MANAGEMENT DISCUSSION SECTION

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

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

Thanks for joining us today. I have with me Ward Nye, our President and Chief Operating Officer and Anne Lloyd, our Chief Financial Officer.

The second quarter was a very challenging one, as volumes were well below expectations. Construction activity dropped sharply in most of Aggregate market areas, based on economic weakness, tight credit markets for builders and developers, and a very wet quarter, particularly in May for most of our geography. Heritage volume was down 26% for the quarter from the comparable prior year period, with this being the 13th consecutive quarter of volume decline. From peak annual volumes in the 12 months ended the first quarter of 2006, the decline in our volumes of 35%, now exceeds what the industry experienced during the 1980 through '82 period, which at negative 32% was the toughest retrenchment since the 1930s.

Areas with extreme declines in the quarter were Ohio at negative 37%, the Southwest, specifically San Antonio and Houston, at negative 37%; Florida minus 38%, Greensboro and Central North Carolina, minus 40%, and North Georgia around Atlanta at minus 36%. East Texas was up 4%, while declines in Iowa, the river area in South Carolina were in the teens.

Despite the severe volume pressure, we were able to improve our gross margin percentage by 70 basis points over the prior year period as positive margin results in Specialty Products and Aggregates in the West and Southeast groups more than offset the major decline in the Mideast Group.

We continue to manage all areas of cost in a very effective manner. Labor productivity, our quarries held up exceptionally well, with a modest 3% decline in our tonnage per man-hour measure, after a slight increase in the first quarter.

Aggregates pricing held up well, with a rate of increase of 3.7%, despite increased competition in many areas. As expected, energy cost declined sharply, with diesel fuel expense down $20 million in the second quarter and $34.2 million year-to-date. Our quarterly average cost for diesel fuel was $1.51 per gallon versus $3.57 in the same period 2008, which was a 58% decrease.

Specialty Products met the challenge of reduced sales, which were negative 27%, by reducing the workforce to match current demand and very effectively managing maintenance activities and outside services. Even though gross profit dropped $2 million to $10.3 million for the quarter, gross margin increased by 350 basis points.

On a positive note, we're seeing increased steelmill activity with June dolomitic lime shipments at the highest level for the year. At this point, steelmakers indicate that they expect higher operating rates in the second half, as compared with the first half of 2009.

Our SG&A for the quarter decreased $5.2 million or 12.5%, after absorbing a $1.5 million dollar increase in pension expense. We continue to manage SG&A expense very tightly.

During the quarter, we completed the acquisition of three quarries from CEMEX, along with their 49% interest in the Grand Canyon, Wyoming, quarry, where we own the remaining 51% interest, and we're the managing partner. The other three quarries at Guernsey, Wyoming, Milford Utah, and Fort Calhoun, Nebraska. Guernsey and Milford are rail connected, while Fort Calhoun ships by truck and barge. We successfully integrated these operations over a weekend and are off to very positive start. We're particularly optimistic at Fort Calhoun, where we have already identified, and begun to move on opportunities to increase volume and price, as well as reduce cost. We expect Fort Calhoun to become more of our flagship operations in the West.

We continue to work on several acquisition opportunities that we think could be productive, if we are successful.

At this time, Ward Nye will give you an update on stimulus projects.

C. Howard Nye, President and Chief Operating Officer

We experienced a notable increase in the level of bidding activity as state departments of transportation took the required steps to ensure that they had obligated half of their highway stimulus funds by the June 30 deadline. As a result, no state was forced to return monies to be reallocated to other jurisdictions. Although most stimulus jobs did not progress to the construction phase in the second quarter, we remain confident regarding the effect of stimulus spending. We believe that it's working, that it will be meaningful to our business, and that the main issue is one of timing.

To measure the timing and effectiveness of stimulus in the five-plus months since it was signed into law, the Government Accountability Office or GAO, conducts its own bimonthly stimulus review of 16 states and the District of Columbia. The focus of the GAO is on states comprising about 65% of the U.S. population and receiving approximately two-thirds of these stimulus funds. Each of our top five states, North Carolina, Texas, Georgia, Florida and Iowa, is included in these monitored states.

Recent analysis shows state and local transportation agencies paid contractors about $195 million for construction work during June. This brings the mid-year total to nearly $265 million. By comparison, the total at the end of May was approximately $69 million. This trend indicates construction work on stimulus-financed projects is rapidly increasing.

Since the remaining stimulus funds must be effectively obligated by March 2, 2010, we expect shipments to begin in a noticeable way in 2009, and to continue providing a welcome volume lift through 2010.

In our business, we've received purchase orders for stimulus-financed jobs in virtually every state in which we operate. We've been particularly successful in North Carolina and Iowa, as two of our largest individual stimulus jobs to date are located in these two states. Each project exceeds 150,000 tons and we anticipate 80% of the volumes on those two jobs to ship in 2009. The Aggregates shipping schedule for these two stimulus jobs is actually moving considerably more quickly than we have otherwise experienced.

At this time, we expect that 20 to 25% of the tons related to stimulus jobs will ship in 2009, 60 to 65% in 2010, and the remainder in 2011.

With that stimulus update, Steve will now continue with additional second quarter remarks.

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

As we move into the second half of the year, our balance sheet is in excellent condition, with a debt to trailing 12 month EBITDA ratio of 2.8 times. Our net cash provided by operating activities during the quarter was $116.7 million, which declined just 8% or $10 million despite a $51 million decline in consolidated net earnings. *[Editor's Note Correction: Our net cash provided by operating activities for the six months ended June 30 was $116.7 million, which declined just 8% or $10 million despite a $51 million decline in consolidated net earnings.]*

We have scaled back capital spending sharply with CapEx down $85 million or 53% through the first six months. Our revised capital target for the year is $165 million versus our earlier target of 185 million.

The outlook for 2009 continues to be challenging. We expect to see the impact of stimulus work in the second half, but with a backdrop of weaker baseline expenditures in state level infrastructure and commercial building. We continue to hold the view that the second quarter was the bottom of this cycle for housing starts.

Based on our current assessment, we expect Aggregates volumes to be down 15 to 18%, with pricing up 3.5 to 5%.We expect Specialty Products to contribute 28 to $30 million in pre-tax earnings. This scenario is expected to yield net earnings per diluted share of $2.70 to $3.30 for 2009.

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

QUESTION AND ANSWER SECTION

Operator: Thank you sir. [Operator Instructions]. And our first question comes from Arnie Ursaner with CJS Securities.

<Q – Arnie Ursaner>: Hi. Good afternoon.

<A – Stephen Zelnak, Jr.>: Hey Arnie.

<Q – Arnie Ursaner>: Steve, you mentioned in your prepared marks that May, which is a critical month for you had horrendous weather. Could you comment whether you saw some pickup in June or July from work that may have been deferred in May or maybe give us a better feel for how contractors are acting, when they have pretty significant weather delays?

<A – Stephen Zelnak, Jr.>: We certainly saw something better in the month of June than we saw in the month of May, in terms of rate of volume decline. May was horrific. Normally, on a shipments per shipping day, May is our strongest month of the year and it was incredibly weak, with shipments in May off 30% versus the 26% for the quarter.

The only thing I would say about third quarter and July is that we're seeing a modest improvement in rate of declines. We would expect that – we would hope that that would continue as we move through the second half of the year, certainly to get to the volume targets we have laid out. That's what has to happen.

<Q – Arnie Ursaner>: And as a follow-up to that, your inventories had a fairly sizeable jump. In your opinion, how much of that maybe was unplanned, related to the slowdown in weather, and what actions are you taking to further reduce inventories?

<A – Stephen Zelnak, Jr.>: We're keeping as tight a control on inventories as we possibly can. The problem that we have is size imbalance. And interesting with all the asphalt related work that we got to run certain quarries at levels higher than we really like to run them in order to get the materials that we actually need to ship.

Up to a point, the other material will go into inventory. We really don't have a choice in terms of making it. In order to get those small asphalt sizes, you must make the other materials. And what does happen is that when we get beyond a year's worth of sales in a particular size, we quit counting for inventory purposes. We cap the inventory. So we've get an automatic breaker in there from a financial standpoint.

And the other piece of it is inventory revaluation. And certainly, where we – we've got significant piece of our system is remote with the freight piece of it. So, that weighs heavily on us too.

<Q – Arnie Ursaner>: Okay. My final question, if I can. You speak about your 2010 outlook, which is somewhat surprising. You rarely do it at this point or never have done it at this point. And your key competitor has given fairly specific views about 2010 that seem dramatically more aggressive than the ones you have. Would you care to comment?

<A – Stephen Zelnak, Jr.>: The reason we have talked about 2010 is we're trying to be responsive to the questions we get. And certainly, a lot of people already, even at the beginning of the year, were interested in what the scenario might look like for 2010.

As we look at it, we think that based on what we know today – and that's the qualifier, what we know today – we would expect that the major sectors for us, which would be infrastructure, will be up sharply, probably in the teens, in terms of percentage rate of increase. We would expect that housing would be up, probably a pretty significant rate of increase coming off of a very low base.

We would expect that the other segment for us, which actually is bigger than housing last year, 10% versus 9%, also will see positive volume growth. If you recall, that's got railroad ballast, flue gas desulfurization and ag lime in it.

Which leaves the other piece, which is non-residential construction, and non-res last year was 31% of our business. And we expect that to be down sharply, so what you're balancing off as we would view it today is the upper, created by 69% of the business, led by infrastructure pretty clearly; and, the down are created by non-res, specifically commercial construction, retail and office continuing to come down significantly. So that would be the volume scenario as we view it now.

Price-wise, we get that question a lot. We would expect that the rate of price increase in 2010 is lower than the rate of price increase in 2009. And the reason for that, even though volumes on weight will likely to be up, is that you do accumulate backlogs of work; it takes a while to work that off. The accumulation of work that's being bid right now, in certain areas there is pricing pressure and that's going into the mix and into the backlog, and that work will get shipped next year.

So I think that will tend to pull it down. I think next year we will be back somewhere in the range of the longer term averages, which actually is -is exceptional, given that we've got near depression year decline in volume, and I think it speaks to the strength of the business.

<Q – Arnie Ursaner>: Thank you very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And our next question comes from Kathryn Thompson with Thompson Research Group. Please go ahead, ma'am.

<Q – Kathryn Thompson>: Hi, thank you very much. First question, how much does product mix play and pricing differences by regions? And could you also provide some comments about pricing in Florida in particular?

<A – Stephen Zelnak, Jr.>: Florida and where?

<Q – Kathryn Thompson>: Just Florida.

<A – Stephen Zelnak, Jr.>: Excuse me. Mix does make a difference. The things that are higher priced for us are mix of business coming out distribution yards, where that's a significant piece of our business. And also, the average selling price in the Mideast Group is our highest average selling price. We've seen significant decline in Mideast volumes, and we don't have as robust a business with the distribution yards going into the Southeast Coast in Florida in particular, and some into the Gulf Coast area, particularly in Texas. So that mix would tend to depress the average rate of price increase. So it is a negative.

Florida, you're seeing very aggressive pricing down there. I noted the rate of volume decline, and keep in mind, we're really not a big overall player in Florida; we're a niche player in the granite business by and large. We saw a 38% decline in volume in the second quarter.

And at same time, you've got the Lake Belt quarries, which continue be shut down. They are crushing, but they are not mining. So it's an interesting dynamic down there. Obviously, someone has lot of confidence that they're going to get the Lake Belt back into the mining business to – the reducing price the way they are in order to try to find some volume. I think it just speaks of the difficulty in Florida, particularly for the people that are in the concrete-related businesses and cement-related businesses.

<Q – Kathryn Thompson>: So the greatest pricing pressure you're seeing from regionality would be Florida and the Mideast Group, I would take it?

<A – Stephen Zelnak, Jr.>: The greatest pricing pressure is in Florida, it's in South Texas right now, are the places where we'd see the most significant price pressure of our major markets.

<Q – Kathryn Thompson>: Could you comment on volume trends since the end of the quarter?

<A – Stephen Zelnak, Jr.>: I made the comment earlier that in the month of July we saw a lesser rate of volume decline, a moderately lesser rate of volume decline, than we saw during the second quarter. In order to get to the volume projections that we have laid out for the year, we must see a lesser rate of decline or we simply don't get there.

<Q – Kathryn Thompson>: Yeah I asked because I noticed that when you gave your -you tightened your volume guidance somewhat from the prerelease. You had down 13 to 18% and shifted it down to 15 to 18%. And I just wanted to make sure there wasn't any – aren't any other extraneous drivers that were for this slight tweak in the volume guidance.

<A – Stephen Zelnak, Jr.>: No. We're just looking at it as we go, Kathryn. It's certainly a fluid market. We're trying to be as accurate as we possibly can. It's very difficult to forecast anything in this marketplace right now.

We're seeing good volumes in Midwest. Midwest is our shining light. We continue to see tremendous pressure in the areas where building construction plays such a vital part in the economy, Southeast and parts of the Southwest.

<Q – Kathryn Thompson>: Okay. Also, could you talk about your percentage of fixed costs versus variable costs for the company as a whole?

<A – Anne Lloyd>: Yes Kathryn. If you take at a look at the cost structure right now, our fixed costs run between 400 and $450 million, looking at production costs. That translates to be about 38%. And of that, $200 million is non-cash.

<Q – Kathryn Thompson>: Okay, helpful. And then final two questions, interest expense guidance for the year and I know that there was a larger energy related stimulus project that you had done a bid over the past month, maybe adding a million tons. Are there are any status update on that project?

<A – Stephen Zelnak, Jr.>: That project has not been awarded. The scope of the project appears to have been reduced, probably would be less than a million tons, but it has not been awarded to-date. If was a hurry up in quote and not yet awarded.

<Q – Kathryn Thompson>: Okay.

<A – Anne Lloyd>: And Kathryn, interest cost is estimated to be $75 million. We're paying about 5.2% weighted average cost or 3.4% after-tax.

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

Operator: And our next question comes from Garik Shmois of Longbow Research.

<Q – Garik Shmois>: Hi. Good afternoon. First question is on stimulus-related volumes for this year and where you outlined 20 to 25% of the stimulus you expect to be shipped this year.

And we have been hearing estimates a bit lower than that. Is these projects you've cited to in Iowa and North Carolina, are these Martin Marietta specific projects that you have a high degree of confidence in? Or is there something else that you're seeing out there with regards to the stimulus that gives you the confidence that it's going to be in this 20 to 25% range?

<A – Stephen Zelnak, Jr.>: We're looking at our geography. I'm sure every company that comments on it is doing the same thing. Iowa has been the most aggressive and most successful state in getting their stimulus work out and we happen to be the leading partner in Iowa by a long shot. So that's very helpful to us. Indiana been extremely successful in getting it out and of the public players, we're the leading player in Indiana.

So two strong ones there. We're also seeing good stimulus work in North Carolina, again playing to our strength. So certainly, and everyone knows we get no perfect crystal ball either, but that's our best estimate at this point in time, and particularly those three states drive it.

<Q – Garik Shmois>: Okay, great. Thank you for that. And could you provide an update on the M&A front? You had the acquisition in the second quarter. Could you just talk about if you have anything imminent in the pipeline, what you're seeing on valuations, et cetera?

<A – Stephen Zelnak, Jr.>: Well, we continue to be very active. We have bid on some opportunities that we were not successful on. We bid what we thought was fair value, and if you can't get them for what you view as fair value, then so be it. You move on to the next one.

We currently have three that I would classify as highly active. We'll see whether or not we're successful on any of the three, but we're spending a lot of time on those three and we hope to be successful on one or more.

<Q – Garik Shmois>: Okay, thanks. And Anne, just lastly free cash flow guidance for the year?

<A – Anne Lloyd>: I think free cash flow is probably around the $150 million range pre-dividend or pre the impact of any acquisition. Down a little bit from first quarter, primarily from inventory build that we've had.

<Q – Garik Shmois>: Great, thank you very much. That's all I have.

Operator: Our next question comes from Trey Grooms with Stephens Incorporated.

<Q – Trey Grooms>: Good afternoon.

<A – Stephen Zelnak, Jr.>: Hey Trey.

<Q – Trey Grooms>: Steve, a quick question, when you're looking at overlap that you guys have with some of the larger players out there that are being more aggressive with price, do you feel that you have any additional markets that could be at risk of seeing price weakness in the short run, given the issues that some of these bigger guys are facing right now?

<A – Stephen Zelnak, Jr.>: Probably not, as we would view it right now. You've got a couple of players and you know who they are, that are cash flow stressed. They are the ones that are most aggressive. They are large international players. They don't happen to impact us in areas like the Midwest. They don't impact us in the Carolinas to a high degree, they do some, but don't fit our entire geographic footprint.

So my guess at this point is that where you would expect to see that biggest firefights, that's in place and that's what you're getting.

<Q – Trey Grooms>: Okay. And then, are you also seeing the pressure coming from the smaller guys as well, or is it mostly isolated to these few bigger guys in these few markets?

<A – Stephen Zelnak, Jr.>: We don't see much coming out of the smaller guys that's a whole lot different than the marketplace. You'll get a few of them who on particular jobs might be more aggressive based on their particular desires to book some volume, but really, the primary pressure is coming from large internationals.

<Q – Trey Grooms>: Okay. And then, last question: you talked a little bit about the M&A pipeline that you're seeing there. Can you talk a little bit about the CEMEX deal that you closed in the quarter, and expected synergies and so forth that you guys have laid out there?

<A – Stephen Zelnak, Jr.>: We are well ahead of any synergies that we put in our pro forma through the first six weeks of that acquisition and we're off to a roaring start with it. I specifically cited Fort Calhoun as a place, where we've got very significant upside opportunity. That particular quarry is near and dear to me. I looked at it back in 2001, when it was privately owned and Kiewit ultimately was the buyer. They had a purchase price which was about 33% higher than our number. We think we got a fair purchase price this time around.

And I personally was out there taking a look at it couple of weeks ago. Our operating people have all kinds of opportunities for cost reduction. These aren't theoretical cost reductions. They're already into it. Major cost reduction in the blasting unit. We see major opportunity in terms of riprap production there, which is a higher-priced product. We see pricing opportunity with that. That's a product where the marketplace price appears to be much higher than what was charged out of that particular quarry. So you might get the impression I'm pretty excited about it. Yes, I am. That is truly going to be a flagship quarry for us.

And we think there's nice opportunity out of the two rail quarries, even though they're remote. We see some of interesting possibilities there. The Grand Canyon operation has been a very good one, and we were delighted to be able to pick up the other 49%. We're running it anyway; I don't see any synergies other than the fact that we get rid of the independent audit that we have to do. And some time that we soak up with the joint venture partner, always plusses.

<Q – Trey Grooms>: Thanks Steve. That's all from me. Thanks.

Operator: Our next question will come from Jack Kasprzak with BB&T Capital Markets.

<Q – Paul Betz>: Hi actually this is Paul Betz for Jack.

<A – Stephen Zelnak, Jr.>: Okay.

<Q – Paul Betz>: A question about your tonnage that you expect to get from the stimulus. Is it still about 28 to 30 million tons over 2009-2010?

<A – C. Howard Nye>: Well, I can tell you Paul, what we've seen so far. I can give you at least a little bit of a rack up on some of that.

<Q – Paul Betz>: Okay.

<A – C. Howard Nye>: Really it's – number one, as we look at the percentage going into the year, part of what we've done, Paul, is we've looked at that is we've looked at some of the federal highway data. And if you back into that, what the federal highway is saying, and all this ties into notices to proceed, because that's going to drive the volume. What the federal highway is saying is there should be around 18.9 or 19% of the notices to proceed in place by the end of August. If we're seeing that type of activity by the end of August and then back to some of Steve's comments, we got – we're seeing much greater stimulus activity in parts of the Midwest and now more activity in the Southeast and Southwest as well.

We can see that volume ramping up and moving more into this year to certain degrees than we have seen to date. We also believe that we're seeing the states and others under increasing pressure to try to get this work out.

As we look at where we are in North Carolina, at least on stimulus awards at June 30, we've got a little bit over 1.2 million in North Carolina. Part of that's tied up into the tonnage that I referenced in my comments. Similarly, I mentioned a project in Iowa, I can give you a number for the Midwest at 884,000 tons as well. So, as we started looking at those types of tonnages, we feel like from a percentage basis, we're still on target to be where we said we would.

<Q – Paul Betz>: Okay.

<A – Stephen Zelnak, Jr.>: Yeah. We booked roughly 5.5 million tons. And when we say that, have to be careful, because it can come and it can go as contractors play the game, but we're somewhere in that vicinity. And there clearly is a lot more coming, some of which has already been bid: contractors have won the work, but they have not yet awarded tonnage to the aggregates supplier. They'll do that at a little later point in time. So the 28 to 30 million tons at this point appears to hold.

<Q – Paul Betz>: All right. You got a mix benefit from lower diesel. I think you said year to date $34.2 million benefit. In the press release you say you expect a total of 35 to 50 in 2009. When does that comp get more, when you do see – when do you think you'll start not seeing that benefit anymore?

<A – Anne Lloyd>: That would probably be in the fourth quarter, Paul. If you'll just look back at the trend rate on our energy crunch cost, last year's second quarter spike, still pretty healthy in the third quarter, but then last year energy started pulling back, but It'll probably taper off by the fourth quarter.

<A – Stephen Zelnak, Jr.>: Yeah, expectation was that second quarter was going to be our most significant positive variance.

<Q – Paul Betz>: Okay. And lastly, you mentioned pricing will trend to more the long-term 20 year average. Does that average include increases that occurred in 2005 through 2008, or is that the average before that time period?

<A – Stephen Zelnak, Jr.>: They're not going to be a whole lot different, but probably the average before would be the better way to look at it.

<Q – Paul Betz>: Okay.

<A – Stephen Zelnak, Jr.>: It's – for 2010.

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

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll now take our next question from Todd Vencil with Davenport & Company.

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

<A – Stephen Zelnak, Jr.>: Hey, Todd.

<Q – Todd Vencil>: Circling back around on those M&A targets that you mentioned, you said you've got three there, sort of in the works. Any sort of comments on relative size of those things, where they might be located things, like that?

<A – Stephen Zelnak, Jr.>: Would not be appropriate for me to talk about them, because it would give too much away.

<Q – Todd Vencil>: Fair enough.

<A – Stephen Zelnak, Jr.>: And certainly, there's at least one of those that's not out there in the public venue.

<Q – Todd Vencil>: Okay, fair enough. We'd been – staying on the same topic, there'd been some discussion, I think, possibly from you guys and certainly from some other competitors that maybe some of the big multinationals had been offering up some of the not the most desirable assets first. And the hope was, I think among some of the potential acquirers, was that those were going to start to shake out over time, that you were going to see some of the crown jewels come out. Any movement towards that? Any change in those?

<A – Stephen Zelnak, Jr.>: I think actually, the movement has been in the opposite direction, and I think there's a bit of pressure that has come off of some of those players in the short term. They're doing exactly what we would do if we were in their position. If you're trying to raise cash, what you do is you come up with the things that are less desirable to you for a lot of reasons, part of which can just be fit. They can be good assets, but they just don't fit quite as well as things that are really at your core.

So certain companies are active with those efforts. I'm sure they're going to wait and see how successful they are. Their bankers, lenders are going to wait and see also. Hard to know where all of this goes, and how much divestiture is going to actually have to be done or whether or not some of the players who looked like they were going to have to push things out more quickly, can actually ride it out for some more extended period of time. We just don't know.

<Q – Todd Vencil>: Got it. Thinking about your guy's strategic response or tactical response, if you will, to some of the things that are going in the market, the two big things that I can see you're having to make a plant by plant decision on that I'd be interested in knowing how you guys are handling is one, the price completion that's coming from some of the competitors. How do you make the decision as to whether to follow along or not to? And along similar lines, you mentioned that you've got a size imbalance where you're, maybe you're making asphalt rock, and that results in the generation of a lot of base material. How do you decide whether or not to run the asphalt or try to bid out the base in this market?

<A – Stephen Zelnak, Jr.>: Well obviously, with respect to size imbalances, we're looking at the profitability of that particular product, trying to assess that as to whether or not it's worth it for us to gear up, do tech work, and run it.

With respect to material that goes in the stockpile, I've never known any rock to spoil. So you got very long shelf life, and even though it might be detrimental to you, if it's attractive enough on the front end to run the particular size or sizes that you need to run to do the work, what you put in the stockpile, be it on the books – or in some cases, it's material that is in a capped status, which means that we don't record that as inventory, but it physically is present.

My history in this business says that when the market comes back, you sell that material. It does not spoil. It may grow a few bushes that you'll have to pull out, but it's not going to spoil. So we're weighing that out very carefully.

The price competition, I can tell you internally, our objective is to not lose market share. Overall, you'll have places where you may chose in the short-term to give up a little share, other places where you're picking up share. But, we're weighing that out very carefully too.

A lot of this relates to customer alliances and much of that is longer term in nature, as opposed to shorter term in nature. So what we try to concentrate on is forging these long-term alliances that allow our customers and desirable customers that we may be able to pick up to compete effectively now, but particularly to lock down that relationship for the long-term.

So those are the kinds of things we're weighing out, but we're not in the business of giving up market share. It's push and shove in lots of places, but when we net it out, we're maintaining and there are some places where we're gaining some significant share.

<Q – Todd Vencil>: Excellent. Related to that inventory question and you and I talked a while back about the fact that you were putting things in inventory and you are capped out. So you aren't capitalizing them, and we talked about the income statement or the margin impact on that. Have you ever thought about or gotten a good number on what you think the margin impact of that has been over the last quarter or last few quarters?

<A – Anne Lloyd>: Well, if you look at, at least over the last quarter, we estimate that there's about $20 million of what we call stranded costs that we've had to incur, which is essentially taking that fixed inventory cost that we couldn't capitalize.

<Q – Todd Vencil>: Got it. Over what period was that 20 million?

<A – Anne Lloyd>: That was just for the last quarter.

<Q – Todd Vencil>: Okay, for Q2.

<A – Stephen Zelnak, Jr.>: It's not a trivial number. You get it back, but it's a timing issue.

<Q – Todd Vencil>: Sure. And then final question from me, and I appreciate all this, just to try and pin you down a little bit, which I usually am not able to do, but on 2010, you gave us, I think, a good description of as you see the ups and downs and things that are going to be, the areas of your business that are going to be growing versus the areas that are going to be shrinking in 2010, do you have a feel as it stands right now, as to whether that comes out to higher volumes in 2010 or to lower volumes?

<A – Stephen Zelnak, Jr.>: If you rack up the scenario I laid out with infrastructure up somewhere in the low to mid teens. If you take housing up very significantly, on a percentage basis, because you're coming off such low base – you get 100,000 units and you're up 25% plus on housing, and I think the number could well be more than that – and then you take a modest mid single-digit increase on the 10% of the business that's in the Other category, then weigh that out against what will be a real downer on non-res, certainly mid-teens, maybe worse.
If you rack it up, and it says positive volumes in 2010, based on what we think we know today.

<Q – Todd Vencil>: Great. Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: [Operator Instructions]. We'll now move to Chris Manuel with KeyBanc Capital Markets.

<Q – Chris Manuel>: Good afternoon.

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

<Q – Chris Manuel>: A couple of questions for you. First, you guys have done a, just an outstanding job of getting cash costs down in the business on a per ton on an absolute basis. As we look forward the next couple of quarters, given what your assumption is, or you've told this for tons for the full year, what appears then in the next couple of quarters sequentially see some up numbers. When we think about the amount of fixed costs that you've taken out of the business, how much of that stays out, how much of that has to creep back in as production ramps up a bit? How do you think about that?

<A – Stephen Zelnak, Jr.>: Well, first of all, with respect to the next couple of quarters, we're not necessarily talking about uppers here; we're talking about certainly in third quarter, a lesser rate of decrease. So -

<Q – Chris Manuel>: Sequentially, I think from your full year.

<A – Stephen Zelnak, Jr.>: Yeah.

<Q – Chris Manuel>: Okay.

<A – Stephen Zelnak, Jr.>: Fourth quarter I think has the opportunity to be turn quarter, real turn quarter. So we'll see what comes to us in volume.

Costs creeping back in, we've got a number of people with very large hammers and machetes, whose mission in life is to assure that costs don't creep back in, and where they're creeping, it's a pretty painful process, if we find it. I think our operating guys are being incredibly vigilant, and we are doing more communication internally than we have ever done on cost types of items, trying to find every place where we can impact costs, sharing that information across divisions plant by plant.

It's the best effort internally we've ever had in our company, and a lot of it relates back to information systems, which as you know, we've got terrific info systems, so that we can really get focused on it.

I don't think you're going to see that. If you look at what will come at us and what's taken into 2010, and assume up volumes, I don't see that we're going to be adding back people. What I do see is it will expand hours because right now we've got people on 30 hours, 32 hours, 33. As we get a little volume, we'll be able to expand that and get people moving back toward a more normal 40-hour week. Some overtime, but we've got effective information tools that allow us to manage the overtime very tightly too.

So we're going to stay focused on that. We have had a purchasing initiative underway that has been very productive, improving our purchasing cost, just about everything we buy. That is going to be a key element in our plan for 2010. So bottom-line is, I don't think you can find a place to hide in Martin Marietta. We have sorted it out by line item. I go by line item, Ward goes by line item, Anne goes by line item.

<Q – Chris Manuel>: So if you think ahead to 2010, if you're – I'm just going to throw some numbers out – if volumes are up 5 to 10%, do you feel that you could handle that with existing head count; there wouldn't be a layering back in of additional head count?

<A – Stephen Zelnak, Jr.>: Absolutely. I say that with one qualifier: if you get a huge cluster of that volume coming at a specific quarry, you may to have to augment that particular quarry.

<Q – Chris Manuel>: Sure.

<A – Stephen Zelnak, Jr.>: But I would tell you that the incrementals of that particular quarry will be absolutely fantastic, and it won't be anything you or I are going to worry about.

<Q – Chris Manuel>: Okay. Next question is, Ward, you did a great job of walking through how there was a big ramp in that June-July timeframe in some of the projects, stimulus-oriented projects being awarded.

Typically, I was under the impression 60 to 90 days after those were announced that it was feasible for work to begin, and it sounds more like, quite a bit of this is being pushed into 2010. What's the holding or the sticking point, bottleneck per se, of these projects getting started sooner than later?

<A – C. Howard Nye>: Yeah. I think a lot of it is a pure state efficiency circumstance in many respects. Shovel-ready to you and me may not mean entirely shovel-ready to some of the these jurisdictions. I think having the money coming at them and then trying to determine how they're going to take their work forces and ramp this up to a point in time that we actually see a notice to proceed. And then that goes back to the point that I had raised in the earlier response. That's really what we're waiting to see in a lot of these projects, and that's really where the delay has been.

The work is there. You point's entirely right. It's how quickly a city, state or other municipality can turn around that notice to proceed, and then, that's really going to what we've said on the August 31 date, at least from the snapshot that we've gotten from FHWA.

<A – Stephen Zelnak, Jr.>: Another aspect of it is, you have certain contractors who have been early on successful with this work, and let's say it's predominantly resurfacing. Even though they may have the ability to proceed, what they don't want to do is to ramp all of that up at one time. They would rather have a much steadier pace, so that they can keep their workforce intact, at what they view as an efficient level for this economy. So you got the elements that Ward mentioned with respect to the state and the way they proceed, and then you got the private contractor on the other hand, trying to manage his business.

<Q – Chris Manuel>: Okay. One last question for you Steve, and that's in the next federal highway bill, I think it was set to expire here soon. It sounds like it's going to be extended for a bit, and then the issue is still the same – it's where does the money come from to augment this and fill it out. I think they had sizeable shortfall. How do you feel that such a gap can be bridged?

<A – Stephen Zelnak, Jr.>: Well, it's very easy. You just put tax on oil futures. [Laughter].

<Q – Chris Manuel>: I knew you'd have a real good answer for that.

<A – Stephen Zelnak, Jr.>: Yeah. You've read the same stuff I've read. There are lots of people poking at different ways to approach it. Lot of it politicians trying to get media coverage with their particular hot button issue.

Bottom-line is, you have to have it. It has to be funded. With the Democrats pushing very hard to delay taking action on a new highway bill beyond the 2010 elections, it will say to me that they know there's going to have to be revenues sources. They know that that's not going to be particularly popular, no matter what they do, and they would rather delay that beyond the elections, if they possibly can and then ultimately take some action, because they are the ones that are driving the agenda. They're much more infrastructure friendly, historically, than Republicans. They're much more apt to increase fees, taxes, whatever you want to call.
So we'll see how the politics shapes up.

The demand just simply grows. You ride around and you see it growing every day with more cracks, more potholes, more traffic congestion, and a public that is truly aware of it now. Two years ago, the public was not as aware and incensed about these issues as they seem to be today. So as we go forward, I think public scrutiny of what government is doing with respect to infrastructure is going to grow.

The public, when polled, already is positive about fee or tax increases, provided that the politicians put firewalls so that the money can't be used for other purposes, i.e., taxes for infrastructure that then get diverted to the healthcare agenda or some other place like that. So if it's done that way, I think you can get very significant public support for it.

<Q – Chris Manuel>: Okay. Thank you very much. Good luck in the quarter.

<A – Stephen Zelnak, Jr.>: Thank you.

Operator: We'll now take our final question in queue, Mike Betts with JPMorgan.

<Q – Mike Betts>: Yes. Good afternoon, folks. I had three questions, if I could. The first one, I'm looking at the price guidance for the year of 3.5 to 5%, Steve, and it's up 3.8% in the first half, but then you're talking about, maybe there being some downward pressure on pricing, as you go into 2010. Not quite sure what would cause prices to be up as high as 5%. Would that be a more highway work or more work in the Mideast region, maybe you could give me -

<A – Stephen Zelnak, Jr.>: Yeah. It's – you hit it Mike, with respect to mix shift versus first half. We've had an unfavorable mix relative to where we get our best pricing expectation in the second half is that we ought to get a better mix. Is it enough to get to us up towards the 5%? We just have to wait and see, but the Mideast would have to play a more significant role in our business mix in the second half.

<Q – Mike Betts>: Okay. My second question was just on housing. Are you actually seeing a significant pickup in demand for home builders opening up developments and sub-developments? Are you seeing those early signs of what you'd expect to as part of a housing recovery?

<A – Stephen Zelnak, Jr.>: Some bits and pieces. Is there some massive happening out there with respect to site development? No.

What we are seeing is that action in housing is at the lower end. The government stimulus there with the $8,000 rebate has been pretty effective on the lower end, and people seem to be out in droves. From what I've picked up from the homebuilders, the people who are buying are not necessarily buying just the inventory that's there, and to think about it, that inventory, a lot of that inventory is getting pretty picked over.

And interestingly enough, the homebuilders who sell that range of house are seeing contracts signed for new home construction. So they may sell some of the inventory, but they're getting orders, contracts to build new homes on existing sites in most cases. That in turn puts more pressure on them to have to develop some new sites, because they're going to build existing sites out faster. So that's what I'm seeing at this point. It's certainly not a stampede, but I see enough of it to believe that that is the direction.

<Q – Mike Betts>: Okay. My third and final question, and not to be a dampener on things here related to the stimulus, but I'm just wondering how much of this is actually going to turn out to be substitution. In other words, states use this funding to finance what would be in their normal spending program. So the net benefit is maybe less than we think. Is there any way to track that? Have you been able to track that so far?

<A – Stephen Zelnak, Jr.>: Very difficult to track. As we get towards the end of the year, we'll try to take a better look at it as we go through our budgeting process.

The reality is that state budgets are very challenged, much more challenged than you or I, or certainly the state budgeters thought they were going to be. As you look at the progression of revenue forecasts coming into DOTs, those numbers have continued to drop. The states are really trying to find a bottom. How much money are they really going to have to deal with before they get out there and turn it loose.

They know that they can get a construction bargain right now. If you look at construction projects being let, typically you're seeing something on the order of about 20% below engineers' estimates on the bids. So they see a bargain. Energy price is down, asphalt price is part of that. Contractors bidding very aggressively just trying to keep their businesses alive. So they're trying to measure it. When they feel like they have hit a bottom, I suspect that we will begin to see some more work coming out.

They're not as quite as bad off as the numbers would indicate. They just want to be cautious that they don't over commit, because you have some states that have done that, Georgia being the notable one right now that significantly overcommitted and has had to pull back. North Carolina about 18 months ago was in that position.

So I think their caution is being played out right now with dropping revenue. Certainly, there's substitution. We're not getting the level of state-only projects that we thought even after we were taking what we thought was a conservative stance, as we looked at 2009, coming into it.

So I think you're on the right issue. I think it's a big wildcard, and we'll just have to see where the bottom is. Certainly, stimulus is going to be very strong. Forecast that I haven't seen, it indicated that state infrastructure spending next year off of what will be a downer this year, down another 5 to 7%. And if you go through the math and roll in stimulus at anywhere near the kinds of numbers we're talking about, takes states down 5 to 7%, you're still going to come up with that low to mid teens rate of increase in highway infrastructure that I was throwing out. I have been through that exercise personally. As you know, I like to do the number crunching myself.

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

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And with no further questions in queue, I'd like to turn it over to Mr. Zelnak for any additional comments and closing remarks.

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

Again, thanks for joining us. A very, very tough quarter, as you all know. I think we handled it well. I compliment our team, particularly our operating folks, for what they're doing on the cost side, and as we go forward to the back half the year, I think we're in as good a shape as the company could be to take on the challenges of the times. Look forward to talking to you to took – to discuss third quarter results. Thanks.

Operator: This concludes today's presentation. Thank you for your participation.