Nebraska, Nevada, Oklahoma, Texas, Utah and Wyoming

The Corporation has a Cement segment, which was acquired July 1, 2014 and accounted for 8% of 2014 consolidated net sales, with production facilities located in Midlothian, Texas, south of Dallas/Fort Worth; Hunter, Texas, south of

San Antonio; and Oro Grande, near Los Angeles, California. The cement business produces Portland and specialty cements, such as masonry and oil well cements. Similar to the Aggregates business, cement is used in infrastructure projects, nonresidential and residential construction, and the railroad, agricultural, utility and environmental industries. The high calcium limestone reserves used as a raw material are a part of owned property adjacent to each of the plants. The Corporation also operates cement terminals, a packaging facility and cement grinding facility at the Crestmore plant near Riverside, California.

The Corporation has a Magnesia Specialties segment with manufacturing facilities in Manistee, Michigan and Woodville, Ohio. The Magnesia Specialties segment, which accounted for 9% of 2014 consolidated net sales, produces magnesia-based chemicals products used in industrial, agricultural and environmental applications and dolomitic lime sold primarily to customers in the steel industry.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and in Article 10 of Regulation S-X. The Corporation has continued to follow the accounting policies set forth in the audited consolidated financial statements and related notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014. In the opinion of management, the interim consolidated financial information provided herein reflects all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods. The consolidated results of operations for the six months ended June 30, 2015 are not indicative of the results expected for other interim periods or the full year. The consolidated balance sheet at December 31, 2014 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014.

Revenue Recognition Standard

The FASB issued an accounting standard update that amends the accounting guidance on revenue recognition. The new standard intends to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices and improve disclosure requirements. The new standard is effective for interim and annual reporting periods beginning after December 15, 2017 and can be applied on a full retrospective or modified retrospective approach. The Corporation is currently evaluating the impact of the provisions of the new standard, and at this time does not expect the impact to be material to its consolidated results of operations.

Consolidated Comprehensive Earnings/Loss and Accumulated Other Comprehensive Loss

Consolidated comprehensive earnings/loss for the Corporation consist of consolidated net earnings or loss; adjustments for the funded status of pension and postretirement benefit plans; foreign currency translation adjustments; and the amortization of the value of terminated forward starting interest rate swap agreements into interest expense, and are presented in the Corporation's consolidated statements of earnings and comprehensive earnings.

Comprehensive earnings attributable to Martin Marietta is as follows:

Six Months Ended

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	Three Months Ended			
	June 30,		June 30,	
	2015	2014	2015	2014
	(Dollars in Thousands)			
Net earnings attributable to Martin Marietta				
Materials, Inc.	\$81,938	\$59,521	\$88,065	\$37,904
Other comprehensive (loss) earnings, net of tax	(6,091)	603	(6,655)	1,973
Comprehensive earnings attributable to				
Martin Marietta Materials, Inc.	\$75,847	\$60,124	\$81,410	\$39,877

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MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended June 30, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)

Consolidated Comprehensive Earnings/Loss and Accumulated Other Comprehensive Loss (continued)

Comprehensive earnings (loss) attributable to noncontrolling interests, consisting of net earnings or loss and adjustments for the funded status of pension and postretirement benefit plans, is as follows:

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	2015	2014	2015	2014
	(Dollars in Thousands)			
Net earnings (loss) attributable to noncontrolling interests	\$41	\$103	\$73	\$(1,432)
Other comprehensive earnings, net of tax	2	1	5	2
Comprehensive earnings (loss) attributable to noncontrolling interests	\$43	\$104	\$78	\$(1,430)

Accumulated other comprehensive loss consists of unrealized gains and losses related to the funded status of pension and postretirement benefit plans; foreign currency translation; and the unamortized value of terminated forward starting interest rate swap agreements, and is presented on the Corporation's consolidated balance sheets.

Changes in accumulated other comprehensive loss, net of tax, are as follows:

	(Dollars in Thousands)			
	Pension and Postretirement Benefit Plans	Foreign Currency	Unamortized Value of Terminated Forward Starting Interest Rate Swap	Accumulated Other Comprehensive Loss
	Three Months Ended June 30, 2015			
Balance at beginning of period	\$(105,151)	\$ 990	\$ (2,562)	\$(106,723)
Other comprehensive (loss) earnings before	(10,670)	229	—	(10,441)

reclassifications, net of tax

Amounts reclassified from accumulated other

comprehensive loss, net of tax	4,158	—	192	4,350
Other comprehensive (loss) earnings, net of tax	(6,512)	229	192	(6,091)
Balance at end of period	\$(111,663)	\$ 1,219	\$ (2,370)) \$ (112,814)

Three Months Ended June 30, 2014

Balance at beginning of period	\$(44,267)	\$ 4,816	\$ (3,293)) \$ (42,744)
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Other comprehensive (loss) earnings before

reclassifications, net of tax	(426)	842	—	416
Amounts reclassified from accumulated other				
comprehensive earnings, net of tax	8	—	179	187
Other comprehensive (loss) earnings, net of tax	(418)	842	179	603
Balance at end of period	\$(44,685)	\$ 5,658	\$ (3,114)) \$ (42,141)

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For the Quarter Ended June 30, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)

Consolidated Comprehensive Earnings/Loss and Accumulated Other Comprehensive Loss (continued)

The other comprehensive loss before reclassifications for pension and postretirement benefit plans is net of tax benefit of \$6,793,000 and \$276,000 for the three months ended June 30, 2015 and 2014, respectively.

(Dollars in Thousands)

	Unamortized Value of Terminated	Accumulated
Pension and Postretirement Benefit Plans	Forward Starting Interest Rate	Other Comprehensive
Foreign Currency		