MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to this Martin Marietta Materials Incorporated 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 the 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 results for the first quarter. We were able to produce record earnings of $0.73 per share against a backdrop of severe winter weather which caused further contraction in aggregate shipments.

Volume in our Aggregates business has now declined 4 consecutive quarters with an expectation of further decline in the second quarter of this year. At the same time, we have been able to implement double-digit price increases, which along with excellent cost management has enabled us to post a 14% increase in net earnings and an improvement of 200 basis points in our operating margin over the 12 month period ended March 31, 2007. This performance leads us to believe that when the cycle turns up and volume increases, that we should post some very positive results.

In the first quarter, Aggregate's pricing improvement of 15% was better than expected due to favorable product and geographic mix. On a relative basis, volume was weighted more heavily to our Southeastern operations where pricing is higher, than the lower demand Northern tier states. The severe winter versus the mild weather of last year significantly impacted volume in the Northern tier and in Texas, with volume declines on an individual state basis ranging from 19% to 49%. In the Southeast, the volume decline ranged from 3% to 10% on a by-state basis. Other than weather, which accounted for the significant majority of the volume decline and returned volume to more normalized first quarter levels, the continued lower level of housing construction also contributed to the decline.

As we go forward in 2007, we expect increased demand from infrastructure and non-residential construction with housing reaching a bottom in the second half. We also expect growth in special products such as railroad ballasts and flue gas desulfurization stem. In the desulfurization area we have recently negotiated three contracts which will add about 1.1 million tons of shipments in 2007 and 1.6 million tons in 2008. We expect additional opportunities for these types of materials.

During the quarter we did a particularly good job of managing our quarry level labor cost especially in those areas hardest hit by the severe winter weather. Total paid man hours declined nearly 15%, while production volume was reduced in excess of 11%. The result was a 3.5% productivity improvement in a low production quarter.

Our operations management team deserves special recognition for their execution of a solid cost control plan over the quarter as well as their consistent productivity improvements in recent years. Careful management of the price/cost relationship in a demanding quarter yielded gross margin improvement of 310 basis points for the Aggregates product line. In our Specialty Products segment we had reduced revenue but improved profitability. Our magnesia chemicals business performed particularly well, while in our dolomitic product -- dolomitic lime product line, we experienced reduced volume based on lower operating rates by our steel mill customers.

SG&A expenses increased $2.1 million in the quarter with 1.6 million of that related to increased management incentives based on performance. The increase in overhead other than the incentives was 1.4%. We continue to manage this area very effectively.

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In addition to the business challenges, we also experienced a tax rate of 33.8% on continuing operations, which was up 210 basis points from the prior year quarter. For the full year, we expect a tax rate of approximately 32%.

As noted in our earnings release of February 8, we've been carefully evaluating our capital structure. Excellent first quarter results in a down market further validates the step function change in our business, and with that, the ability and attractiveness of increased leverage on our balance sheet. Management and our Board of Directors have been discussing and reviewing capital structure since last May. The review has been extensive and has been supported by outside advisors. Accordingly, the management team and our Board have established a leverage target of 2.0 to 2.5 times debt to EBITDA. We believe that this current leverage target is prudent and provides financial flexibility for value creation and strong operational performance, continued investment in internal growth opportunities and support of value added business development opportunities, along with the return of cash to shareholders through sustainable dividends and share repurchase programs, while at the same time we expect to maintain our solid investment grade credit rating.

During the quarter, we repurchased 2.335 million shares or over 5% of common shares outstanding in executing against our stated target. We followed that up with a very successful offering of $475 million of 30-year fixed rate and 3-year floating rate debt. We currently expect to continue to add additional leverage during the year to move to the target range.

For the full year 2007, we expect pricing to increase 10% to 11.5% in our Aggregates business, with volume flat to down 2%. The Specialty Products segment should contribute 33 million to 36 million in operating profit. Based on the positive first quarter results, we've raised our guidance for the year to a range of $6.10 to $6.65 per share from $5.95 to $6.50. For the second quarter we expect net earnings to fall in a range from $1.85 to $2.10 per diluted share.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. We will go to Paul Betz with BB&T Capital Markets.

<Q – Paul Betz>: Thank you, good results.

<A – Stephen Zelnak, Jr.>: Thank you.

<Q – Paul Betz>: I was wondering about your full year guidance, what shares outstanding are you assuming for the year?

<A – Anne Lloyd>: The shares outstanding that we are assuming for the year are where we are at today with some movement towards our targeted capital range?

<A – Stephen Zelnak, Jr.>: Yeah, modest movement I think is the way I would put it, we have not assumed major buyback for the remainder of the year, more in line with what we've done the past.

<Q – Paul Betz>: Okay. Are you able to say whether you've purchased any shares in April?

<A – Stephen Zelnak, Jr.>: No, we'll talk about that at the end of the second quarter.

<Q – Paul Betz>: Okay, thank you. And is there a way to quantify the price increase for the geographic mix, like I'm assuming there will be some sequential decline through the year because of the shift to the more volume in the Southeast; is there a way to maybe quantify that?

<A – Stephen Zelnak, Jr.>: Well, as we go through the year, what we've said is that we expect that the rate of price increase will decline in the second half. If you recall last year, we had a very strong midyear price increases. And we have said, and I'll restate, that we do expect some midyear price increases this year. They will not be as extensive in terms of the geography, nor will there will be at the overall level of last year. So, that will have some impact on the pricing metric as we go forward. In geographic terms, what you should expect is that we will have lower rates of price increase in the Northern tier, where generally there is lesser demand; that would be the Plains states, North Central area. And as you come to the higher demand areas in the Southeast and Southwest, particularly the Southeast, you'll see higher rates of price increase.

<Q – Paul Betz>: Okay, thank you very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll go next to Jack Kelly with Goldman Sachs.

<Q – Jack Kelly>: Good afternoon Steve.

<A – Stephen Zelnak, Jr.>: Hi, Jack.

<Q – Jack Kelly>: With regard to your volume assumption for the year, flat to down 2, could you characterize that much – just like – you did the price characterization, which North Central, in terms of pricing increases, being last etcetera, and maybe the pattern's the same, but in other words, if volume is going to be down 2% or flat, how would the various regions stack-up against that overall metric?

<A – Stephen Zelnak, Jr.>: Very good question, I would expect to see volumes not particularly robust in the Midwest and the Plains states. An exception as you come across the Northern tier is that we think volume in Indiana is going to be very strong. Indiana, if you recall, has the enhanced road program that comes from having sold the Indiana Tollway rights. And they in fact doubled up

on their highway lettings; that work is coming out pretty quickly. And we think with the downtown construction there coupled with that ramping up, that '07 is going to be a strong year in Indiana for us. And as we go into '08 and beyond, Indiana looks awfully good.

The very weak area up there is around Cincinnati and Dayton, and we expect that to be down substantially for the year. As you come into North Carolina, which is important to us, we expect North Carolina volumes to be down for the year, we've said that before. We would expect that the rest of the Southeast that the volumes will be pretty good. Those areas are holding up quite well. And as you go the Southwest, we would expect that the volume in the Southwest would be in the range that we've outlined, flat to minus 2.

<Q – Jack Kelly>: Okay.

<A – Stephen Zelnak, Jr.>: So the lift would come out of the Southeast plus Indiana, and the rest of it more likely to be flat to down.

<Q – Jack Kelly>: Okay. Just focusing on North Carolina for a minute Stephen, it looks like that some of the contractors down there, DOT spending in North Carolina this year could be down 20% or so. Maybe, if you had a feel, maybe you could comment on that number, and number two, what turns it around?

<A – Stephen Zelnak, Jr.>: It's clearly going to be down sharply in terms of the letting schedule. What we do have there Jack is quite a bit of carryover work and that hasn't all played-out yet. So, the contractors are busier than the letting schedule might lead you to believe.

<Q – Jack Kelly>: Okay.

<A – Stephen Zelnak, Jr.>: Beyond that as you look at the state, what they really have to do is that they have got to cut loose with GARVEE bonds. They've got $900 million worth of authority, it is a question of when they think it's appropriate to do it. We thought that they would do it fourth quarter of last year. They still haven't done it. But that's there. Given the history of North Carolina and other states that we are familiar with with respect to election cycles, it would not surprise me greatly that it coincides with the 2008 elections, and it's not unusual where you see a covey of work let to produce economic activity as you head into an election year. So that's just an aside and a personal opinion.

<Q – Jack Kelly>: Okay. In your comment about leveraging up you had mentioned share repurchases, etcetera, but you also mentioned business development opportunities, and I don't know if that's just another phrase for acquisitions Steve, or if you can give us any color on what you mean there.

<A – Stephen Zelnak, Jr.>: Well, business development activities obviously include acquisitions, could include other types of things. We've a lot of activity underway with respect to potential megasites for the quarry business. It's possible that something along those lines might come together. It might come together something that Martin does, or Martin does with a partner, you just can't tell. We did in fact do two small acquisitions in the first quarter Jack, which is a departure from where we have been for the last four years. We bought a small sand and gravel business in suburban Broken Bow, Oklahoma. I'm sure you have been there, southeastern Oklahoma. The beauty of that one is that we have been able to acquire a property that will give us connection to the Kansas City Southern Railroad. We will expand that operation rather dramatically over the next couple of years and we think it's going to be a primary feeder of material into Louisiana. So, we are pretty excited about that.

<Q – Jack Kelly>: Okay.

<A – Stephen Zelnak, Jr.>: And we also...

<Q – Jack Kelly>: You could also go to Texas, or not Steve?

<A – Stephen P. Zelnak, Jr.>: Yeah, there will be some local market, but the big ramp up will in fact be rail material into Louisiana.

<Q – Jack Kelly>: Okay.

<A – Stephen Zelnak, Jr.>: The second acquisition was three ready mix concrete plants in San Antonio; that's unusual for us. San Antonio is a market in which we're vertically integrated, both asphalt and ready mix concrete. These three plants filled out our geographic footprint very nicely, makes us the number two concrete player in San Antonio, and in that particular area, that's been a very good business for us. So we took those down, expenditure roughly $12 million on the two.

<Q – Jack Kelly>: Okay and just coming back to an earlier question just to clarify. In terms of shares outstanding, and in your guidance you are not assuming any further repurchases and so the only impact on the shares would be whatever you purchased in the first quarter kind of flowing through the average for the year, is that correct?

<A – Anne Lloyd>: Yeah, pretty much Jack.

<Q – Jack Kelly>: Good thank you.

Operator: We will go next to John Fox with Fenimore Asset Management.

<Q – John Fox>: Hi good afternoon. I was going to ask about the acquisitions, but I will skip that. Could you talk about housing, residential and how it is versus your expectations when you came into the year and then maybe comment on, a couple of the homebuilders have cited March and April a little bit worse because of the subprime contraction of credit, and just talk about housing versus your expectations, thanks.

<A – Stephen Zelnak, Jr.>: You obviously want to have a morose conversation.

<Q – John Fox>: I do not; I want to have a realistic conversation.

<A – Stephen Zelnak, Jr.>: Okay. As we look at housing, certainly the outlook has not improved. I would say it's deteriorated a little bit. We had a view that housing was going to be down sharply this year, particularly in the first half. It's down even a little bit more than I thought. As we go to the second half, you are going to get to a point where the statistical comparisons just aren't as difficult. And I still expect to see a bottoming in the second half, and what will guide is to when the bottoming occurs really is going to be a function of how fast the homebuilders choose to reduce their excess inventory, and that's a function of pricing.

<Q – John Fox>: Right.

<A – Stephen Zelnak, Jr.>: If you look at the homebuilders and what they are doing, they are trying to clear inventory off their balance sheets -- all of them -- virtually all of them are struggling with debt and balance sheet issues. They do that typically by running promotions. It's gotten to be a pretty interesting phenomenon from what was going on a year and half, two years ago where you would have a house up for sale, you would have a list price, and then people would come in and begin to bid above the list price. Well today, if you look at the flow of homebuilding sales, people aren't queuing up to buy unless there is a promotion, similar to the retail business, and they wait until the homebuilders have this please come buy me promotion, and with that, comes rather sharp price cuts. So, I think it's going to be very much dependent upon how much price pain, additional

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price pain the homebuilders want to take as to whether or not you reach a bottom in the third or fourth quarter or it laps over. And my sense is that they just want to go ahead and take the thing and clear the inventory.

<Q – John Fox>: Okay.

<A – Stephen Zelnak, Jr.>: That's a personal view.

<Q – John Fox>: Okay. Thank you. And maybe for Anne, can I have the budget for DD&A and CapEx, and what is the run rate and interest expense after your borrowings in the quarter?

<A – Anne Lloyd>: We will be looking at DD&A of around the 145 to $146 million level, CapEx still is planned at about 235 million, obviously down pretty substantially from last year.

<Q – John Fox>: Right.

<A – Anne Lloyd>: The run rate on interest expense would get us to about $65 million for the year.

<Q – John Fox>: 65 for the year. That assumes no more borrowing for future buyback?

<A – Anne Lloyd>: Correct.

<Q – John Fox>: Okay. Thank you.

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

<Q – Michael Betts>: Yes, good afternoon. I had three areas of questioning if I could Steve. The first one was what seems to be a big improvement in productivity in the first half, and I guess particularly the 15% reduction in paid man hours. Could you quantify sort of what approximately cost saving that is? And maybe little bit more detail, I mean, is that something we can expect to continue through the year or is it something you specifically did in the first quarter? And then I've got two more questions after that.

<A – Stephen Zelnak, Jr.>: Well, let's talk about productivity improvement in general. If you go back and look at us over the last five years, we basically have been offsetting increased wages with improved productivity. And productivity during that period in order to offset the wage pressures, productivity improvements have been running plus 4%, 4.5-ish I think is a good number.

We thought that the first quarter was particularly notable, because when you go through a 15% sales volume decline and an 11% production volume decline in a quarter in this business, it's very tough to respond to it. With our great wisdom and foresight, which I say tongue in cheek, we predicted there would be a winter this year. And so, we actually spent a lot of time preparing for it and getting our people ready for the fact that we weren't going to repeat last year, and that we needed to be very cognizant of coming in, producing a couple of days or a limited number of hours. And that was important because if you go back to last year and the prior three years, we were hand to mouth on inventory all the way. And we basically were running every open hour that we could run to put inventory on the ground for our customers. With some slackening in the economy, particularly in those Northern tier states, we just didn't feel that we had the need to do it. So, we made a conscious decision to manage it in a different way, and at the end of all that, I think the results are truly outstanding to get a 3.5% productivity improvement when you've got that kind of down volume.

If you look overall, I am not going to break out the labor costs per se, but if you look at cost reductions for us, both production costs and the transport costs, I think it was roughly $19 million. And that was I think pretty impressive. I think we did a very good job of controlling it. As we go

forward we would expect to get our typical productivity improvement rate, the course that we have been on, which is going to be in the 4% range. I certainly hope we are not going to see any more quarters with 15% down volume, certainly not the expectation.

<Q – Michael Betts>: That's good, thanks. My second question is on the pricing data which you now produce by region and I remember you trying to find it, but the West region was quite a lot lower than the other regions, I think about 6%. Was there any particular thing that dragged that back I mean, obviously in Q1 with low volumes, it can just be due to product mix or anything, is there anything particular that caused that?

<A – Stephen Zelnak, Jr.>: Yeah, two things, you get into a product mix and actually a geographic mix within that region. The southern part of that region was very weak, and that is where we transfer a lot of material into distribution yards, and when we move to those distribution yards as in Houston or the NAFTA corridor, you're dealing in material that may sell for 16 to $20 a ton would be a respectable range.

<Q – Michael Betts>: Right.

<A – Stephen Zelnak, Jr.>: We had a lot of that that just wasn't present this year as opposed to being heavily weighted toward that last year. If you look at the more Northern tier states, and go up in the Midwest, Plains area, last year we had the most remarkably mild winter that I've experienced in my career with respect to places like Iowa and Nebraska. And what that meant was we were selling a lot of clean stone products that we normally would not be selling until later in the year. So, we had some artificial high priced sales above the norm, and we just don't have those this year. So that's really what impacted that, Mike.

<Q – Michael Betts>: Okay. My final question was just on tax, because I remember on the last conference call you were talking I think Anne about the tax rate potentially dropping to 28% in 2010. I understand the reasons why it's gone up in Q1, and you've given the guidance for the year, but would your view on the outlook for future years now be different or would it now be climbing up 32 to 28 in 2010 or...

<A – Anne Lloyd>: It might go down to 29; we've picked up about a 100 basis points as a result of adopting FIN 48, and that's not going to go away Mike. I would say now that number probably goes down to 29, pick up that additional impact of the production deduction here in the States.

<Q – Michael Betts>: Okay. And then therefore for 2008, we have just got about a 1 percentage point in it -- extra in 2006, sorry in 2007, it's of a one-off nature, would that be right? So you'd be looking more -

<A – Anne Lloyd>: Yeah absolutely an incremental piece there, and build off that.

<Q – Michael Betts>: Okay, thanks very much.

Operator: We'll go next to Andy Schaffer with Farley Capital.

<Q>: Hi everyone. Anne I just want to make sure I understand when you are talking about your leverage ratio, how you are defining your debt and how you are defining your EBITDA. When you are talking about EBITDA, is this a trailing 12-months EBITDA or is this more along the lines of how a rating agency looks at it with a three years trailing, two years forward?

<A – Anne Lloyd>: This is straight out of the definition of our credit agreements, Andy.

<Q>: Okay.

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<A – Anne Lloyd>: And we've provided for you on the page 11 of the press release a calculation of consolidated debt to consolidated EBITDA in accordance with that term, and it is on a 12 month trailing. So, this is not how our rating agencies would look at it, but exactly how we have to look at it from our credit agreement perspective.

<Q>: Okay. And I guess in that light, it looks like for you guys to hit that range based on your guidance for earnings this year, it might be somewhere around, year end debt of say 1.2 to maybe 1.5 billion. So, it seems like you have a significant ways to go, so I'm just wondering when you are talking about maybe not repurchasing too much more in the way of shares, what would be some other uses of your capital?

<A – Stephen Zelnak, Jr.>: Well, we didn't say we weren't going to repurchase shares; what we said is that in our calculation, that we had not put any significant additional repurchase in the calculation of earnings.

<Q>: Okay.

<A – Stephen Zelnak, Jr.>: It's open as to whether or not we repurchase additional shares, and we are going to look at the best use of the capital. I did mention that we did a couple of small acquisitions, more activity in looking, because we've seen some things pop up that are of interest. Is there anything very large out there that would soak that up? You never know. Those things are truly opportunistic, so we just kind of leave it open.

<Q – Andy Schaffer>: All right. Thank you.

Operator: We will go next to David MacGregor, Longbow Research.

<Q – Garik Shmois>: Hi, good afternoon, this is Garik Shmois in for David. You mentioned before that you expected prices to go up in the Carolinas about 15%. Is that view still holding, and with volumes coming off in the regions, can you talk a little bit about why the Carolinas are so strong with respect to pricing?

<A – Stephen Zelnak, Jr.>: Yeah, the 15% number we think is – continues to be a good number. And with respect to – this is the economic question that we get all the time. Why are you able to increase prices at double-digit rates when the volume is going down? The reality is that you are dealing with a product where the replacement cost in many cases, there is no replacement. The replacement cost is just incredibly high any way that you calculate it. We've got irreplaceable reserves, and as we have looked at that we've concluded that it is not in our best interest to deplete irreplaceable reserves without getting what we think is an appropriate price for them. And that's the way we are approaching the business. Over time, what's happened is demand has gone up, the number of additional locations is not very many, the reserve base you're constantly chipping away at, so it puts you in a position where you have that opportunity, particularly given the locations that we have. So that's the fundamental approach to it -- and I think you should expect to see us continue to take that approach.

<Q – Garik Shmois>: Okay very good. And just also on the Specialty Products, our revenues were down again for them in the second quarter in a row, can you talk a little bit about as to why?

<A – Stephen Zelnak, Jr.>: I had mentioned that the dolomitic lime business was off a little bit with the steel industry contraction. The steel industry is obviously playing their game in a different way with the consolidation that has taken place there, and actually I think it's a much better way. It used to be that the steel industry would produce and produce and produce until they had filled up all the distribution channels and then you would have to go through this proacted period of outage in order for them to rebalance with actual sales. Today they watch their sales very quickly, particularly the distributors, and if they see weakness in the distribution chain, then they are pretty

quick to pull furnaces down. So we see that, and it's reflected in our business very quickly, whereas they might have in the past continued to produce and just hope that it would get soaked up until they hit a point where they would take significant outage. Today they are adjusting to the business demand by the week. So that's what's going on, and as you look at automotive and as you look at construction, steel demand there you would expect to be off and that impacts their production rates. We think we are going to have a good year with dolomitic lime, but certainly some of the excess demand we have seen in the last couple of years is not likely to be there.

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

Operator: We go next to Alan Mitrani with Sylvan Lake Asset Management.

<Q – Alan Mitrani>: Hi, thank you. Can you talk about whether you looked at master limited partnership structure at all for any of your assets in doing your capital structure and why you chose at least now not to pursue that?

<A – Stephen Zelnak, Jr.>: We have, and in fact we have spent a lot of time looking at MLPs. We had several of our shareholders suggest that it's something that we should take a look at and we certainly tried to do that in detail. If you look at the type of business we run, the characteristics of the business, and you look at where we were trading today, it really doesn't work very well. We've had the suggestion that perhaps you take lower growth segments of your business, break it up where you are getting price increases that are in the 2 to 3% range, and look at perhaps MLPing that part. The only difficulty we had is we couldn't identify any places where prices were only growing 2 to 3%, and had that likelihood as we went forward. So at this point, I won't say that it's a dead topic because we remain open to ways to create value, but we've certainly not found a way to make it something constructive for our shareholders.

<A – Anne Lloyd>: And I would say Alan, in addition to the fact that you can't really get any arbitrage on the multiples here as they exist today, there's also some pretty significant tax linkage that happens with the structure for us.

<Q – Alan Mitrani>: Excellent I appreciate that. Thank you. Also, since you went – the last few months, you've been spinning that there have been several large deals in the sector between Rinker, Florida Rock and the rumors on Hanson. It seems as if the assets, as you are talking, the pricing is not just reflected in the market and making the product worth more, it seems though as if the overall assets and the scarcity of companies is making your assets worth more. I was just wondering whether you've been involved with talks in terms of looking at other companies, obviously not the 30 billion types, but some of the smaller ones, or any of these – has any of the consolidation pushed any of the families that you've talked to over time to maybe considered being public given the multiples?

<A – Stephen Zelnak, Jr.>: With the family businesses, I am not aware – certainly the size of those businesses really doesn't – they don't lend themselves to going public in a significant way. The larger family businesses for the most part have been taken out over the last ten years. And if you just look at what we have done in the last, since we went public in '94, we took out four of the top 15 during that period. So, there has been considerable consolidation, we certainly expect that that is going to continue. As we've said, we are interested in value-adding acquisitions, and I put that qualifier there, and I'll put a further qualifier, value-adding in a relatively short order, the so-called strategic acquisition that is going to add value three, five or eight years out doesn't really excite us. We think it needs to add value quicker if it's going to be something that we're going to line up to do. So, that's our approach to it.

<Q – Alan Mitrani>: Excellent, thank you.

Operator: Mr. Ursaner [Arnold Ursaner, CJS Securities] your line is open.

<Q – Arnold Ursaner>: Hi, good morning, good day, I'm sorry.

<A – Stephen Zelnak, Jr.>: Hey Arnie.

<Q – Arnold Ursaner>: Over the last few years, Steve, you've spent a great deal of CapEx targeted on major facilities. And I know in the back of your mind, you've had a lot of upgrade work you could do on more of your existing facilities. Given the paybacks you're seeing and the current environment, could you update us on your thinking of some of the capital spending you might put in your older facilities?

<A – Stephen Zelnak, Jr.>: We continue to be on the course Arnie to modernize and significantly upgrade the capacity of our operations in the Southeast. We have done it in the Southwest. We have put a lot of CapEx to major locations in the Southwest as well as the Bahamas, Nova Scotia and the project that we had on the river, at Three Rivers near Paducah. As we look at where the biggest opportunity is, it is in the Carolinas and Georgia. And over the next five years, we have a plan to systematically take those quarries which are rail-connected. They serve local markets across the fall line in those states, but they also serve by rail markets toward the coastal areas. You're going to see us double and triple the capacity of those plants. We have assured that we have the reserve base to do that. And the beauty of it is, if you're working at a developed location, you'll build a brand new highly-automated plant which is going to double your output per man hour. You're going to have internal rates of return that are going to be 25 to 35% or better. We've reviewed with our Board last November a series of projects we've done and we had some that were above 35%. And that relates to the pricing metric. So it's awfully attractive and we're going to stay on that course.

<Q – Arnold Ursaner>: Okay. And a follow-up to that, you 15 years or so ago put together some permitted properties, some of which you have not attempted to develop yet. Given the current pricing, given the current views of the scarcity, have you thought more about accelerating some greenfields on your permitted properties that yet to be developed?

<A – Stephen Zelnak, Jr.>: We look at it all the time. Pricing is a delicate thing. What we have done is permit some sites that you couldn't get zone and permitted today and we have put them in our inventory, land bank inventory. When the demand gets to a point where that site location, and remember you are dealing in very specific site locations, is attractive based on the development, then we pull those off the shelf and we develop them. And typically when you do one of these things, you are going to spend a good three years or so when you begin to physically development – develop it, all permits in hand, actually getting the quarry up to a point where it's running and you are getting some reasonable productivity.

We do have some green sites that we expect to open, particularly in North Carolina. I have mentioned before that we have one down near Fort Bragg, beautiful situation. In an area where a lot of people didn't think there was any economically mineable rock, we found a needle in a haystack. And it just happened to be adjacent to Fort Bragg, and we kind of like that, because we blast rock and they shoot 155 millimeter Howitzers, we're very compatible neighbors. So, that one, we will begin to open up this year and get it open in '08. And then we've got potentially four others coming behind that over the next three or four years. We roll them out – pardon?

<Q – Arnold Ursaner>: I'm sorry, go ahead.

<A – Stephen Zelnak, Jr.>: No, we roll them out as we think they will be effective and make money.

<Q – Arnold Ursaner>: Final question from me. I think if – I know I could never have analytically come up with a number like you had in Q1 and the margins you've had. As you look out over the

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next 2, 3 years with some likely improvement in housing, you frequently have talked about a 30% margin goal in aggregates, and it certainly appears like you're going to get there a lot faster, and again, given any housing recovery, it seems like you ought to be able to exceed it. What are the things you see holding back a dramatically faster realization of margin in Aggregates?

<A – Stephen Zelnak, Jr.>: My 30, 40 years of experience in this industry, and just some conservatism based on that because there is always something that happens that you do not expect. But if you just sit down and start running numbers with some more reasonable volume improvement as you go up cycle, you can run them, we can run them, and they look awfully interesting.

<Q – Arnold Ursaner>: I think it's very important though for your shareholders who are saying, to the extent you are going to lever up, if you actually think '09 and 2010 could show the types of numbers you are probably looking at, as aggressive as you've been, and I applaud you for that, there are probably some that would think you should be even more aggressive.

<A – Stephen Zelnak, Jr.>: Yeah, reasonable people can have differences of opinion about that. What we're trying to do is thread the needle between what we think is an appropriate balance sheet. At the same time, we have said, and I'll state again, we think we have a share price that does not reflect true value of the company and I'll say it today at 140 some-odd dollars or wherever it is, we're a buyer. And we expect to continue to be a buyer for the foreseeable future unless there is something that changes in our assumptions. And the basic assumptions that we laid out were that the pricing metric as we go forward over the next 10 years, maybe 15 or so, is likely to be perhaps double the metric of the last 20, which was a little over 3%, so maybe we are talking about something between 5 and 7, call it 6%, with an inflation rate in a similar place, you roll in transportation, which rises faster on top of that, and that would give you roughly a 4% rate of cost increase, that's 200 basis points a year on average. Is it possible to do it quicker? If the volume comes back, certainly that potential is there.

<Q – Arnold Ursaner>: Congratulations on a great quarter. Thank you.

<A – Stephen Zelnak, Jr.>: Thank you.

Operator: We will go next to Clyde Lewis with Citi.

<Q – Clyde Lewis>: Good afternoon Steve and Anne.

<A – Stephen Zelnak, Jr.>: Hi Clyde.

<Q – Clyde Lewis>: I have three or four questions if I may. Firstly, in terms of the productivity improvement that you placed in the first quarter, was any of that gain down to the kick in from the Three Rivers quarry at all or was it just sort of spread across the group, across all the different regions, rather than just in that one area?

<A – Stephen Zelnak, Jr.>: Actually Three Rivers did not make a significant contribution to that. It was spread across the company, but particularly notable in the Northern tier states and the Southeast.

<Q – Clyde Lewis>: Can you just remind me what you sell into Florida right now and in case of the Lake Belt case does lead to some closures down there, what would you be able to do in terms of increasing your shipments into the market down there?

<A – Stephen Zelnak, Jr.>: Well roughly 5% of our revenue comes out of Florida, and the majority of that comes from the sale of granite both by rail and out of Nova Scotia. We're the big granite provider into Florida for infrastructure; that's our niche. If you were to see Lake Belt shut down or

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let's say Lake Belt diminution, which is much more of a possibility, if we did the Marshall Plan of aggregates and really mobilized, we think we could get another 10 to 12 million tons down there in 18 to 24 months, some of it very quickly. Some of it we would have to gear up for in terms of adding crushing capacity and some additional load-out equipment.

We certainly could not bridge the full gap. You are talking about an area that produces something in the best of times maybe 60 million tons of aggregate. You've got a couple of cement plants to feed that would have to be fed with high calcium material from other sources. The most logical scenario there would be probably to feed that out of north central Florida, and you would have to truck or rail it down. We could help but we certainly couldn't cover it all, and what I would tell you that anybody that helps with that scenario, if it were to develop, is not going to give the material away, and I can tell you the transporters are certainly not going to give away the transportation because you would have to bump material off of rail in order to get it down there, and that says that the rail rates would be quite high relative to today's rail rates.

<Q – Clyde Lewis>: It neatly brings me on to one of my other questions about transportation. You've not flagged up many problems either on the river system or on the rail system in terms of sort of shipment problems in the first quarter, would that be fair?

<A – Stephen Zelnak, Jr.>: That's fair. What's happened particularly with the rail transporters is that in line with the economy, some of pressure on them has eased off. And what we are seeing, they are obviously working hard to make improvements and those are coming forward at the same time that they have a little less pressure. So the fluidity of the systems has improved, the velocity in their systems has improved, car availability, power availability. So we have seen some improvement on all the railroads. Now what will happen is that as the economy goes up cycle, the railroads are going to be back to the same place that they were at and we are going to be back to the same place we were at, which is you are going to be hand to mouth on inventory, rock inventory for us and cars and power and trackage for them.

<Q – Clyde Lewis>: And on the river?

<A – Stephen Zelnak, Jr.>: The river will be the same and is the same today. It's backed off, little more availability of power and barges, but as soon as you go up cycle, you're going to take all that away very quickly. Keep in kind we've got 50 barges on order in anticipation of increased business opportunity, particularly out of our Three Rivers quarry, with a big investment there and we will begin to take delivery of those mid-year.

<Q – Clyde Lewis>: And then the last one I had was I think in the back of your statement on the risks section, you referred to believing that 2007 is going to be a nice year in terms of hurricanes. I mean it's a bit of an odd question, but can you sort of give us some sort of idea as to what you have actually factored in for guidance in terms of your hurricane expectations for 2007?

<A – Stephen Zelnak, Jr.>: Well, we read the various forecasts that are put out, and the forecasts that we have read indicate that there is a likelihood that you are going to see an above average hurricane season. Actually had the same forecast for last year and it didn't materialize. So as we look at the business, we just want to remind everyone that we do operate in coastal areas. We certainly have seen the impact of hurricanes, particularly in the Southeast where they hurt us badly, dump a lot of water in our quarries. We've had extensive flooding problems, in some cases loss of equipment. But we are just trying to make sure that everyone understands that we do not have a mammoth umbrella that goes over the areas on the coast, and that that is a risk factor, and it is what it is. We manage it well, but a 140 mile an hour wind's pretty tough to control and even more so, we found that the heavy rainfalls that come with those hurricanes are much more devastating to us than the winds. The winds pass pretty quickly.

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<A – Anne Lloyd>: But Clyde from a forecast perspective, we obviously haven't forecast a catastrophic storm in our results.

<Q – Clyde Lewis>: But, would you have sort of factored in just a normal level of rainfall or actually...

<A – Anne Lloyd>: We would have factored in a normal third quarter, which is usually – third and early fourth quarter is when we have the most exposure, so we've just factored in what we would consider to be normal.

<Q – Clyde Lewis>: Thank you very much.

<A>: Sure.

Operator: [Operator Instructions]. We'll go next to Tom Brinkmann with Davenport.

<Q – Thomas Brinkmann>: Good afternoon everybody.

<A – Stephen Zelnak, Jr.>: Hey, Tom.

<Q – Thomas Brinkmann>: Just wanted to know about just briefly that – you've talked about the CapEx being down year-over-year, and you talked about future projects for CapEx, was wondering what you are up to these days and why the CapEx is down this year?

<A – Stephen Zelnak, Jr.>: CapEx is down this year because we had two very large projects last year. We had the Three Rivers, Kentucky, project which was on the order of $50 million. And we also had our North Troy, Oklahoma project which was about $45 million. So those are huge projects for the Aggregates business and we had two of them at once.

If you come to this year, we do not have any projects of that magnitude in the plan. The biggest project we have going right now is out in Weeping Water, Nebraska, which is south of Omaha, a major underground mine for us. That project all up will probably cost us somewhere in the neighborhood of 32 to $35 million, but we have been at it over the course of three plus years. We should be on line in the third quarter there.

Beyond that the other project that we will gear up later in the year is we are going to begin to build a new plant at Augusta, Georgia. Augusta is a very good local market. That area continues to grow very nicely as far as the truck component. We also serve the railroad with ballast out of Augusta and that is a shipping point to South Georgia, you can go on down into Florida. We're going to take that plant from roughly 2 million tons up to a potential capacity of probably close to 5 million tons if we run it flat out. So, that project will lap over this year and probably won't be online until early 2009; it will take a good full 2008 to build it.

<Q – Thomas Brinkmann>: Okay. And you talked about the benefits from a geographic mix, and with all the different percentages being thrown around, it's tough to keep up. But, I was wondered if you could tell us roughly about what kind of dollar amount prices you are realizing in each geographic division?

<A – Stephen Zelnak, Jr.>: No, I would prefer not to do that; that's information that I would consider to be competitive information. What we have said is that the pricing levels are typically higher in the high demand areas, which is Southeast and parts of the Southwest. And you have to remember that where you are going to distribution yards you have a big freight component in that piece of it. And we've said before out of the distribution yards that you are looking at pricing there that can be $15 up in to the 20s, mid-20s just based on the freight component.

<Q – Thomas Brinkmann>: Okay. And you mentioned some ideas about long-term average price increases. What about – what has been the sort of compounded average growth rate of volumes, obviously with all these fluctuations in volumes, just to kind of get a feel for what the big picture is long term?

<A – Stephen Zelnak, Jr.>: Well, our assumption, the fundamental assumption we make is that at this point, we think the Aggregates business is a GDP growth business. So, pick it at 3% or 3.5% in terms of what average volume growth ought to be over the next decade or so. Part of what drives that is, a key part is the relocation of people from the North to the South, and I always like to use the per capita example because I think it really says a lot about what's driving the Aggregates business. If you live in Chicago, you worth 5 tons per capita to me. I will buy you a ticket to Myrtle Beach because you are 20 tons per capita in Myrtle Beach. You build up in Chicago, you build out in Myrtle Beach; golf course communities, all the infrastructure that goes with that. And that's where the flow is, out of these high-density areas into lower-density, more retirement-oriented, higher-quality life area as some would say, and that's driving the Aggregates business, certainly driving ours.

<Q – Thomas Brinkmann>: Okay. And the last question I had was, there was a pullback in contract lettings, highway contract lettings in February. This was the first one I've seen in a long time really, in the year and a half since the Federal Highway Bill was passed. I was wondering if you have any comment as to why that might be, and did it relate to the federal appropriations or what was going on there?

<A – Stephen Zelnak, Jr.>: Certainly, I know nothing that says that appropriations would drive that. States are notorious with fluctuations in their letting schedules, and frankly, I don't put a lot of stock in individual monthly lettings, or even a couple months. I think you have to look at it in a longer-term trend-line basis. Looking at quarters and particularly looking at rolling 12 months is a good way to look at that because it tends to take the seasonalization out and the erratic nature of the states.

<Q – Thomas Brinkmann>: Okay. Thanks for your – answering my questions and good quarter.

<A>: Sure. Thank you.

Operator: We'll go next to Michael Lukacs with Appaloosa Management.

<Q – Michael Lukacs>: Yeah, I just wanted to confirm some things, did you say your CapEx is 235 for the year?

<A – Anne Lloyd>: Yeah.

<Q – Michael Lukacs>: And the interest was 65?

<A – Anne Lloyd>: Yes.

<Q – Michael Lukacs>: And taxes, what was your tax rate?

<A – Anne Lloyd>: We expect it to be about 32 for the year.

<Q – Michael Lukacs>: Okay. The one thing I'm just trying to figure out though, and I recognize you've gotten some nice pricing, some decent growth, volumes are down a little, it doesn't seem to do any free cash flow, I mean on those numbers, it seems like you have 2 or 3% free cash flow relative to your markdown, do you think I am lost somewhere? In analysts' estimates, you have 700 of EBITDA minus 230 of CapEx and your interest, you basically get 2 to 3% free cash flow, is that what you guys are looking at?

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<A – Stephen Zelnak, Jr.>: I mean you're running the numbers.

<Q – Michael Lukacs>: Okay. No, I am just trying to get it in light of you saying the way to monetize better returns and carve it up, but I don't actually understand how you do a capital structure arbitrage when these are the returns that are being garnered? I'm just trying to figure it out as an equity holder, what you can do?

<A – Stephen Zelnak, Jr.>: I'm confused about what we are carving up here.

<Q – Michael Lukacs>: If you were to MLP a portion of the assets like – you were looking at that?

<A – Stephen Zelnak, Jr.>: Yeah, I talked about 2 to 3% rate of price growth. We had that question posed by a particular investor. Looking at whether or not there was a possibility of taking part of our business and MLPing it as opposed to the majority, which he clearly did not view as an MLP candidate.

<Q – Michael Lukacs>: Great.

<A – Stephen Zelnak, Jr.>: And the way he posed the question, he said if you had an area, and he specifically identified the Midwest or the North Central area which are slower growth and the prices were only growing 2 to 3%, would not that be a good candidate for an MLP? And we said, theoretically that might be interesting provided that you didn't get killed on the taxes with the book value issue relative to what you took it out at, but we could not identify any areas where the prices were only growing 2 to 3%.

<Q – Michael Lukacs>: Okay got you. And one other thing, just on the volumes, just to understand a little bit better. You do think that you could have decreasing volumes and still keep pricing up, you never get a pushback from customers here? At some point?

<A – Stephen Zelnak, Jr.>: Don't think that there is not plenty of customer pushback, you always have that. But the reality is that we've made some conscious decisions in areas where there is reserve scarcity that we simply not going to give the product. We are going to try to get better value out of what's a diminishing resource. It's diminishing relative to that particular location. And we just think it's extremely valuable and that value is built over time. So, yes, we get pushback. And in fact the pushback right now as you might imagine given the diminution of housing is very heavily from our concrete customers who are seeing significantly decreased volume. So, if you look at what we've said, we've said that prices this year are going to be 10 to 11.5% for the year. That's versus 13.5 last year. So, if you called in -- pick basically the midpoint, call it 11, then we'd be down 250 basis points in pricing from last year, which is directionally the same as your volume decline. It's just it's from a higher level.

<A – Anne Lloyd>: And very comparable. So, if you look at the past 20 years of prices and volumes that we've put on our website, very comparable to the direction and rate of increase and decline through cycles.

<A – Stephen Zelnak, Jr.>: Yes, that's 250 basis points against 13.5 as opposed to 5.

<A – Anne Lloyd>: Opposed to 5.

<Q – Michael Lukacs>: Got you, got you.

<A – Stephen Zelnak, Jr.>: Which is helpful.

<Q – Michael Lukacs>: One other thing though, and I am just trying to understand, maybe you could help me understand as an investor, looking at coal companies and a bunch of commodities, and maybe this is a bad reflection, if I look at your K, it says you basically have in your Mideast group 69 years of production ramps, Southeast 74, when gas, coal and oil companies have 7 years of production, why is this a scarcity? I am trying to understand why is this a scarcity of reserves? You have 70 some odd years left, or 55 years on average?

<A – Stephen Zelnak, Jr.>: Yeah, there is a scarcity based on the fact that there will in our view never being any additional zoning and permitting for quarries in proximity to the ones that we possess in most of areas where we operate. And it really becomes a scarcity that frankly has been created by the environmental movement, by extensive regulation over time, and you may have a very long-term number, but that's a number based on today's demand. That demand is going to grow, and let me give you an example. I just outlined the fact that we are going to double and triple capacity at some of these key locations across the Southeast in the Carolinas and Georgia. If you have 60 years and you triple the capacity, you then have 20, so you have to measure all that out. That's what we are looking at.

<Q – Michael Lukacs>: Great, thank you.

<A>: Sure.

Operator: We will go next to Paul Betz of BB&T Capital Markets.

<Q – Paul Betz>: Hi, regarding Ohio River and Lock 52, in your 10-K you said there is a scheduled two-week outage that may occur in August 2007, is that -- do you know if that's still on schedule and would the impact kind of be what you encountered in 2006?

<A – Stephen Zelnak, Jr.>: To our knowledge, it is still on that schedule. And no, we don't expect to see anything like the impact that we had in '06. What caused the impact on us that was really extensive is that we were building the new plant and transitioning to it at Three Rivers. And we had shut down the old facility, and that meant that we had basically run out of inventory. So, we were hand to mouth trying to get material down to customers as opposed to having yard stock, and inventory that we could live off of until the lock problems were solved. So, we just had to get in the queue, eat a lot of holding costs on the river, that demurrage is very expensive, and we don't anticipate anything like that this time. So, I don't think it's going to be a significant issue for us.

<Q – Paul Betz>: Okay, thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll go next to Mike Betts with JPMorgan.

<Q – Michael Betts>: Yes, two follow-up questions, if I could. Firstly, obviously you're going to be taking a lot of additional debt on the balance sheet with the re-leveraging. I mean a question I guess to Anne just sort of working assumptions, Anne what sort of interest rates should I assume, particularly as you get up to those higher rates of leverage? I mean is 6% a reasonable number on the total debt or could we get higher, just because of the extent of leverage?

<A – Anne Lloyd>: Well on new debt Mike, we've got 6 1/4 on 250 million of it and then LIBOR plus 15 on 225 of it. So actually our overall effective rate on the portfolio will go down from what it is today.

<Q – Michael Betts>: Okay, but you'll be taking presumably – the rest of it will be short-term debt will it Anne that you take on board from here?

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<A – Anne Lloyd>: Not certain, could be short or long, but there is a not a whole a lot of difference between those rates right now.

<Q – Michael Betts>: Okay. And the second thing for you Steve, I guess, you have talked about acquisitions maybe there being more opportunities, and I guess my direct question is two major corporate transactions at the moment. We kind of have a pretty good idea, at least in one of them what's got to be sold. And I guess you guys have a pretty good idea of what's going to be required in the other one. Are there meaningful assets that you would be interested in acquiring assets, out of those forced divestments?

<A – Stephen Zelnak, Jr.>: I assume you are talking about Cemex and Rinker, where the FTC has defined what must be sold at this point.

<Q – Michael Betts>: Yeah, and the Florida-Vulcan...

<A – Stephen Zelnak, Jr.>: And Vulcan and Florida Rock where that is yet to be defined.

<Q – Michael Betts>: Yeah.

<A – Stephen Zelnak, Jr.>: The answer is that there may possibly be some quarries that are required to be divested. We think there probably will be. We would certainly be a very interested buyer in anything that Vulcan had to divest.

<Q – Michael Betts>: And could that involve significant sums of money, I guess not in Vulcan's case, they've put a limit on the EBITDA, haven't they, okay. Thanks.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And that does conclude our question and answer session. I'd like to turn the call back over to our speakers for any additional or closing remarks.

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

Okay thanks for joining us. As I said. we were very pleased with the first quarter. We will be back to talk to you about Q2, probably in the month of July or maybe the 1st of August. Look forward to it then. Thanks.

Operator: And that does conclude today's conference call. Thank you for your participation. You may disconnect at anytime.

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