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 President and Chief Executive Officer, Mr. Stephen Zelnak. Please go ahead sir.

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

Thanks for joining us this afternoon. I have with me Anne Lloyd, our CFO. We had an outstanding first quarter with net sales of $424 million, up 25% over the prior year period. Earnings per diluted share of $0.66 was more than four times the prior year of $0.15 per share. Operating margin increased 630 basis points based on very good performance in Aggregates and Magnesia Specialties and a significant reduction of a loss in our Structural Composites business.

Our Aggregates business benefited from strong demand, good weather and very positive pricing. Shipment volume was up 8.5% over the prior year period with double-digit increases in North Carolina, Texas and the Gulf Coast region. Pricing increased 15% with double-digit increases in the high demand Southeast and Southwest areas which represent 70% of our net sales and more modest single-digit increases in the northern tier states. The Aggregates operating margin increased 610 basis points over the prior year period in spite of significant increases in supply and energy cost as well as a 22% increase in freight for the portion of our business that depends on rail and water transport.

Magnesia Specialties' has also had a superb quarter with net sales of $37 million, up 24% from the prior year period. Earnings from operations of $8.2 million increased 63% based on very good volume and pricing in both the dolomitic lime and magnesia chemicals businesses.

Our Structural Composites business reduced its loss from $2.6 million in the prior year period to $1.3 million based on 4.4 million in revenue primarily from ballistic panels for the military. The second quarter will be a light revenue quarter with improvement expected in the second half based on current order discussions.

Our selling, administrative and general overhead costs improved 90 basis points to 8.5% of net sales. Magnesia Specialties' unit was particularly overhead efficient with an SG&A rate below 5%. About two-thirds of the dollar increase in SG&A related to the initial expensing of stock options and increased performance-based incentive compensation.

We anticipate bringing several new plants online as well as adding additional shipping capacity in the second and third quarters. Our first dedicated ship, the Nova Scotia for our Nova Scotia quarry should begin service in May with a second currently scheduled for August. This should boost our shipping capacity from Nova Scotia by more than 1 million tons annually. We expect to bring a new 5 million ton per year plant online in Southern Oklahoma late in the second quarter, primarily to serve Dallas by rail with about a million tons targeted for Houston. We also expect to be fully operational with a new sand and gravel plant in Des Moines that will add 500 to 600,000 tons of annual sales in an area that is short of sand supply. Early in the third quarter, we expect to begin operation of our new 8 plus million ton annual capacity plant at our existing Three Rivers location near Paducah, Kentucky. We expect to realize significant efficiencies from this investment. This quarry serves 14 states by barge with a significant amount of the tonnage going to Louisiana which is a high demand area. In addition, we will complete receipt of 780 new rail cars in the second quarter which will boost our delivery capabilities in the Southwest.

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During the quarter, we repurchased 414,000 shares of our common stock for $40 million or an average of $96.51 per share. We continue to have a favorable view of share repurchase as a use of excess cash.

Looking ahead, we expect an excellent year based on strong pricing, solid volume increases and good cost management. In our Aggregates business, we expect volume for the year to be up 3 to 4% with pricing up 11 to 12.5% assuming certain planned mid-year price increases. Aggregates' operating income is expected to increase by approximately 300 basis points. In Magnesia Specialties, we expect operating earnings of 30 to $32 million versus our earlier forecast of 26 to $28 million. In Structural Composites, we are targeting breakeven but a modest loss is more likely.

Based on these assumptions, we currently expect net earnings per diluted share to be in the range of $1.50 to $1.70 for the second quarter. For the full year 2006, we currently anticipate net earnings of $5.30 to $5.60 inclusive of $0.05 to $0.07 per diluted share, for the initial expensing of stock options.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. And we'll go first to Arnie Ursaner with CJS Securities.

<Q – Arnold Ursaner>: Hi, good afternoon. Steve, can you try to give us a little bit of a feel for your SG&A run rate so perhaps we can back out any what I am going to call initial or one-time expenses on stock expenses or stock-based comp?

<A – Stephen Zelnak, Jr.>: We've got – we've given you the increment for stock-based compensation. If you go beyond that and look at the run rate aside from stock-based compensation, it's going to be from 23.5 to 24% on top of last year.

<Q – Arnold Ursaner>: Okay. And you mentioned in the body of your comment or in your prepared remarks that you've assumed some mid-year price increases. Could you be a little more specific particularly by key markets?

<A – Stephen Zelnak, Jr.>: Yeah, we have assumed the mid-year price increases that this time we expect to put into effect. Some have been announced, most have not, but we have gone over in detail what it is that we are going to attempt to put into effect in most of our markets, and in fact most of our markets will be covered with some rate of mid-year price increase. That can range from low single-digits and that would particularly be the case in the northern tier markets where, in some cases, we will have no increases; in other cases, it will be low single to mid single-digits. And then when you get to the Southeast and Southwest, you are going to see increases that range from typically mid single-digits to low double-digits. I think the key thing here is that you need to understand that as we put these in, just as we did last year, we are going to protect our customers. Our customers have already quoted work. We are not there to cause pain to the customer. We want them to have an opportunity to roll those increases into their costing, so we will give our customers adequate protection to do that. And I think a major component of the thought process here is to make sure that we go into 2007 with a very solid rate of price increase just as we did in '06, by teeing up mid-year increases.

<Q – Arnold Ursaner>: Two more real quick, I'm sorry…

<A – Stephen Zelnak, Jr.>: Does that help?

<Q – Arnold Ursaner>: That's very helpful. Two more real quick questions, maybe it's the North Carolina accent, but the 4.4 million revenue that you indicated in Q1, in Q2, did you say it would be a like amount or a light amount?

<A – Stephen Zelnak, Jr.>: Light. That must – that's South Georgia accent actually Arnie, North Carolinians speak more precisely.

<Q – Arnold Ursaner>: So a light number?

<A – Stephen Zelnak, Jr.>: Yeah, we expect, in the second quarter in composites, we expect the order rate there, the production rate, sales rates to be lower than the first quarter. It'll be a light quarter.

<Q – Arnold Ursaner>: Okay.

<A – Stephen Zelnak, Jr.>: And then based on the discussions we are in, we would expect to get some pick up in Q3 and Q4. We'll have to see if that materializes.

<Q – Arnold Ursaner>: Okay. My final question, if you would, is that obviously weather in Q1 was a clear positive factor and it was noticeable as your numbers kind of kept moving up if you will

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during the course of the quarter, driven by weather, particularly as you mentioned in late March. Is there any way you could attempt to quantify the positive benefit you received in Q1?

<A – Stephen Zelnak, Jr.>: We've been through the exercise. I can't tell you that we can do it with precision, but making reasonable assumptions, as we would view them, you could come up with probably a minimum of $0.06 and a number that might range up to twice that, $0.12. So somewhere in that vicinity would probably be an appropriate number. The other thing I would tell you about the first quarter, we did get a lift and we pre-announced at 52 to $0.58 and we obviously came in higher than that. We had a very good volume surge at the end of the month in our Aggregates business. We managed our cost in Aggregates quite well. Cost came in better than expected and our Magnesia Specialties business performed better than planned. So those were the components that gave us an extra lift.

<Q – Arnold Ursaner>: I'll jump back in queue. I have some others, but I'll jump back in queue. Thank you.

<A – Stephen Zelnak, Jr.>: Okay.

Operator: And we'll go next to David MacGregor with Longbow Research.

<Q – David MacGregor>: Hi Steve, how are you?

<A – Stephen Zelnak, Jr.>: Hey.

<A – Anne Lloyd>: Hi, David.

<Q – David MacGregor>: How much – I am just trying to zero in a little further on these pricing dynamics and I am just trying to better understand what your pricing is so far this year from, I mean how much, based on the pricing increases you implemented at the beginning of the year, are you benefiting from already as opposed to benefits that may be were initiated in second half '05 that really just began getting traction in this quarter because you quoted forward?

<A – Stephen Zelnak, Jr.>: Let me go at it a little different way and see if I can help you with some information that might give you a better handle on the pricing trend.

<Q – David MacGregor>: Okay.

<A – Stephen Zelnak, Jr.>: First of all, we have reported a 15% increase in first quarter pricing. That in my view is something of an anomaly number and the reason it is is because we had an incredibly strong level of shipments in the southern tier markets in the first quarter, inordinately so, and those are our highest priced markets. So if you were taking that 15% and normalizing that, that normalized number is likely going to be somewhere between 13 and 13.5% if you had a typical balance between northern tier business and southern tier business...

<Q – David MacGregor>: Okay.

<A – Stephen Zelnak, Jr.>: Truck business versus long-haul delivery business; those are the key components. So I think the place where you start with pricing is normative numbers between the 13 and 13.5. As you go forward in the second quarter, our rate of increase is going to begin to push down towards that assuming nothing out of the ordinary in terms of the product mix or the geographic mix or the transport mix. When you get to the second half of the year, if you will recall, last year in the first half, we averaged a 7% rate of increase. By the time we got to the fourth quarter, we were at a 10% rate of increase.

<Q – David MacGregor>: Right.

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<A – Stephen Zelnak, Jr.>: So what you have is a significant upward trend line in the back half of the year that we are going to be working against and we will have mid-year increases, but the weight of mid-year increases will not be as extensive as last year, although they are going to be good, and in fact they are going to be better than I originally anticipated. So we'll just be working against tougher compares, but the reality is that a lot of this mid-year is in fact trying to tee up for 2007 where we eliminate the carryover that customers already have in their backlog. We are already telling customers what the expectations are for 2007 and telling them to begin to reflect that in their quoting as they go out in time. So we are both increasing prices mid-year and we are also providing expectations on '07.

<Q – David MacGregor>: Can you share with us just what you are telling your customers for '07?

<A – Stephen Zelnak, Jr.>: I am not ready to tell you that. I think it's premature for me to do that.

<Q – David MacGregor>: Okay. The percentage of your business that's quoted forward, is that increasing here by any measure?

<A – Stephen Zelnak, Jr.>: Not really. The mix is staying about the same. The business that stretches out is infrastructure business which by its nature is bigger jobs that tend to be done over longer periods of time, typical highway job, 18, 24 months some of them stretching out 36 to 48 and beyond. We still have some work coming off the books from earlier periods where we quoted in recessionary times or just coming out of recession. And the other thing to keep in mind is that we are going to get some automatically up going forward even with higher rates of prices quoted in the last two years because those price levels are significantly below where we are right now. So we have got some baked in price increase going forward just based on the aging of the mix

<Q – David MacGregor>: The rolling over of business. And you talked a little bit about the volume surge at the end of the quarter; 8.5% is pretty impressive volume growth. But it seems now as though are saying that that was somewhat extraordinary and we are going to be moving back down towards more of the low single-digit types of growth rate. What was driving this late in the quarter? Can you talk a little bit about that and…

<A – Stephen Zelnak, Jr.>: We have got some markets. The contractors went to work at a higher level, I think, is the bottom line, but we have got some markets where business levels are very robust. We had some asphalt people that kicked off a little early and that gave us a boost quicker than we would normally get that. The places we had highlighted in the press release, the places where we've got the big boost and I'll try and give you a little more information. North Carolina was particularly strong and by that I mean rates have increased in the high-teens. The North Carolina market for building construction, both residential and non-res is exceptionally strong. And even though the housing market nationwide is weakening, in North Carolina, in the quarter, we actually saw a boost in housing in the key markets. So that was a real plus for us. If you go to the River Area, the River Area was exceptional. That also was a high-teens rate of increase and that relates to rebuilding, just as we had predicted.

<Q – David MacGregor>: Right.

<A – Stephen Zelnak, Jr.>: That's getting underway. And then Texas was exceptionally strong and what we are seeing in Texas is also a very good building construction market coupled with excellent infrastructure. Housing in Houston was up in the first quarter, housing in San Antonio was up, in the Dallas market – housing market was very good in the first quarter. Coupled with that, you had very good commercial construction in all those areas. So those are where the strengths are and as you would expect in the northern tier, the automotive-related states in the farm belt not nearly as robust.

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<Q – David MacGregor>: Good. Thank you very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And we'll go next to John Fox with Fenimore Asset Management.

<Q – John Fox>: Yeah, hi. I had a few questions. One, can you talk about the CapEx which is a little bit larger than I expected and can you talk about what is the CapEx budget for the year at this point?

<A – Stephen Zelnak, Jr.>: Sure. The CapEx ramp-up in the first quarter really relates to a couple of large projects that we have underway. And the timing of those hit quicker and that relates to good weather. Good weather also allows you to build plants faster…

<Q – John Fox>: Okay.

<A – Stephen Zelnak, Jr.>: Which I have a very positive view of. Beyond that, we see some opportunities to invest some additional capital this year at what we think will be higher rates of return. So as opposed to 225 million, which we have discussed as the capital target, we think that number is more likely to be around 240. We think we have got about $15 million worth of additional expenditure that will be very productive. That compares to about 32 million that we added to the plan last year, about mid-year.

<Q – John Fox>: Okay. And then a question, you may have just answered this in the previous one, but in the press release, you say good demand for road building, commercial and residential in selective markets. So the selective markets were in – that's Carolina and Texas on the residential side? Is that a fair interpretation?

<A – Stephen Zelnak, Jr.>: Yeah, they were quite good. Charleston market, South Carolina is the market that's booming, going very well. Those were the big highlights on residential.

<Q – John Fox>: Okay. And on the magnesia business, do you see the top line growing at the same rate as this quarter?

<A – Stephen Zelnak, Jr.>: We are not providing top line forecast. We are giving you an earnings forecast, but certainly to get to that earnings forecast, we are going to have to continue to have robust top line growth.

<Q – John Fox>: Okay. Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

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

<Q – Jack Kelly>: Hi, Steve.

<A – Stephen Zelnak, Jr.>: Hey Jack.

<Q – Jack Kelly>: You had talked about capacity additions earlier in the call. Can you on a run rate basis maybe tell us where we are going to be by the end of the year in terms of tonnage that you will have available for shipment next year? And then, secondarily, on the volume forecast you have for this year, the kind of 4% kind of number, you commentary sounds more positive to that. In other words, the only thing that is kind of negative in your commentary is that the auto-related states and maybe Indiana aren't doing well, but everything else sounds like its doing well. So I guess the thrust

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of the question on your volume forecast is are there any areas that are really going to be down a lot that would kind of drag down that overall number?

<A – Stephen Zelnak, Jr.>: I think the best thing to do conceptually is to divide the company in two pieces the way we look at it: Southeast-Southwest, which is 70%, probably this year going to be better than 70% of our revenue and our volume and clearly those areas are going to be very strong and very robust. I don't see anything negative in those areas at this point. The Northern tier states is a different story and, at this point, I would expect that volume in the North Central area, which is very much automotive-related, is probably going to back up a little bit. It's not going to be sharply down, but I think it's likely to be unfavorable year-over-year.

<Q – Jack Kelly>: Okay.

<A – Stephen Zelnak, Jr.>: Likewise, the core Midwest farm belt states I think are going to be slightly negative to flat. So that's where the diminution of volume comes in. But the reality of the volume, Jack, and capacity is that we could ship and sell more material in the Southeast and Southwest if we could get it to market. And one of the reasons I highlighted transportation is that it's absolutely key and critical to have additional transportation resources. Now that's going to give us a nice positive coming out of Nova Scotia because we have the plant capacity to take it up another million plus tons and now we'll have the shipping, but it will come in incrementally during the year, one ship in May and another ship in August if we hold to the schedule. As we go into '07, we are going to get the full impact of that which ought be a nice effort and we think we'll sell all of that capacity.

<Q – Jack Kelly>: And how much is that?

<A – Stephen Zelnak, Jr.>: It will be another million, million and a quarter tons.

<Q – Jack Kelly>: Annually?

<A – Stephen Zelnak, Jr.>: Yeah. The problem with giving you capacity numbers is that where we have capacity available where you don't need it. Where the business is hot in the Southeast and Southwest, we are basically sold out just about everywhere. So all these additions that we are bringing in are things that will go very quickly. The one that's different in terms of being in a slower area is the sand plant in Des Moines and Des Moines happens to be a very sand short area. We think we are going to sell that 500 to 600,000 tons as fastly as we – as fast as we can turn it out, so that's why I mentioned that. The big one that I haven't talked about, I have mentioned before but haven't talked about in detail because we've been quietly mobilized and hard at work, is the 5 million ton plant in Southern Oklahoma. When we first embarked on that, that was a 3 million ton plant and we got started on that in the third quarter of last year. This is going to be the fastest project we have ever put up in terms of the plant. And by the time we have it up and running late in the second quarter, we will have 5 million tons of capacity and we think we are going to sell the significant majority of that out pretty quickly. Now the key is what's going to impede all of this is just getting it to market on railroads and by barges. And with our new project up at Three Rivers, we have got 8 plus million tons of capacity. The sales are there; the question is can we make the barges move?

<Q – Jack Kelly>: Okay.

<A – Stephen Zelnak, Jr.>: So I am a little bit cautious just based on the transportation component, the market is there for more and you are right on with that.

<Q – Jack Kelly>: Okay. Just a last question, on the pricing, without getting into what you might raise prices in January of next year, as of December 31st of this year based on the carryover from this year and what you might do in the middle of the year, what's going forward assuming you didn't

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raise prices in '07, which I realize is unrealistic, but if you didn't, based on what you have already done and what you are going do at mid-year what would be the price increase kind of flow over into '07?

<A – Stephen Zelnak, Jr.>: I think you are going to have a flow over that's going be in the mid single-digits.

<Q – Jack Kelly>: Got it. Okay, thank you.

Operator: And we'll go next to Thomas Russo with Gardner Russo & Gardner.

<Q – Thomas Russo>: Hi, Steve.

<A – Stephen Zelnak, Jr.>: Hey, Tom.

<Q – Thomas Russo>: Hi. I missed the comment on the Nova Scotia transportation facility that you've established. Could you describe the process there?

<A – Stephen Zelnak, Jr.>: Sure. Currently what we operate out of Bahamas is two dedicated ships and we have chosen to do the same thing out of Nova Scotia based on increasing demand up there. We have had those ships under construction now for well over a year at contracts on them. The first ship is scheduled to move into our port this month and we will begin to use that ship on a dedicated basis to move granite to our Southeast, Southwest, Gulf Coast markets and down into the Caribbean. We will have a second ship that currently is scheduled to come online in August and at that point we would transport virtually all of our materials by dedicated ship contracted solely to Martin Marietta both out of Nova Scotia and the Bahamas. And that would give us something in excess of 11 million tons of annual shipping capacity that will be just totally dedicated to us. We put into place in Nova Scotia last year a plant capacity expansion. We have also upgraded our docking facility which was a critical component. So as opposed to moving 3.5 to 3.8 million tons out of Nova Scotia, we are capable of moving something in the vicinity of 4.8 to 5 million tons once we get these ships online.

<Q – Thomas Russo>: Okay. So you would be 5 million out of Nova Scotia and then the 7 million from the Bahamas?

<A – Stephen Zelnak, Jr.>: That will be 6.

<Q – Thomas Russo>: 6 million for Bahamas. Okay, good.

<A – Stephen Zelnak, Jr.>: And that's the dedicated shipping; we still have the ability to add some additional shipping if we need it.

<Q – Thomas Russo>: Great. Also with the upped bid from Lafarge, I am curious if there is anything that investors ought to know about the Lafarge properties that make them special or unique or whether the transactions are sort of describing for the markets new levels of acquisition prices and what you make generally about the state of the market for quarries for acquisition?

<A – Stephen Zelnak, Jr.>: I'd have to defer to Lafarge on that one.

<Q – Thomas Russo>: Okay.

<A – Stephen Zelnak, Jr.>: They know their assets a whole lot better than I do and they've obviously been through the exercise.

<Q – Thomas Russo>: Yup. General tone of market, if one were buyer or seller of quarries?

<A – Stephen Zelnak, Jr.>: General tone of market is that we haven't seen any acquisitions that are attractive to us..

<Q – Thomas Russo>: Yup.

<A – Stephen Zelnak, Jr.>: And that's just our singular view.

<Q – Thomas Russo>: Okay, thank you. Good quarter.

Operator: [Operator Instructions]. We'll now go to a follow-up from David MacGregor with Longbow Research.

<Q – David MacGregor>: Steve, in light of the fact that weather conditions were very good in the first quarter and people were clearly shipping at above normal rate, what can you say about the level of inventories going into the summer months and what might that portend for supply-demand fundamentals this summer?

<A – Stephen Zelnak, Jr.>: Well, ideally, we would have liked to have built some significant inventory based on what we think's going to be a very busy year. Unfortunately, we weren't able to do that. We were able to build a little bit of inventory but not much. So I think for us what it says is that we are going to be pushed. That will cause us to run hard at out plants, which typically is a productive motive for us. We run extended hours. That's when we get our best cost. So I would expect that we are going to be very, very busy, we'll be pushed as far out as we can see all year. So that's a good problem

<Q – David MacGregor>: Is it possible this may lead to a subsequent price increase in the fall?

<A – Stephen Zelnak, Jr.>: I don't think so David. There are a few places where we have indicated to customers that prices will be good for 90 days as opposed to 180, but those are relatively few.

<Q – David MacGregor>: Okay. You've got a lot going on here in terms of capacity ramps. What's the impact on the P&L in terms of start-up cost, ramp cost, so on and so forth?

<A – Stephen Zelnak, Jr.>: I don't think its going to have significant impact to the P&L positive or negative this year. We will have some start-up costs, but we will also have some nice profitability coming right behind that. I think it has much more pronounced implications for '07 because we'll have the opportunity to run all those and have transportation in place for the full year. So it would just tease us up for next year.

<Q – David MacGregor>: For '07 upside?

<A – Stephen Zelnak, Jr.>: Yes.

<Q – David MacGregor>: And then what can you say about, if anything, about what's happening in Florida with these permits and what are the implications for Martin Marietta in the event that supply should be disrupted?

<A – Stephen Zelnak, Jr.>: Well, obviously, we are not all that close to it because we don't produce down there. Our producing locations are in the Panhandle of Florida and aren't impacted by this court ruling. My understanding is that you've got about 50 million tons of production capacity down there of which maybe 10 to 12 goes into cement. So if you look at the Aggregates' component, which is the part that we would be interested in, maybe the number is close to 40 million tons. I can tell you that we've been through the exercise to try to figure out how much of that

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– if you were to have a disaster scenario down there where it gets shut down – which, by the way, would plunge South Florida, most of Florida, into a deep depression, we probably in the short and intermediate term could boost our capacity and get another 10 to 12 million tons down there by rail and water, long-haul truck. That scenario says to me that you are looking at prices in South Florida that go up by multiplication factors as opposed to maybe 10 bucks at the core area Miami, you may be talking about materials in that area that might go to 40 or $50 in order to get them there. So nobody could come close to meeting the demand, no combined group of players could come close to meeting normal demand in any reasonable period of time. We would obviously be a big beneficiary, but you would destroy the economy in that, the Southern half of the state and probably even further north.

<Q – David MacGregor>: Right.

<A – Stephen Zelnak, Jr.>: So we don't want to see it happen.

<Q – David MacGregor>: Absolutely. Are you at all concerned or are there any thoughts that you might have with respect to your own mining permits?

<A – Stephen Zelnak, Jr.>: No. The issues in that lake belt, I think, are unique.

<Q – David MacGregor>: Right.

<A – Stephen Zelnak, Jr.>: And they have been under challenged for a long time. We are just – we are not operating anywhere where we have those kinds of issues.

<Q – David MacGregor>: Good. Thank you very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And we'll go next to Clyde Lewis with Citigroup.

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

<A – Stephen Zelnak, Jr.>: Hi.

<Q – Clyde Lewis>: Two questions if I may on pricing. First, I would be intrigued to know whether you are getting much pushback on the price rises that you put through and are talking about now, so maybe coming through in the mid-year and then maybe a little bit further out and whether that varies by geography, which I suspect it does, but maybe also by the sort of end customer, whether its infrastructure or whether the sort of housing or non-res areas. That was the first question. The second question on the competitive pricing side, are they following what you are leading in terms of prices or is there actually maybe a little bit more competition creeping through on the pricing front at the moment?

<A – Stephen Zelnak, Jr.>: Okay. Well those are very good questions. I have never known a customer that liked a price increase. There's always some pushback, but the degree of push back is measured because in the areas where pricing is going up significantly, those are also the areas where freight cost in particular is going up sharply and the customers know that. So we have to go in and make sure that the customer has a good explanation of what we are doing and why we are doing it. And the reality is that in order to get supply to these markets, it's going to take more money to do it. So that's just a fact. Certainly, it does vary by geography. I indicated that the slower markets in the northern tier, the automotive areas which for us is Indiana, Ohio and then on out into the farm belt of the Midwest, customers are much less accepting of price increases, and the reason is that it's all a function of the ability of that customer to pass them on as their pricing. So it's not just the aggregates players or some other type of material people passing on prices. The customer

has to be able to move that price increase into the market. So you get what an economist would expect: robust market, support it and less robust, you get stiffening resistance.

With respect to customer type, the laggard in recent years has been the ready mix side because they went through some incredibly difficult times when commercial construction backed up. Their business in general is quite good and therefore the rates of price increase on concrete products have been a bit sharper than on other products and I would expect that it's going to even out now over the next year or two between what we are doing product line wise, between asphalt and concrete people and general contractors. You asked about home building and, the home building – the contractors there who work on building homes are small contractors generally. And most of those contractors are picking up stone at list price because they are not large enough in our world to get some type of volume pricing deal. The person who paves the asphalt road for a subdivision or lays concrete will have some type of volume pricing as a large fixed base customer, so that's how that works.

<Q – Clyde Lewis>: Okay. On the competitive front, are they – the competitors following or are they actually being a little bit more aggressive at the moment?

<A – Stephen Zelnak, Jr.>: Competitors do different things based on their best interest, I am sure. And we see some competitors that are putting in as far as we understand what appear to be some pretty sizeable increases; others are putting in no increases. They do what they are going to do and we do what we are going to do.

<Q – Clyde Lewis>: Okay. Thanks so much.

Operator: And we'll go next to another follow-up from Arnie Ursaner with CJS Securities.

<Q – Arnold Ursaner>: Hi, first question is end of quarter share count fully diluted, I went back and checked my notes, it seems as if you, I guess, had a fair amount of options that kicked in in the quarter?

<A – Stephen Zelnak, Jr.>: Yes. Based on the 414,000 shares purchased, the reality is that that was basically offset with options exercised.

<Q – Arnold Ursaner>: Okay. What is the end-of share count fully diluted please? Not average, but end of quarter?

<A – Anne Lloyd>: Arnie, I'll give you a call with that. I don't have it right in front of me. We'll go into the next question and I'll get right back to you.

<Q – Arnold Ursaner>: That's fine. And next question is your tax rate for the year, I think you had guided a little lower than where you reported in this quarter, what should we expect for the balance of the year for tax rate?

<A – Anne Lloyd>: Your 31 to 32 is about right. The initial guidance, quite honestly, our pre-tax earnings expectations were lower than – in December than they are today. The actual fully diluted shares at March 31 was 46,785.

<Q – Arnold Ursaner>: Okay. In your cash flow, you have a new line item that I haven't seen before called rail car construction advances and you mentioned on the call as well you are, I guess, purchasing 780 rail cars. So, two different questions, can you comment a little about the financial element related to the rail car construction, but then also follow it up with a strategic discussion of how you plan to use these cars on a go forward basis?

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<A – Stephen Zelnak, Jr.>: Yeah, I'll answer part of it and then Anne will take a part of it. The reality is is this is going to be an operating lease arrangement. That's the way we take down these types of transportation assets. That's the way we get the opportunity to use them. In the interim, the cars needed to be built and we have put up cash to handle the building of the cars and to pay the vendor. And then that will be financed under an operating lease construct and we will get that cash back. So that's what's happening there.

<A – Anne Lloyd>: It's just a timing issue, Arnie, with the vendor getting the cars ready prior to the master lease agreement being ready.

<Q – Arnold Ursaner>: Okay.

<A – Stephen Zelnak, Jr.>: It would have been very clumsy to do these things in tranches, so we just decided to make it clean and then put it all into a master lease, handle it one time – at one time. The cars are employed in a couple of different ways. One, we have some opportunities out of our Arkansas locations, one in particular to move material into Louisiana and into Northeast Texas and a portion of those cars have been dedicated to that Arkansas quarry. The second thrust of the cars is to provide additional highly efficient cars that can move material out of Southern Oklahoma on the BN Railroad into Dallas, a little bit south of Dallas, into Corsicana, and also down to Houston again on the BN. So those are the strategic thrusts of what we are doing. Both of those are high growth markets. What we are trying to do is to make sure that we take advantage of the ability to move rail freight by both of our major railroads in that area, UP and BN, and we are just trying to make sure we have an adequate number of cars to tee them up so that they can haul.

<Q – Arnold Ursaner>: Was that the limiting factor or it might more have been track availability and locomotive availability?

<A – Stephen Zelnak, Jr.>: It's both. But if you don't – in this particular case, we were car short and we thought that the ability to take down the additional cars was going to be very productive when we cost it out with the discharge capabilities and also the additional tonnage that we can get on these particular cars, difference in per car rates versus tonnage rates is advantageous to us.

<Q – Arnold Ursaner>: Okay. Final question from me, I have been getting a number of questions from clients about your future guidance given the strength we have seen and what appeared almost to be a, I'll use the word illogical, but some extremely conservative assumptions if one were to build out the numbers on a go forward basis. In the body of your risk section, you speak to a particularly negative impact potentially from weather. I guess is that the single biggest factor holding back a little more enthusiastic view relative to the both volume and price increases you are seeing, especially in light of these very substantial incremental capacity additions?

<A – Stephen Zelnak, Jr.>: I think weather is the risk. We were very fortunate last year in that with the major hurricanes that hit the United States, we did not have significant damage or disruption. They hit in the Gulf, most of the impact from Rita and Katrina, and that's an area where we distribute as opposed to have operations. We try to pay attention and do pay attention to the weather forecasts. The forecast this year relates – indicates that East Coast activity is much more likely. We have had the experience too many times where we get hit on the Eastern Seaboard, South Atlantic area and in that case we have got producing locations and when that happens, we become water clunkers as opposed to rock producers. And we just take into account the fact that there is some significant risk that that will happen. I have been at this now for 32 years, which probably exceeds the age of some of the people on this call, so I think I have got a fairly long view of it. It's going to happen and I think we'd be foolish to put some numbers out there that doesn't reflect at least some reasonable occurrence of those types of activities.

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<Q – Arnold Ursaner>: Would it be fair to say it another way that if we had, what I want to call either a normal or even modestly better than normal hurricane environment this year in your regions and you weren't harmed, that there would be further upside to your estimates at this point?

<A – Stephen Zelnak, Jr.>: Well if all other things go well then there could be.

<Q – Arnold Ursaner>: Okay. I know you were asked a question on revenue in Magnesia Specialties. I would like to try to ask it a different way if I could because I know you don't give revenue guidance. Your actual revenue in the quarter was 37 million. There is no pattern of seasonality that I can uncover going back in the past. How much of – again, maybe how much of the positive revenue in Magnesia may have been weather-related and if not, why wouldn't we see a similar pattern where the following quarters would be up from Q1?

<A – Stephen Zelnak, Jr.>: The Magnesia business, you are correct, the Magnesia business does not have anything like the seasonality of the Aggregate business. Typically, it's a little lighter in the first quarter and a little lighter in the fourth quarter on profitability in particular because we wind up with more outages and production issues related to the fact that we are trying to burn materials in places where it can get very cold and that's not particularly efficient. But from a revenue perspective, if you wanted to take the first quarter and use it as a four quarter proxy, I couldn't argue that that's illogical, and I'm not going to forecast the number but that's not an illogical way to approach it. We've given you an earnings range of 30 to 32 million for the year. You might say well, geez, you earned 8 million, below rate, in the first quarter, why don't I take that as a proxy and maybe add to it a little bit. The reason is that we did not have any significant kiln outages in the first quarter. We do have kiln outages scheduled the rest of the year. This is a business where we are in – we destroy a lot of kiln lining brick and we have to take these kilns down periodically for realigning and repair. So it just reflects the normal maintenance schedule and we try to be realistic about that.

<Q – Arnold Ursaner>: Okay. And you have had – you've been operating at kind of mid-80s capacity and obviously there is pretty strong demand, but what do you think your operating rate may be for the balance of this year and as you move up in operating rate what sort of impact might that have on mix?

<A – Stephen Zelnak, Jr.>: Well, certainly the opportunity is there to get the capacity utilization rate in magnesia up over 90%, and certainly that is our target. It bodes well for the magnesia chemical side of the business because that's where the capacity is. In our lime business, we are basically maxed out with dolomitic lime. Our people tweak it and continue to get a little bit more out of it, but we can't do much more there. So you could assume we are sold out on dolomitic lime with what appears to be a good outlook from the steel industry, certainly, for the remainder of this year. Magnesia Chemicals is a growth business and we do have capacity available there. We've got a very nice water treatment business, water neutralization, we've got a magnesium hydroxide powder business that's growing, which is a filler material that goes into rubber and plastics in particular. We've got a new product for the paper mills called CellGuard which has taken off and that's a replacement for caustic soda. So we look at this business as a growth business for the next five years and we don't see putting any significant amount of capital back in Magnesia Chemicals. We just think we can put incremental capital back into that and in fact we are doing so right now. So it looks very positive.

<Q – Arnold Ursaner>: And you have at various times talked about the possibility of an additional plant in that area, if you could line up a customer who would take the majority of the output. We have not heard anymore about it, so I assume that's not moving forward.

<A – Stephen Zelnak, Jr.>: Well that was the lime, an additional lime kiln at our Woodville location and we have looked at that. We continue to look at it. The original justification on that was that we needed some long-term contracts from one or more steel mills in order to support that investment. And we did not see the opportunity to get the types of commitments that we wanted in order to

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invest and frankly we weren't going to speculate on the steel business. But the more interesting play is that with growth in magnesia chemicals, that lime is a feed to make magnesia chemicals. So what we are looking at now is what is our ramp-up in magnesia chemicals and do we have an opportunity to feed increasing amounts of lime into that operation and does that in fact justify the building of a kiln. So project's not dead; it's just been pushed off and I will say it again, we are not going to throw money at it just to grow. It's going to have to be a very sound investment where we think we've got our back covered on the downside.

<Q – Arnold Ursaner>: Looking forward towards '07, obviously, you've been successful in finding incremental capital expenditures that have been very additive to shareholder value. What's your best guess? I think you have previously said you thought '06 might be a peak year in capital spending. Is that a view you share today or are you seeing better opportunities to continue to reinvest in the business?

<A – Stephen Zelnak, Jr.>: Well I keep getting surprises and fortunately they are positive surprises in terms of the opportunities that we are able to create or the market creates for us however you want to look at it. The biggest surprise in terms of capital utilization is the Texas market and the ability to absorb more capacity out of the new Southern Oklahoma location. As I indicated, we had to take that as probably a 3 million ton plant to start with and we are going with a 5 million ton operation to start with, with a view that we are going to sell well north of 4 million tons annualized not this year. Make sure I get that clear: annualized. That requires additional capital and in fact much of that additional 15 million will go into that project, but we have some others we are looking at and where we see rates of return that are high rates, north of 25% then I think we are foolish not to take advantage of those, so that's a high priority.

<Q – Arnold Ursaner>: Final question. You've had a lot of the improvement or control over headcount. What sort of trend did we see this quarter and what might we expect for the balance of the year on headcount?

<A – Stephen Zelnak, Jr.>: Headcount up a little bit, just based on the fact that our business is expanding lickety-split. We have some additional opportunities to pull headcount down as we go through transition over time with different plant constructs that we are putting up. So the thrust is no different. We will add headcount where that headcount is productive, but the clear trend line is significantly up on tons per pay manpower which is our productivity measure and we are not deviating off of that; we've got a very nice trend line there. In fact, interestingly, in our first quarter, the labor unit cost was down, which I think is pretty remarkable in this day and age.

<Q – Arnold Ursaner>: Okay. Thank you.

Operator: And we'll go next to Mike Betts with J.P. Morgan.

<Q – Michael Betts>: Yes, good afternoon. I had three questions if I could, Steve. The first one, could I just come back to the issue of the delay in terms of recouping price increases because of obviously the contracts that are in place. I mean is that lag on average 3 or 4 months or is it longer than that? I was somewhat confused when you we were talking about the 90 days and the 180 days when you are fixing prices and for how long. I mean, could you give us some indication of typically on average how many weeks or months it takes to get that price increase through?

<A – Stephen Zelnak, Jr.>: Well it depends upon the nature of the customer and what kind of backlog of work that they have quoted and how far out it goes. But for concrete, yeah, as it tends to be shorter for the asphalt gays based on heavy consumption and infrastructure; it tends to be longer. So it's just very customary job specific.

<Q – Michael Betts>: Does it start…

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<A – Stephen Zelnak, Jr.>: I can't give you anything more precise than that.

<Q – Michael Betts>: Okay, I will appreciate. On the Structural Composite, second question, I mean you indicated probably a light quarter, second quarter, but then some optimism about the third quarter. What sort – and fourth quarter – what sort of visibility do you have on that? Do you actually have orders now for the third and fourth quarter? I mean how much confidence do you have in that expectation?

<A – Stephen Zelnak, Jr.>: We have orders when they show up. The nature of this business at this point is we have a lot of activity that we have performed for major military contractors where they have tested our materials, qualified our materials, inspect our materials. And one thing we have learned is that the military and their contractors move to the beat of a different drummer than anything we are used to in the commercial world. So they tend to show up at the last minute with a purchase order if they want something done. They tend not to make early commitments with POs. Yet the same time they are constantly chasing us on getting ready for this, getting ready for that. So I believe that when I see the purchase order show up just like the $9 million worth of ballistic panel purchase orders that we've got, we know that the military likes that product, but we just don't know when the next slug of purchase orders comes. So it's almost impossible to predict at this point because it's not long-term contracts by its nature. We are a sub-contractor here as opposed to being prime. We are basically an off-the-shelf supplier, what's called a catalog supplier for this stuff.

<Q – Michael Betts>: Okay. I mean it sounds very volatile though. I mean is that a good business long term to be so dependent on one area or is it a case that other products are going to start to come through maybe next year?

<A – Stephen Zelnak, Jr.>: What we would like to do and are having some success in doing is creating an array of military products that's broad enough so that we can get a real order flow. I don't think the nature of the business is going to change a lot. I think you just have to have more products in the game and in fact that's what we are doing. We are developing products or have qualified products for various branches of service for utilization and different types of weapon systems, transportation equipment, ballistic panels, a wide variety of things. So we are trying to build a product array plus we do have some commercial initiatives that continue to look like they are going to go, but we have been frustrated in that and I think volatile is the correct word. So nobody should count on that until it actually shows up. We are counting on until it shows up.

<Q – Michael Betts>: Okay. And the final question from me back on the mainstream Aggregates business, I mean it obviously was a very good quarter. I mean you are still though being hit by some pretty significant increase in cost, particularly on the freight side. From memory, and please correct me if I am wrong, I think last year the big increase in freight cost, sorry, the increase in cost occurred in the fourth quarter. Would I be therefore right if – firstly was that right and therefore are we still facing some particularly substantial cost increase if Q2 and Q3 are on the same period last year?

<A – Stephen Zelnak, Jr.>: Well I think – yeah, I think we are going to continue to see significant increases year-on-year for certainly Q2 and Q3 and probably Q4, although we did get a significant spike in Q4, you are correct. But Q2 and Q3, I think we are going to see substantial increases; that's certainly the trend. At the same time, we are pricing to cover it.

<Q – Michael Betts>: Yeah.

<A – Stephen Zelnak, Jr.>: And the other thing I would add on that is that as we bring on our dedicated capacity with ships and also as we bring on and get into service our new rail cars, we do get some advantage that helps to mitigate a piece of that. So we are doing some things on the cost front to manage the cost out of the equation.

<Q – Michael Betts>: Okay. But then as we look into '07, now, who knows what oil prices are going to do in other cost, but at this stage the increases in costs would be significantly less by the look of it wouldn't they if they don't increase further from current levels?

<A – Stephen Zelnak, Jr.>: We'll talk to you in late '06 or early '07. We have no idea.

<Q – Michael Betts>: Okay. Thanks so much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And we'll now go to another follow-up from John Fox with Fenimore Asset Management.

<Q – John Fox>: Hi, my question was answered. Thank you.

Operator: Thank you, Mr. Fox. We'll take a question from David MacGregor, Longbow Research.

<Q – David MacGregor>: Yes, you talked before about the 450 basis point decrement associated with your long-haul distribution system. And I am just wondering with the investments that you are making in Blue Water Shipping, what happens to that number and also with rail cars and everything else, what happens to that number for 2007 or when you finally have all of those assets in place?

<A – Stephen Zelnak, Jr.>: First of all, with respect to investment in deepwater ships, we are not putting out any money. What we have done is we have contracted with the shippers for long-term supply of cargo hauling. And what we do in that case is we guarantee minimum volume and they guarantee a maximum volume and typically the spreads about 20%. So our risk there is that we can't move the minimum volume and I have to tell you that based on everything we can see, we don't view that as much of a risk at all. So we don't see any significant downside to that part of the equation. On the rail cars, the key there, again, that's going to be operating lease. We are not going to have direct investment in it. But the key on rail cars is the ability to turn those cars very quickly, rapid discharge cars, higher tonnage where we are getting more tons in a rail car and we are getting a car rate as opposed to a per ton rate. So we get a little bit of leverage there which tends to bring down our unit cost. So that's the way we are playing that particular game.

We've said previously that with the growth in the coastal markets and the Southeast and Southwest, we expect to see the long-haul percentage of our business increase over time. And in fact from '04 to '05, it went from 23% of that to 26%. It wouldn't be surprising to me this year if it's going to increase again and exactly what that will be I am not going to speculate on, but that's where the demand is heading. So might we have an increased basis point decrement, it might be a little higher or a little lower. Its not – I don't think its going to change significantly, but what is happening there is that we are beginning to make some reasonable and in fact in many cases attractive profit on the distribution component. The distribution component is truly strategic and we think we have a competitive advantage with the way we've set it up and that allows us to put large volumes through fixed distribution locations with very competitive freight rates and handling cost and with – into markets where the pricing is attractive. So we are seeing some nice returns on our distribution yard assets at this point and those are improving.

<Q – David MacGregor>: Okay. And then I wonder if you could just help me bring together all of this new capacity that you are talking about. In the Aggregate, what would it represent in the way of 2007 over 2006 capacity expressed in tons?

<A – Stephen Zelnak, Jr.>: The plants we are building, we've got the 5 million ton new plant in Southern Oklahoma. The increment of additional capacity at Three Rivers is about 2.5 million tons. The increment of usable capacity based on shipping at Nova Scotia, you can add a million and a quarter tons I think safely there and then you can add another half million tons in Des Moines for

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the new sand operation there. We have other things going on, but those are some of the more interesting ones and those will be fully in place before '07, partial year '06.

<Q – David MacGregor>: So approximately 9 million tons?

<A – Stephen Zelnak, Jr.>: Yeah, and then the question is what do we get out of this transport construct where we are augmenting it. Part of it is Nova Scotia capacity which we've related to tonnage. The question on the rail side is how much more can we squeeze out in terms of moving materials than we already can produce.

<Q – David MacGregor>: What's your best…

<A – Stephen Zelnak, Jr.>: I don't know the answer to that yet.

<Q – David MacGregor>: Okay. Do you want to hazard a guess?

<A – Stephen Zelnak, Jr.>: No, that's a function of railroads and I am not about to bet my life or career on the railroads.

<Q – David MacGregor>: Okay. And then final question just has to do with if could remind us again just what percentage of your sales are quoted forward right now as opposed to business that you are selling on more of a spot or an immediate basis?

<A – Stephen Zelnak, Jr.>: It's over 50% where we've got some type of agreement, but the key piece of it is infrastructure, the piece related to roads and that's about 40% of our business and that's the truly long-term piece. When you get into large commercial projects, those jobs will be quoted individually and large commercial projects can stretch out. They can be anywhere from 6 months on out to 15 or 18 months.

<Q – David MacGregor>: Great. Thanks, Steve.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And ladies and gentlemen, this will conclude our question and answer session for today. I would like to turn it back to Mr. Zelnak for any closing remarks.

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

We appreciate you joining us. Obviously, we were quite pleased with our start to the year. We have a long way to go, but based on what we have told you we are optimistic about the year and what little we know about '07, we are certainly getting teed up for it and we'll see what that brings and we'll report back to you after the end of next quarter. Thanks for joining us.

Operator: And ladies and gentlemen, this does conclude our teleconference for today. Once again, we do thank you for your participation and you may disconnect at this time.

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