MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone and welcome to this Martin Marietta Materials Incorporated Third Quarter 2008 Financial Results Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the call over to Chairman and Chief Executive Officer, Mr. Stephen Zelnak. Please go ahead, sir.

Stephen P. Zelnak, Jr., Chairman and Chief Executive Officer

Thanks for joining us today. I have with me Ward Nye, President and Chief Operating Officer; and Anne Lloyd, our CFO. We were very pleased with our third quarter results given the conditions in which we operated. The third quarter was our 10th consecutive quarter of down volume in our Aggregates business, as compared to the prior year period. Shipments volume for the quarter was down 13%, which was a product of the sharp pullback in construction activity based on credit market issues and a deteriorating economy.

In addition, we experienced four major storms in our areas of interest, which compounded the problem. Aggregates pricing continued to meet our target expectations, with an increase of 8% for the quarter and 6% year-to-date. The Midwest continued to be the bright spot, as heritage volume in Iowa and Nebraska was up 15% over the prior year period and year-to-date. The strong farm economy and alternative energy projects are the main drivers. We also experienced positive volume in our operations that cover Arkansas, East Texas and Northwest Louisiana. This is the result of increased oil and gas drilling activity.

The most negative volume comparisons were in the Carolinas and the Atlantic area, with shipments down 20 to 34% for the various market areas. On the cost side, we're running most plants on reduced schedules, with many of our plants scheduling recurring shutdowns of one to two weeks as needed to control inventory.

During the third quarter, we did an exceptional job of managing our controllable cost. Even with the reduced production, tons per man hour was equal to the prior year period. We view this as exceptional performance in a very volume-sensitive industry.

Our Specialty Products business continued to perform well, with record third quarter sales of 46 million, up 18% from the prior year period. Operating earnings decreased slightly, as we experienced high energy costs and high maintenance costs related to both planned and unplanned repairs.

Both the dolomitic lime business and the magnesia chemicals businesses are performing well, with record sales and earnings expected for both businesses for the year. For the quarter, we earned $1.58 per diluted share versus $2.13 in the prior year period. In addition to the sharp decline in Aggregates volume, energy cost was up $16 million for a negative impact of $0.23 per diluted share. We also had a surcharge of $2.6 million, and $3 million of expense related to strategic initiatives that reduced earnings by $0.08 per share. The impact of weather cost us another $0.08.

On a positive note, the State of Florida recently launched its 'Accelerate Florida' initiative, aimed at advancing start dates on $1.4 billion in road construction to stimulate the state's weakening construction economy. Martin Marietta is well positioned to service much of this work through our granite quarry in Nova Scotia and fall line granite quarries in South Carolina and Georgia. We will also have our new plant at Augusta, Georgia online in the fourth quarter, with 6 million tons of cost effective capacity versus the old plant, which produced 2 million tons.

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We believe it is increasingly likely that Congress will come back into session after the November elections with the objective of passing an economic stimulus package. We would expect that any such package would contain meaningful funding for infrastructure.

Our business continues to generate solid cash flow even in a weak economy. In the nine months ending September 30th, net cash provided by operating activities was $271 million, or $2 million less than the prior year, in spite of a $55 million decline in net earnings. Aggressive control of working capital, coupled with lower cash taxes from lower pre-tax earnings and the benefit of bonus depreciation deductions, has been a positive for cash flow.

In looking at the rest of 2008, the lack of available credit, which has stalled construction activity, is likely to continue, and will keep downward pressure on Aggregates volume. We expect the volume decline for the year to range between 11% to 12%. However, we expect pricing growth to be in our target range of 6 to 8%. We also expect record earnings from our Specialty Products segment of 36 million to $38 million. Based on these factors, we expect net earnings for 2008 to be in the range of $4.25 to $4.65 per diluted share.

We're developing our preliminary views on 2009 as we complete our regional operating plans, and we'd characterize the upcoming year as a period of stabilization in our Aggregates business, with the first half subject to continued volume pressure. If Congress passes a package with infrastructure stimulus funding, we could see positive impact in the second quarter of 2009.

Currently, we expect moderate price increases, stabilizing Aggregates demand and a deflationary cost environment, as it relates to energy cost. In our Specialty Products segment, we expect another year of record sales and earnings. Also, we anticipate that capital spending will be no more than $185 million in 2008, based on early completion of our Augusta, Georgia plant and no large projects planned for 2009.

At this time, I'd be pleased to take any questions you may have.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll go first to Arnie Ursaner with CJS Securities.

<Q – Arnie Ursaner>: Hi, good afternoon.

<A – Stephen Zelnak, Jr.>: Hey, Arnie.

<Q – Arnie Ursaner>: My question relates to, I know Steve, you've probably taken the most aggressive actions of any of the Aggregate companies to reduce your costs and you've really done a great job of it. Given the current environment, can you give us a sense of the types of actions you might be able to take from here and is there some more room you have to lower your cost structure?

<A – Stephen Zelnak, Jr.>: Certainly we are very focused on trying to bring the cost structure down even more. If you look at the SG&A area, we're the – typically viewed as the best operator and have the numbers to back that up with respect to SG&A as a percentage of sales, but, clearly, we're going to do more. We'll talk to you at the end of the year about what actions we'll take there. But we've got to bring the cost structure down more in that regard with respect to the environment that we're in.

We're looking at all aspects of controllable costs and by that I mean, that the senior management sitting here in this room is going over this company line item by line item from the ledger. We're looking at everything we do and simply asking the question, "Is it necessary in these times?" And I think you're going to see us do things like reduce communication cost through a renegotiation of contracts there, more judicious use of communication media, that's one area we're focused on. You're going to see us focus very hard on purchasing. We think we have some potential opportunities in the purchasing side of our business. And we're going to attack those from senior management level and down.

So it's getting a lot of attention. These are times that are very unusual, certainly the most difficult that I've seen since the early 1980s and I think you have to respond accordingly.

<Q – Arnie Ursaner>: Second question if I can, could you speak a little bit about the energy side of your equation and perhaps highlight a little bit more about the structure of the long-haul transport contracts you have in shipping and how that could be affected by lower energy costs?

<A – Stephen Zelnak, Jr.>: Okay, a couple of aspects of the energy cost, I made the comment that as we look at 2009 we do think that we are going to be in a deflationary energy environment. We actually were making those kinds of comments well before oil prices came down sharply as they have in the last couple of weeks, pretty clear to us that it was going to be downward pressure based on demand. If you take consumption for us and look at it just on diesel, diesel next year, given reduced volume, we'll probably consume somewhere in the neighborhood of 35 to 38 million gallons of diesel. And it would not be surprising to me that we would see reductions over the year of $0.50 to $1 as we look at what we paid in 2008 versus what we are likely to pay in 2009. So there is some real opportunity there.

Natural gas in our magnesia business looks like it's going to come down sharply. It would not be unusual to see a reduction there that might be as much as a third of our natural gas cost. So clearly that would be a positive for us, and then, with respect to the transportation contracts, we have the energy escalators in those contracts. So the railroads hit us with energy escalators, we particularly get hit on the waterborne shipping with the barging escalator or de-escalation being very significant. With diesel fuel going down, we would expect that we're going to see positives with respect to our transportation cost, less so for the railroads but more so for the waterborne transportation. So, that should be another plus.

<Q – Arnie Ursaner>: Thank you for that answer, that's great. Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll go next to Kathryn Thompson with Avondale Partners.

<Q – Kathryn Thompson>: Hi, thanks. Could you give a little bit more color about how we should think about your volume trends and pricing for Aggregates and really, specifically, what was your pricing at the end of the quarter relative to your average for the quarter for Aggregates pricing? And then, I know that there is generally, are regional pricing differences, but were there certain regions where you're able to get greater leverage with pricing during the quarter?

<A – Stephen Zelnak, Jr.>: With respect to the end of the quarter versus the average, really no significant difference. If you were to look at the individual months you would find that they were clustered very tightly around that average. With respect to regions, we've laid that out for you. The reality is that we have gotten better pricing in the Southeast. The areas that have been more pressured from a volume perspective have gotten lesser pricing and it's really pretty much what the economists would predict. As we go into next year, I think we're going to see modest pricing across the board, in line with the comments that I've made. I don't think you're going to see the degree of regional difference that you've seen in the last couple of years, because frankly, you don't have the same opportunity in the Southeast that we had in recent years. So, it's going to move back closer to the medium price level – medium price, rate of price increase. So I think you'll see a lot less disparity next year.

<Q – Kathryn Thompson>: And so, for that medium price increase going in to next year, do you still see it, kind of, generally in that mid-to high single-digit range or do you see it pulling back more?

<A – Stephen Zelnak, Jr.>: Too early to comment. We've just said a moderate rate of increase – moderate would be less than what we are looking at this year – the range this year being 6 to 8%.

<Q – Kathryn Thompson>: Well that would imply that you are going to still see some negative volume trends going into 2009, is that a correct assumption?

<A – Stephen Zelnak, Jr.>: Yeah, we stated that. We certainly expect the first half of the year to show negative volumes. The key to it is the credit market situation. What we are seeing out there, that I've certainly never experienced and probably most don't recall, is projects that are starting, or actually underway in some cases, where the lenders are pulling the funding and the developer/contractor are left hanging. That's just something that we've not seen. So the credit markets have got to free up and get back to something that is more normal, not necessarily back to where they were because they are not going back there. But they need to be in a more, function in a more businesslike manner. I mean, we've seen purchase orders just disappear, where we've got a PO in hand, we are getting ready to ship to a project, in some cases we will have run inventory for that project and all of a sudden the project is not there. So that's the big thing that has to happen to get this construction economy back on a much more even footing.

<Q – Kathryn Thompson>: And this trend picked up I assume in the quarter, being the quarter you are reporting?

<A – Stephen Zelnak, Jr.>: I'm sorry, I didn't hear the question Kathryn.

<Q – Kathryn Thompson>: I would assume that this trend really came to a head during the third quarter?

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<A – Stephen Zelnak, Jr.>: Absolutely.

<Q – Kathryn Thompson>: I mean your purchase to order is just disappearing?

<A – Stephen Zelnak, Jr.>: Yeah, absolutely. We – as we looked ahead based on what we had in hand, what we thought we're looking at, we thought the third quarter was going to be an okay quarter, in the midst of a downward trend line that had developed, but nothing like what we saw in terms of the volume decrease. And keep in mind we also got a storm overlay that certainly was not helpful.

<Q – Kathryn Thompson>: Just stepping back and looking at – broader in terms of the whole cycle, I guess if you go back to the early 80s you had about a 32% decline in volumes, peak to trough, and it looks like right now you are tracking around 20 to 22% decline. Do you see the current cycle also tracking closer to that 30-plus percent decline in terms of just volumes?

<A – Stephen Zelnak, Jr.>: I certainly hope not. You're correct that by the end of the year we should be somewhere in that down 20% from peak area. It's difficult to know what's going to happen. Certainly the first quarter – first half is going to be very challenging on the volume side. The other side of that is that energy cost is clearly going to be coming down. So with the cost actions we're taking outside of the energy, plus energy, we should get some relief with respect to the cost that lies underneath the revenue structure. So we'll just have to see how those two balance out.

Can it be down 30% plus? I wouldn't say that it couldn't because it's been there before. In the early 80s that actually was two back-to-back recessions that stretched out well over three years, but we're on our tenth consecutive down quarter right now. So, it would not be surprising we're going to see three years of down quarters.

<Q – Kathryn Thompson>: Right

<A – Stephen Zelnak, Jr.>: So I wouldn't want to without – I am certainly not looking for it, but I would not – I can't say definitively it won't happen.

<Q – Kathryn Thompson>: Okay. And just a final two questions. Could you speak to the visibility as relates to volume? And then, finally, just housekeeping; what are your debt and free cash flow targets for the current fiscal year?

<A – Stephen Zelnak, Jr.>: Okay. With respect to visibility, I don't think there – I think there is very little. It comes back to the credit markets and that's something we don't control. We're operating off of what contractor customers have in hand, and when you get to a situation where purchase orders disappear on you and you think you're getting ready to ship, that just gives you virtually no visibility. So, I think it's extremely difficult to call. And I am going to let Anne answer the question with respect to the debt and free cash flow.

<A – Anne Lloyd>: Yes, free cash flow, Kathryn, for the year we expect to be in a range of 110 to $130 million, depending on final earnings. Debt estimated for the end of the year would be around 1.325 billion.

<Q – Kathryn Thompson>: Thank you very much.

<A – Stephen Zelnak, Jr.>: Okay.

Operator: And our next question comes from John Fox with Fenimore [Fenimore Asset Management].

<Q – John Fox>: Hi, good afternoon, everybody.

<A – Stephen Zelnak, Jr.>: Hey, John.

<A – Anne Lloyd>: Hi, John.

<Q – John Fox>: I've got a number of questions. One, Steve, could you maybe comment on liquid asphalt, has that come down with oil and diesel and do you see that having any type of mitigating effect on paving type jobs?

<A – Stephen Zelnak, Jr.>: It has begun to come down in fact, from the peak, which was roughly $800 average and a few places where it got up into the 850 range Based on current numbers that we are seeing with our customers as of last week, the numbers look to be averaging around 625 and dropping just like fuel prices are dropping; some liquid asphalt as low as 550.

<Q – John Fox>: Okay.

<A – Stephen Zelnak, Jr.>: So, there is clearly strong downward pressure on that, and the entity on the other side of that can purchase more asphalt paving based on that liquid coming down, because the price of asphalt – asphalted concrete should be adjusted down with it.

<Q – John Fox>: Right, sure. Okay. And could you maybe comment a little bit more on the, I guess the strategic review that there was some expenses in the quarter; more on what the nature of that is, and then, on the reason for the change in the debt covenants? Thanks.

<A – Stephen Zelnak, Jr.>: Okay. With respect to the strategic review, I already gave you more than I wanted to.

<Q – John Fox>: I figured that. [Laughter]

<A – Anne Lloyd>: That was my fault, John -

<A – Stephen Zelnak, Jr.>: The fact was that the column that it was in, it popped out and we felt like we needed to comment. Obviously we're not going to comment in detail on any strategic initiatives. We have a couple of things that we've looked at, worked on, that we thought could add value for our shareholders. We'll continue to do that, but the key part of that statement is "add value for our shareholders". We're not going to do anything that we feel does not do that and do it very quickly.

<Q – John Fox>: Okay.

<A – Stephen Zelnak, Jr.>: So, we continue to be very busy and very active in looking at opportunities, but we've stayed away from some opportunities that some others took advantage of that perhaps they wish they hadn't at this point.

<Q – John Fox>: Okay. And the debt covenant, is there any additional information on that?

<A – Anne Lloyd>: John, this is Anne. Essentially we felt like it was appropriate to give us more room and flexibility with that debt covenant as we move forward through the next 24 months.

<Q – John Fox>: Okay.

<A – Stephen Zelnak, Jr.>: Just a prudent thing to do in this environment.

<Q – John Fox>: Sure.

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<A – Stephen Zelnak, Jr.>: And we've got great cooperation in doing it, which our understanding is that most companies out there who are trying to do those kinds of things are not getting great cooperation.

<Q – John Fox>: Right. Well, it's good -

<A – Stephen Zelnak, Jr.>: But that's what differentiates us.

<Q – John Fox>: Good to have that flexibility, and then, on the debt that's due December 1, can you just talk about the plan for that at this point?

<A – Anne Lloyd>: Well, we continue to evaluate alternatives there, including access to the public markets and other types of financing. But obviously we have full capacity of our revolver of $325 million available to finance that.

<Q – John Fox>: Okay. And have you looked at all or would anticipate using any of these government programs on the commercial paper? Would that be anything that would be advantageous to Martin Marietta?

<A – Anne Lloyd>: Well, the government programs as I understand them are only for A1/ P1 commercial paper.

<Q – John Fox>: Okay.

<A – Anne Lloyd>: But we – our commercial paper would not qualify for that program.

<Q – John Fox>: Okay. All right. Thank you.

Operator: We will go next to Mike Betts with JPMorgan.

<Q – Mike Betts>: Yes, hi, good afternoon.

<A – Stephen Zelnak, Jr.>: Hi.

<Q – Mike Betts>: I had two or three questions, if I could. Steve, the first one was returning to an answer previously where I think you said that the aggregate prices were similar at the end of the quarter to the average. Does that mean the mid-year price increases largely failed or is it the case that because of contracts, et cetera, they're still to show any benefit. That's my first question.

<A – Stephen Zelnak, Jr.>: No. Actually the third quarter pricing improved because of the mid-year increases. So, we had a positive trend line there.

<Q – Mike Betts>: But I mean, normally you have contracts in place that delays the impact, or was that not the case I mean, given the way markets have changed. Is it more immediate now the impact of those mid-year price increases?

<A – Stephen Zelnak, Jr.>: No, we always have contracts in place that were quoted at different times that have different prices, and those prices are typically going to be lower prices. So we have to roll through those – those will be commitments on public work, those in some cases will be commitments on large non-residential jobs. And that's more than 50% of our business. So, there is always some roll-forward. We were quite pleased with what we saw on pricing in the third quarter. I think it validates once again that there is pricing opportunity in the business after ten consecutive down quarters of volume, and it gives us confidence in talking about a moderate rate of price increase in 2009 as we go into what's clearly going to be another challenging year.

<Q – Mike Betts>: Okay. You led me quite nicely onto 2009 there. I mean, I think that as we entered 2008 there was sort of a similar expectation that the first half would be difficult, and then, they would see some recovery in the second half. Obviously circumstances have changed. I mean, the recovery that you are hoping for is very much going to be federal program-based or do you also expect particularly from your other directive, do you expect that you might see housing picking up later on in the year? Is that another factor behind why you think it might be better in the second half of '09?

<A – Stephen Zelnak, Jr.>: Yeah, I do expect to see some improvement with respect to the demand for stone from the housing sector. Don't confuse that with any pick up in housing starts. The issue that's out there in certain markets is that there is going to be a shortage of buildable lots in some of those markets, and some additional subdivisions are going to have to be developed. Subdivision work has been non-exist in the last couple of years. We think by the second half of '09 we're going to see some of that begin to come back just to support the start level that's out there. We will see what the Democratic Congress is going to do, but I think any program they come out with is going to be designed to try to put a bottom under housing, and to begin to move it back up, albeit it may not be sharply, I think they understand that it is creating a significant downdraft on the economy.

Likewise, they are most committed to job creation and in long-term investment in United States, which is why they have to focus on infrastructure. So be it after the elections or in next January depending upon how the debate and the votes go in Congress, I think very likely that you're going to see something that will be positive for our industry coming out of the new Congress, or the one that finishes up.

<Q – Mike Betts>: Okay. On the asphalt obviously it has an impact in terms of budgets don't go so far, but were you caught at all with fixed price work at the much higher asphalt prices, or are all of your contracts at flexible pricing or were they all at flexible pricing?

<A – Stephen Zelnak, Jr.>: Well, we're not significant asphalt producers and we do very little construction. So it's negligible for us. It's not even a factor you ought to think about when you're thinking about Martin Marietta.

<Q – Mike Betts>: Okay.

<A – Stephen Zelnak, Jr.>: You'll have to talk to the other companies who have the big asphalt presence and the big contracting presence, and you know who they are.

<Q – Mike Betts>: Okay, thank you. And the last question Steve, the weather hit in Q3, I mean, is that just in reality gone or would you hope that there could be some catch-up of that over the next couple of quarters?

<A – Stephen Zelnak, Jr.>: I think quite honestly in this environment Mike, it's an environment where there is no pressure on people to do work today that they might be able to defer because one of the things they see is they see the price of that work going down. If you are an asphalt contractor, and more than likely your asphalt work is tied to some type of fixed price, you'd rather wait and do it next year as opposed to do it this year, because your view would be that you are going to be paying less for liquid asphalt next year. Likewise, you're going to be paying less for fuel, contractors are fuel intensive. If there is steel in the job, they are going to be paying less for steel. So I think there is a tremendous incentive to defer work and feel that you'll – if you're a contractor you'll make more profit, or avoid losses, put it that way. If you are the ultimate buyer, you are going to buy more for your money.

<Q – Mike Betts>: Okay, that's great. Thank you very much.

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<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll next to Trey Grooms with Stephens Inc.

<Q – Trey Grooms>: Good afternoon.

<A – Stephen Zelnak, Jr.>: Hey, Trey.

<Q – Trey Grooms>: Just real quickly, you talked about the – your thoughts on federal stimulus help coming next year possibly. But can you give us an update on what's going on with the status of some of the other big infrastructure projects that are kind of looming out there in some of your primary states?

<A – Stephen Zelnak, Jr.>: Well we talked about toll roads in North Carolina, and the first letting of toll roads, and the issue there comes back to credit markets. You've had the letting, now all you have to do is finance it with the bonds. And when the credit market clears up, that financing will get done, and then, the work can proceed. So that's 2009, even though the first round of work has already been let. You've got similar issues across the board. The states are challenged in two ways. They're challenged on the revenue that comes into their DOT because of declining gas taxes and in some cases they have used taxes, translate that sales tax on vehicles. Vehicles sales have declined also, so where that's a factor in their revenue, that's declining. So they had that factor they're trying to contend with, and then, where it is bond-funded work, it becomes a matter of the placement of bonds.

So what I would tell you is we have some states that have stepped up to address revenue. But the biggest states for us have not done that yet. North Carolina is in the throes of looking at it. South Carolina is going to have to make a move. Georgia very much needs to make a move, their program for next year, if they don't make a move, is going to be down sharply. Texas is short in their DOT fund, the Turnpike part of it continues to be fairly strong. But there's nothing out there that is robust right now, that's out of the norm. It's going to be dependent upon Federal stimulus, I think, initially, and dependent upon the states following up with additional revenue measures. The bottom line is it is going to cost you more to drive, period.

<Q – Trey Grooms>: That's okay. Also can you give us your thoughts regarding buyback going – looking out into 09?

<A – Stephen Zelnak, Jr.>: Yeah, buyback in this environment, from the standpoint of share price obviously we'd love it, but from the standpoint of credit dynamics, our first priority is to pay down debt and it's going to be to continue to pay down debt. This is an environment where you simply don't want to take the risk. And, as you know, and I think probably everybody on the call knows, we cash flow very, very well. But at the same time, we're not going to speculate on that. We're going to pay down debt. We get to a point where we're very comfortable then we can consider again, but I think that's well out.

<Q – Trey Grooms>: Okay. And just one last question. You've been seeing some really good work come by way of some of these energy-related projects, with oil coming down and natural gas coming down, would you expect to see, kind of, a falloff of that type of work as a result?

<A – Stephen Zelnak, Jr.>: Well, logically, with the decline in the price of oil and natural gas in the last month or so, I would expect that, that hot area that we talked about in East Texas and Northwest Louisiana, we're probably going to see a reduction of activity. That would be logical. What I don't think is going to come down and in fact, likely will continue to trend line up is wind energy. We continue to see a lot of wind energy activity. My guess is, at the Federal level, with whatever comes out of there, you're going to see more impetus for wind energy and an attempt to

make sure that funding backup is there to move those projects along. So, I don't think that's going to be impacted in a negative way, I think probably a positive way from the Federal level.

<Q – Trey Grooms>: And, just real quickly, could you remind us which states are your biggest states for the wind energy that you're seeing?

<A – Stephen Zelnak, Jr.>: Yeah. Texas is the number two wind energy state in the country, obviously we're big in Texas. And that's become a very nice piece of business in South Texas down in the NAFTA corridor, likewise, other opportunities throughout West Texas. Iowa is the third largest wind energy state, and we are the largest producer in Iowa. We're seeing a lot of activity there. And it looks like there will be follow-on projects to some of the ones that are already under way. So we're pretty optimistic about that aspect of energy.

<Q – Trey Grooms>: Okay. Thanks a lot.

<A – Stephen Zelnak, Jr.>: Sure. And just, there's some of you that I've given this metric, for those that I haven't, we've got enough wind energy business now, so we've got our own metric, about 1,500 tons per turbine, and that's a combination of the concrete pad and the roadways that go in there to erect the turbines. They're pretty big business.

Operator: And our next question comes from Todd Vencil with Davenport.

<Q – Todd Vencil>: Hi, good afternoon.

<A – Stephen Zelnak, Jr.>: Hey.

<Q – Todd Vencil>: You know, as we talk about volumes coming down and if we talk about costs coming down and all the things you guys are trying to do to save costs, how much pressure does that begin to put on pricing? I mean, do you think you could potentially find yourself in a situation where if energy comes off and competitors don't necessarily have that, the wolf nipping at their heels in terms of higher diesel costs, that you could see people start to cut price? Or at least maybe be less disciplined about price increases?

<A – Stephen Zelnak, Jr.>: Well, don't make any mistake about it. There are people who cut price today, there are people who cut price all the time. But certainly, over the course of the last two years, on particular jobs and where people might be long on particular sizes, you will see price reductions to do that.

It's been measured, but it's certainly there. As there is more volume pressure, you see more of it and that's logical. If you think about where the rate of price increase has gone, we peaked out at 13.5% in 2006, down to the 10% level in 2007, between 6 and 8% this year and below that, moderate rates have increased next year. So, in fact, that's happening and that's in our equation in terms of estimating what types of pricing might be available to us.

The reality is, if you sit down with your pencil and a piece of paper, it's pretty hard to volume your way out of this economic downturn, because if you cut price and take business from a competitor, being the macho business that this is, the other party is going to turn around, and do exactly the same thing.

Based on my calculator that says that all the parties in the market have simply cut their price and traded volume, and I don't think that leads to particularly good outcomes, but that's for other people to figure out. We're running our business by size, by customer, by job – there are opportunities on that basis to get some price increases, but certainly not like what we had two, three years back. So, it's already reflective of it.

<Q – Todd Vencil>: Okay. Switching gears on you, and just to sort of expand on some of the things you've said about government spending and especially Federal government spending. We're going to have to do something about either a reauthorization or some other form of a Federal plan after September next year. My understanding I guess is that we're doing – right now we're funding Federal highway work through a continuing resolution. And I guess everybody is probably waiting to see what happens in a week.

But, can you tell us what you're hearing about the shape that people are talking about the next Federal program might take? I mean, from where I'm sitting, it looks like that Highway Trust Fund sort of structure that we've had, unless you can convince somebody to raise the tax at some point, is sort of tapped-out in terms of growth?

<A – Stephen Zelnak, Jr.>: If you go back to the commission that was set up to study the issue of transportation financing, they came out with their recommendation, which was to raise the gas tax $0.50 a gallon. I think that one was pronounced dead on arrival, and I would agree, it was dead on arrival. I think the bigger question is, what is the form of financing going forward? And increasingly, what you're hearing is people focused on VMT, or vehicle miles traveled, as the way that the revenue structure ought to be oriented. By mandate, you're going to have increased fuel – gasoline mileage per vehicle.

So that's going to cut fuel consumption. I clearly see changing habits on the part of the American public, and I think even with lower gasoline prices, that some of those changing habits are going to stick. You have a younger generation that views things differently, and I think they're likely to go about their business in a more fuel efficient, much less road intensive way. So it begs a VMT approach. Whether or not that's actually what gets done, I don't know but, certainly the politicians are focused on that.

The collection of that would have to be done in a very simple way. And, in fact, it might be at the state level. In North Carolina, what we're looking at as a possibility, is collecting the VMT at the Annual Safety Inspection, where the odometer is read at the safety inspection anyway, and then, applying a rate against that and collecting it once a year. That could be a vehicle for the Federal government also. But, they can't stick with gas tax. I don't think that's going to be palatable for big increases, and clearly, the trend line on revenues are going down.

<Q – Todd Vencil>: Okay.

<A – Stephen Zelnak, Jr.>: The other thing I would mention is that, I can't recall the authorization of a new bill that's ever been done on time. So, you should expect that a continuing resolution, as they try to figure it out, hopefully it is a continuing resolution that follows behind some specific stimulus action that has already been put out there.

<Q – Todd Vencil>: Got it. And then, housekeeping, you mentioned $185 million of CapEx, was that 08 or 09?

<A – Stephen Zelnak, Jr.>: That's 09.

<Q – Todd Vencil>: Okay.

<A – Stephen Zelnak, Jr.>: 2008, we expect to be in the $255 million range.

<Q – Todd Vencil>: That's what I thought. Okay.

<A – Stephen Zelnak, Jr.>: And it'll come down sharply. We'll have a very good free cash flow generation next year and back to applying that to debt.

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<Q – Todd Vencil>: Okay, thanks a lot.

Operator: We'll take our next question from Jack Kasprzak from BB&T Capital Markets.

<Q – Jack Kasprzak>: Thanks, good afternoon, everyone.

<A – Stephen Zelnak, Jr.>: Hey, Jack.

<Q – Jack Kasprzak>: Hey, Steve, I wanted to ask about this – you mentioned credit disruptions and cancellations, et cetera. Is that based – are you just seeing that across more or less all your markets, or is it fairly – is it centered in more places than others?

<A – Stephen Zelnak, Jr.>: Certainly, we're seeing it in the Southeast, some in the Southwest. I mean, in our market areas, we've seen more in the Southeast than anywhere else. If you think about lending, you might draw the correlation with Wachovia, who was an aggressive lender and to the construction markets, both res and non-res. And you can kind of take it from there.

<Q – Jack Kasprzak>: Okay. And you mentioned housing in an earlier comment, but I wanted to ask, harkening back to the Q2 call, where you made, I guess, what were some positive comments about housing, just looking farther out into mid-'09 or so, with not a lot of subdivision activity having gone on for quite some time, and maybe the need to pick that back up. Is the recent credit market disruptions kind of put off any hope that we might see even some stabilization in housing in – by mid-or late '09?

<A – Stephen Zelnak, Jr.>: I don't think so, Jack. If the recent credit market disruptions continue the way that has been evidenced in the third quarter, you can just kind of lock up shop and put off everything, because frankly, nothing's happening much of anywhere.

Certainly, there is an expectation that with the Federal Government's actions of injection of liquidity into major banks and regional banks and insurance companies, that there is going to be some move to normalcy. Granted ,the party on the other end is going to have to be able to pay it back. It's a novel concept.

I think you will – once we get some stabilization and the money begins to flow, which supposedly they've started this week, the banks should get back into the lending business, albeit very carefully. And if that is the case, they'll start making choices as to who they lend to and who they don't. That in turn is going to beg consolidation of players in various industries, probably, including the housing industry. So, there probably will be fewer borrowers out there, but the ones that are there are more creditworthy and likely to get credit extended to continue to go about their business, would be my view.

<Q – Jack Kasprzak>: The Portland Cement Association recently updated their forecast for '09, and they see a 30% decline in non-residential construction in '09. I realize you guys aren't in the cement business, but they're just talking about overall construction activity. Do you have any opinion on a 30% decline in non-res in '09? Does that seem too harsh to you guys sitting here today?

<A – Stephen Zelnak, Jr.>: It does. It seems to be a number to me that would be formulated off of what is going on right now. And again, if what is going on right now has been going on in the last six weeks or so, continues, who knows what the number is. But I find it difficult to believe that we're going to go forward, as we get into next year, without some reasonable credit market functioning.

If that's the case, one thing that we're already hearing is that there are developers out there who are looking at declines in the price of construction, who are saying, I've had this project sitting, now is actually a pretty good time to move on it, because my cost of construction is going to be lower

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based on materials cost, based on the fuel component that goes into construction, and based on the fact that I've got a lot of contractor choices from contractors who have very little work and are hungry and are bidding with very low margins.

So, we're actually – it's interesting that you asked the question, because in the last two weeks for the first time, we're beginning to hear those kinds of rumbles. So, some contrarian view out of the developer community.

<Q – Jack Kasprzak>: Great, okay, thank you very much, Steve.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll go next to Ajay Kejriwal with Goldman Sachs.

<Q – Ajay Kejriwal>: Thank you, good afternoon. Just a question on...

<A – Stephen Zelnak, Jr.>: Can you speak up Ajay? We can't hear you.

<Q – Ajay Kejriwal>: Can you hear me now?

<A – Stephen Zelnak, Jr.>: You still need to speak up – very difficult to hear you.

<Q – Ajay Kejriwal>: Can you hear me now?

<A – Stephen Zelnak, Jr.>: Yes.

<Q – Ajay Kejriwal>: Okay. Thank you, and good afternoon, just maybe a question on 4Q guidance to start with. The $0.40 range one month into the quarter, does that reflect uncertainty on volume or any trends in October that you think will play out over the next couple of months? I mean, I'm just trying to figure why that wide range?

<A – Stephen Zelnak, Jr.>: It's all about volume. Volume is going to govern that number. We certainly have our cost structure under control. Again, we're managing that, I think, extremely well. So, it's going to be what we can put up on the revenue line that will determine the profit number.

<Q – Ajay Kejriwal>: Okay. And maybe if you can give some color on what you saw in October versus September? It sounds like things worsened off in terms of construction projects getting pushed off. But just in terms of any numbers around shipments or contracts if you could help it?

<A – Stephen Zelnak, Jr.>: Yeah, not appropriate for me to comment on that with respect to fourth quarter. We'll talk about it at the end of the quarter. The one comment I did make was with respect to energy cost and the significant decline that we've seen. I thought that was fair game, but really not appropriate for me to frame the quarter beyond that.

<Q – Ajay Kejriwal>: Fair enough. About the lower CapEx for next year, maybe if you could give us a sense of, how much of that 185 million is base maintenance CapEx versus any new projects that you're working on. And how much flexibility you have in taking that CapEx down if things – if the situation deteriorates further with respect to the economy next year?

<A – Stephen Zelnak, Jr.>: We normally frame maintenance CapEx as something around DD&A. That DD&A number for us this year is going to be around 168, 168 million. What I would say to you with respect to next year is that, given volumes that are off 20% from peak by the end of the year, we're going to have a lot less pressure on maintenance capital than we typically have. So, with the 185, you're going to have a maintenance capital number that is well below the 168.

What we do have in there is that we've got some strategic initiatives particularly as they relate to Florida. You will see us carry those out. And we also have some strategic land purchases in there as they relate to long-term metal reserves. So, even though we're in a difficult marketplace, keep in mind this is a 50-year plus game. And if you're not making the 50-year moves all the time, you're going to get yourself into trouble and we don't plan to take our eye off the ball with respect to the long-term aspects, and that's the way we built our business.

If in fact, we were to see something that worsens beyond our expectations in 2009, we are fully prepared to tighten down on capital spending as tightly as we have to. And I'll tell you how we're going to play it. When we came into 2008, based on the open authorizations for capital that we had already approved, we had a carryover number of about $100 million of spending based on those open authorizations. We have spent the year 2008 buffering back, dampening down on authorizations, some of which already existed, and certainly, limiting new authorizations. So, as we go into 2009, our carryover number is 20 million, or 20% of last year's. What that says is, we come out of the chute, we have very little capital spending that we must do in Q1. We'll look at it by the quarter, and we're going to measure it accordingly. So, we'll manage it very, very tightly. So, I think we're in a position to do just that.

<Q – Ajay Kejriwal>: Great. Just continuing on that part a little bit, how much flexibility do you have in cutting cost at the quarry level? I mean, could you postpone removing of the overburden or are there any other major cost buckets that you could take out at short notice versus delaying something in the quarter and that comes back the next quarter?

<A – Stephen Zelnak, Jr.>: Certainly, you take a look at your overburden needs, and you try to measure that in terms of efficient pit development. We have places where we need to strip in order to be an efficient operator, and we have some significant stripping projects underway at those places. But where we do not need to strip in order to have an effective pit, cost efficient pit, then you don't do it, in these times. You put it off until another day when your volume goes back up and in fact, you've got to remove it faster, because you need to get to more rock. So, we've gauged that based on the marketplace.

The biggest single cost we have at the quarries is in the labor component. And in fact, our manpower has come down sharply over the course of this year. We're down through the first three quarters over 300 people against a base of about 5500 at the beginning of the year. I would suggest to you that by the end of the year that's going to go down probably. It would not be surprising, if it goes down 150, 200 more just based on not running all the plants, based on other initiatives that we have to make sure that we're limiting and controlling cost. We've cut overtime hours to the bone. We're managing overtime hours at a very senior level in this company. It gets senior-level attention, not just operating-level attention. So, I think we're doing that and we have the reporting mechanisms that allow us to manage that real-time. So, those are the things that we're working very hard on.

One of the things you don't want to do is do short-term things that impact your ability to operate effectively, and sometimes operators will defer maintenance. We will measure what maintenance we do, but I can tell you we're not going to defer needed maintenance for two reasons. One, you're going to make yourself an ineffective cost operator. But secondly, when you defer maintenance, you can create safety issues and we have no intentions of compromising safety. That's the way we're approaching it.

<Q – Ajay Kejriwal>: Great. Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll go next to Garik Shmois with Longbow Research.

<Q – Garik Shmois>: Hi, good afternoon. My first question is, you've talked about some markets that had experienced some pretty sharp volume declines in the quarter. Did you see any pricing weakness in any of your markets, negative pricing?

<A – Stephen Zelnak, Jr.>: Prices in those markets continue to move up, certainly we would not have a 6 to 8% pricing metric overall for the company if they did not. Do you see more price competition on some individual jobs because of declining volumes? It's just what the economists would tell you, absolutely you did.

So, you just have to pick and choose more carefully. You can't get away from the fact that with reduced volumes, you're going to see some degree of greater price competition. The amazing thing about our business is that we're still seeing above average rates of price increase above our long-term trend line coming into this last cycle here in the third year of volume decline. I think it speaks pretty well for the business.

<Q – Garik Shmois>: And are you seeing, just with diesel prices coming down, are you seeing new entrants coming into your markets and potentially pressuring pricing or is, has the market structure still remained relatively stable?

<A – Stephen Zelnak, Jr.>: It's tough for people to do that. Do we see occasional potshots by particularly a couple of distant entrepreneurs trying to pick off a little piece of business down the road 50 miles or so? On occasion, but when you begin to look at how the quarries are laid-out, and remember the customer buys delivered cost, in most cases, we have such a significant transportation advantage over those folks, that it's just very difficult for them to cut a price enough to be an effective competitor. But yes, we are cognizant of it, and there are a couple of situations where we've seen it take place.

<Q – Garik Shmois>: Okay. And just lastly, just a little bit more clarity on your CapEx for next year. [inaudible] start several new projects along the fall in Fayetteville, Selma, and Columbia. Are those some of those – are those projects still on track to get started?

<A – Stephen Zelnak, Jr.>: Fayetteville is moving along, that is a new greensite location for us, and in fact, we expect to be crushing rock and selling rock in 2009 out of the Fayetteville location, which by the way has significant haul advantage over our nearest competitor. So, we think we're going to do very well there. A lot of work at Fort Bragg and in the Fayetteville area. The Selma project is not one that we are likely to crank up on in '09. We may do a little bit of ground scratching to get ready, it depends more on market conditions; that is a greensite. We've got some bigger projects that are in that five year plan in South Carolina and Georgia, and we may scratch the ground, break ground, on one of those projects toward the end of '09 in Georgia, but that was the only one that we were planning on potentially starting in '09. It's really a 2010 project.

<Q – Garik Shmois>: Okay. Thanks, a lot.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: Our next question is from Chris Manuel with KeyBanc Capital Markets.

<Q – Chris Manuel>: Good afternoon.

<A – Stephen Zelnak, Jr.>: Hi.

<Q – Chris Manuel>: Most of my questions have been answered, but I just wanted to kind of tie back on a couple of pieces. One is – if I can kind of piece together some of the things you said today, it sounds like heading into 2009, towards the middle end of next year, housing could get a little bit better, but probably not appreciably so. On the public works side it sounds like – that's what

I really want to kind of circle around, have we seen significant slowness through the quarter, so starting in say July through August and into September on the public works side, or has that kind of stayed relatively steady? I guess is my question.

<A – Stephen Zelnak, Jr.>: With the kind of volume declines we are having, everything is down. If you think about from the State standpoint, they have been very nervous about the status of federal monies coming out of the Highway Trust Fund, because they knew there was an issue there, and the federal government actually cut off funds to the State at one point during the third quarter because they literally had run out of money. And that's when you've got the short-term fix that took place where there was $8 billion worth of revenue transferred to the Trust Fund from the general fund to fix that problem through the exploration of the bill in September of 2009.

So the states are playing it somewhat cautiously because they don't know at this point how good a partner the federal government is. If the Congress comes in and makes it clear that from a funding standpoint that the federal government is a reliable partner, then I think you will see the states begin to move more aggressively because they will know the money is going to be there. They've been a bit in limbo. So, it really comes down to what is the Congress going to do with respect to infrastructure stimulus as far as public works goes. That will be the big piece.

And then the other piece is the bond markets getting to rational functioning so that bonds, that are already authorized for both road projects as well as particularly school projects, can be issued and those projects proceed. Now, we talked about it before but I would just remind you that with construction costs declining, the, federal government, the state government, are all looking at that aspect too. We certainly had some of them consult us, wanting our opinion on whether or not declining construction costs were likely to be the trend in '09. And our answer to that is we think so based on materials costs coming down, other than aggregate, which we've told you is going to go up, and pressure on contractors because there's limited work.

<Q – Chris Manuel>: Okay. That – I bet I can guess for you where some of this federal money has been going to. I hear they've been bailing out a few banks.

<A – Stephen Zelnak, Jr.>: That's the rumor.

<Q – Chris Manuel>: Okay. So the last question I had was when you look at the Specialty Products business, I know there's a good chunk of that goes to – for steel. And when we look at steel production, or at least some schedules for what steel production might be in the fourth quarter, it looks like many of these folks' mills are going to be running at 50, 60% utilization, yet this may be – if the math kind of holds for what you are projecting for the full year – your strongest quarter in the year for steel. Can you give us a little color there? Do you have many of these contracts in hand, or have you seen any deferrals or things in that side of the business as well?

<A – Stephen Zelnak, Jr.>: We are – I mean, we are not immune to the steel business pulling back, furnace shutdowns. We certainly know what the steel mills are planning in Q4. We confer with them in order to understand what the demands on our dolomitic lime will be. In fact, we saw some of that in Q3. What we do expect in that business is that we believe that overall we're going to have record shipments of dolomitic lime for the year. We think we're going to have a good solid dolomitic lime demand in 2009, probably not as high as it was in 2008 from a tonnage standpoint, but we think we'll see some improved margins based on reduced energy cost. That should be a nice positive for us.

And then there is the other side of the business, which is the mag chem business, the chemicals side. That business is growing substantially, and in fact, from a profitability standpoint we have some significant additional profit coming in '09. One piece of it is going to come from contractual obligations to furnish heat-resistant materials, and the second piece will be the acquisition that we announced early in the year, ElastoMag. We've been toll manufacturing the product this year as we

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get ready to move the production facility to our location. In 2009, we will produce that product at our location and we will have margins that go with that production. So, there are some moving parts here underneath the surface that cause us to be pretty confident in terms of our performance in Specialty Products in 2009.

<Q – Chris Manuel>: Very good. Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll go next to Owen Gibbs with Austin Friars.

<Q>: Hi, there. I was just wondering, is there a level of volume decline that you have in mind where you would – where you can see your pricing at zero, potentially negative?

<A – Stephen Zelnak, Jr.>: I really don't. Our view is that as we go into '09, given the state of the economy, that we are going to see some federal stimulus. Do we get to that – we mentioned before back to the 1980s, 30% or so volume declines from the peak – if we get somewhere in that range, certainly there is going to be a lot of pressure. Even more so than there is today. But I bring you back to the fact that it's not very productive to just sit there and cut your price because you may take some volume away from another company, but they're going to turn around and take it right back from you in the same marketplace.

The bigger concern was already mentioned and that's people trying to come in from way outside the market because of declining transportation costs coupled – associated with gasoline and diesel prices, and that's just very limited. So I think it would be a scenario that at this point I just can't envision that is going to take you to flat or negative pricing for this business.

<Q>: Okay, thanks. One other point just on your re-negotiated covenant. What was the quid pro quo for the increase in that?

<A – Anne Lloyd>: If we increase the facility fees at the current credit rating it would LIBOR plus 225.

<Q>: All right, thank you.

Operator: And we'll go next to Kathryn Thompson of Avondale Partners.

<Q – Kathryn Thompson>: Hi. Just one follow-up question I wanted to ask, was what gives you confidence that you'll see, as a stimulus package passes late in the current calendar year, or early next year, what gives you confidence that you'll see benefits by Q2? And what type of numbers have you seen floating out there in terms of the magnitude of the infrastructure spend?

<A – Stephen Zelnak, Jr.>: The confidence that I would have with respect to Q2 is that the conversation about infrastructure funding in a stimulus package is very much oriented toward jobs on the ground as quickly as possible. And what has been asked of the State is what magnitude of work do you have that could be started within 90 days, and the answer that has come back from the states is a number that's plus $18 billion. So, they have committed that if that money is there, they can get that magnitude of work started that quickly. So, whether we have a stimulus package late this year or early next year, it's likely going to hit in the second quarter. If it's this year, it's just whether that will preclude it. If it's next year, by the time the season opens, which on average across the country is about 1 May, they deal with it in January, early February, 90 days out, you're into May. So, that's the way I would look at that aspect of it.

<A – Anne Lloyd>: Kathryn ASHDA just published something on those statistics, if you want to go out and find those.

<A – Stephen Zelnak, Jr.>: The size, I talked about 18 billion – there have been numbers that have ranged higher. It's hard to know exactly how Congress is going to approach this. You see some economists who are out there talking about $300 billion total packages as needed to really pull the economy out of the current doldrums. You've seen $150 billion as a target number floated by some of the key congressional democrats, with the infrastructure piece of that being somewhere between that 18 billion on up into 25 billion plus. It's a floating number. But pretty clearly, substantial money is toward infrastructure, if they address this. So, I think that's encouraging.

<Q – Kathryn Thompson>: Thanks very much.

Operator: That does conclude our question-and answer-session. At this time, I'd like to turn the conference back over to Mr. Zelnak for any additional or closing comments.

Stephen P. Zelnak, Jr., Chairman and Chief Executive Officer

Okay. We thank you for your participation. A lot of very good questions. I wish we had a totally clear crystal ball, we'd tell you what was in it. But we're trying to do the best with the circumstances we're in and hopefully the commentary we gave you was helpful. Look forward to talking to you at the end of the next quarter. Thanks.

Operator: That does conclude today's conference call. Thank you for your participation. You may disconnect at this time.

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