PARTICIPANTS

Corporate Participants

C. Howard Nye – President, Chief Executive Officer & Director, Martin Marietta Materials, Inc.
Anne H. Lloyd – Executive Vice President and Chief Financial Officer, Martin Marietta Materials, Inc.

Other Participants

Arnie Ursaner – Analyst, CJS Securities, Inc.
Garik S. Shmois – Analyst, Longbow Research LLC
Todd Vencil – Analyst, Sterne, Agee & Leach, Inc.
Chris E. White – Analyst, Thompson Research Group LLC
Adam P. Rudiger – Analyst, Wells Fargo Securities LLC
Trey H. Grooms – Analyst, Stephens, Inc.
Ted Grace – Analyst, Susquehanna Financial Group LLLP
Jerry D. Revich – Analyst, Goldman Sachs & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Martin Marietta Materials, Inc. Third Quarter 2013 Financial Results Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time. [Operator Instructions] As a reminder, this call maybe recorded.

I would now like to introduce your host for today's conference, Ward Nye, President and CEO. You may begin.

C. Howard Nye, President, Chief Executive Officer & Director

Afternoon and thank you for joining Martin Marietta Materials quarterly earnings call. With me today is Anne Lloyd, our Executive Vice President and Chief Financial Officer. As you saw in our press release, our third quarter 2013 results delivered double-digit growth in both net sales and earnings per diluted share. In a few moments, I'll provide the details for the quarter and our outlook for the balance of this year, as well as our preliminary thoughts regarding 2014.

But first as a reminder, today's discussion may include forward-looking statements as defined by securities laws in connection with future events or future operating or financial performance. Such statements are subject to risks and uncertainties, which could cause actual results to differ materially. Except as legally required, we undertake no obligation publicly to update or revise any forward-looking statements, whether resulting from new information, future developments, or otherwise.

We refer you to the legal disclaimers contained in our earnings release related to our third quarter 2013 results and to our other filings with the Securities and Exchange Commission, which are available both our own and the SEC websites.

Also, any margin references in our discussion are based on net sales, excluding freight and delivery revenues. These and other non-GAAP measures are also explained in our SEC filings and on our website.

Now for our discussion, I'm pleased to report that our results represent a record in terms of sales for any third quarter. Our consolidated net sales of $600 million were up 12% over the prior-year quarter. This growth was driven by volume and pricing improvements in the Aggregates product line and a new third quarter net sales record for the Specialty Products business.

The ability to leverage higher net sales, together with our company's inherent cost containment culture, resulted in gross margin improvement and a net earnings per diluted share of $1.54, a 13% increase over the prior-year quarter.

Our strong overall performance reflects gains in all of our product areas, specifically our Aggregates product line shipments increased 8.1% over the prior quarter, driven by strong private sector construction activities. Notably, three of our four end-use markets, which together comprise slightly more than half of our Aggregates volume, reported double-digit growth in shipments over the prior-year quarter.

The non-residential market lead the way with a 19% increase, with growth in both the commercial construction and energy sectors. In fact, the strength of domestic shale gas production lead to a 27% increase in shipments during the quarter. Estimated full year 2013 production at the Eagle Ford Shale in Texas is 1.4 million barrels. We expect this trend to continue as annual oil production at the Eagle Ford is expected to double in the next five years, reaching 3.1 million barrels of oil equivalent per year by 2025.

The residential market continued to benefit from year-over-year improvement in housing starts and permits, experiencing a 15% increase in shipments, highlighting the resiliency of the ongoing housing market recovery in our key markets.

Lastly, the ChemRock and Rail market experienced higher balance shipments and reported a 13% in Aggregates volume.

We achieved solid third quarter results, despite headwinds in public sector construction. Ironically, the public sector and infrastructure end-use market, traditionally a strong market, is experiencing a temporary period of stagnation and shipments to this markets were relatively flat compared with prior-year quarter.

This stagnation could be traced to governmental disputes, primarily at the federal level, where budget and deficit disagreements and sequester have led to uncertainty regarding future federal highway funding levels beyond the September 2014 exploration of the Moving Ahead for Progress in the 21st Century Act or MAP-21.

As a result, states and municipalities are reluctant to commit to large scale infrastructure projects. While we still expect several of our key states, notably Texas, North Carolina and Florida, to benefit from the Transportation Infrastructure Finance and Innovation Act or TIFIA component of MAP-21, the pace of these awards has been slower than expected. To-date, only two TIFIA awards have been made, likely further delayed by October's government shutdown.

That said, we're cautiously optimistic that this stalemate in Washington is transitory in nature, as most Americans want safe and efficient transportation infrastructure. Realistically though, we're not counting on any meaningful impact from TIFIA before the second half of 2014 and more notably in 2015.

As we look forward into 2014 and through the next construction cycle, we believe growth in private sector construction and increased TIFIA awards will lead to increased earnings. Additionally, when there is more clarity on federal funding, infrastructure spending should stimulate complementary public sector construction and subsequently our earnings potential.

As noted, aside from federal level concerns, we're encouraged by actions taken at both state and municipal levels to advance investment in the growing infrastructure needs of their citizens. As an example, voters in three regions in the southern part of Georgia approved a 10-year special purpose local option sales tax to fund transportation improvements. This tax went into effect at beginning at the year and we anticipate the pace of projects funded by this initiative to accelerate going into 2014.

By further example, infrastructure activity in Indiana is a case study in innovative financing to meet state transportation needs. In 2005, former Indiana Governor, Mitch Daniels launched a 10-year transportation plan known as the Major Moves, funded principally by the long-term lease of the Indiana Toll Road, Major Moves committed billions of dollars to infrastructure improvement.

As Major Moves reaches its 2015 expiration, the Indiana legislature continues to invest in infrastructure. In the recent 2013 legislative session, $215 million was targeted to new road funding from the dedication of a 1% sales tax, together with highway budget changes. Additionally, $400 million of general fund appropriations are being set aside for a Major Moves 2020 Trust Fund to expand highway projects that enhance the movement of goods. Thus Indiana's vision and implementation of infrastructure investment as a pillar for economic growth, provides a solid foundation in our Indianapolis market, as well as a model for others to emulate.

We also expect a significant reconstruction effort along portions of the Front Range in Colorado in response to recent flooding. The cost to repair and rebuild roads, bridges, and homes is estimated in the hundreds of millions of dollars. Of moment, many of our employees and customers were impacted by this disaster, and we've been working where we can with our friends and colleagues, as well as local communities, municipalities and the state of Colorado to assist in this massive recovery effort.

Our pricing momentum continued during the quarter, with each product line of the Aggregates business reporting increases. The Aggregates product line achieved pricing growth in each reportable segment, leading to an overall price increase of 2.3%. Pricing was strongest in the Mid-America Group, lead by the Carolina's and Indiana markets. Our vertically integrated businesses also achieved pricing growth, with the ready-mix concrete and hot-mix asphalt product lines reporting increases of 7% and 1.6% respectively.

Our Specialty Products business continued strong performance, delivering record third quarter results, with net sales of $55.8 million, an increase of 13% over the prior-year quarter. Sales growth reflects increased sales of dolomitic lime provided by our new kiln capacity that became operational in the fourth quarter of 2012.

On a consolidated basis, gross margin was 23.8%, a 70 basis point improvement over the prior-year quarter. We leveraged net sales growth into a 140 basis point expansion of gross margin for the Aggregates business. All three reportable segments achieved margin growth, led by 200 basis point increases for the Southeast and West groups. Margin growth for the Mid-America Group was led by the Mid-Atlantic division, where an 8% increase in aggregate shipments, once again, translated into incremental gross margin exceeding our publicly stated expectations.

Gross margin improvement for theAggregates business was tempered by a 2.6% increase in direct production cost per ton for the Aggregates product line. The primary drivers of the increase were two atypical expenses: one related to the Colorado quarries; and the second to specific workers' compensation matters. We also saw increased repairs in certain districts.

Gross margin for the Specialty Products business was 35.7%, affected by plant maintenance costs at the Woodville, Ohio operation, and higher cost for coal when compared to the prior-year period.

Selling, general and administrative expenses were $37.1 million for the quarter or 6.2% of net sales. The increase of $5 million over the prior-year quarter was partially attributable to higher pension expenses and a planned information systems upgrade that was completed in October. This investment in first grade information systems provides and an important tool for our managers and has helped allow us to differentiate ourselves from others in our industry.

Consolidated earnings from operations were $100.8 million, compared with $91.5 million in the prior-year quarter.

In July, we completed the acquisition of three quarries in the Atlanta, Georgia market. The transaction added more than 800 million tons of permitted aggregate reserves and enhanced our position in this key rebounding market. As we've previously stated, our goal is to have a number one or number two position in markets with near and long-term attractive economic drivers. This transaction is wholly consistent with that strategic objective.

For the first nine months of the year, we generated operating cash flow of $165.6 million, an increase of over $40 million. In addition to the Georgia acquisition, we invested $102 million in capital projects, while maintaining our quarterly dividend rate of $0.40 per common share. At September 30, our ratio of consolidated debt to consolidated EBITDA was 3.06 times, in compliance with the limits under our debt covenant.

As we head toward 2013's conclusion, we are encouraged by positive trends in our business and markets, especially private sector employment and construction. For the full year 2013, we anticipate Aggregates volume to the non-residential end-use market will increase in the mid-single digits, given that the Architecture Billing Index, a leading economic indicator for non-residential construction activity, remains at a strong level.

Residential construction is experiencing growth not seen since late 2005, with seasonally adjusted starts ahead of any period since 2008, driving our residential end-user market to high-single digit volume growth. By contrast, the weather-related slowdown in Aggregate shipments experienced in the first half of the year, coupled with government austerity and the hesitancy created by the uncertainty of federal highway spending, leads us to expect Aggregate shipments to the infrastructure end-use market to be down in the mid-single digits for the full year.

Our ChemRock/Rail end-use market is expected to be flat with 2012. Cumulatively, dependent on fourth quarter weather, we anticipate Aggregates product line shipments will be flat to slightly up compared with 2012 levels. We also expect Aggregates product line pricing to increase 2% to 4%, although this increase will not be uniform across the company.

Aggregates product line direct production cost per ton are expected to be slightly up, compared with 2012. Our vertically integrated businesses should generate between $335 million and $355 million of net sales and $18 million to $20 million of gross profit.

Net sales for the Specialty Products segment should range from $220 million to $230 million, generating $81 million to $85 million of gross profit. Steel utilization and natural gas prices are two key drivers for this segment.

SG&A expenses, excluding costs in 2013 and 2012 related to the information systems upgrade, as a percentage of net sales, are expected to remain relatively flat. Interest expense should remain consistent with 2012. Our estimated income tax rate is 26%, excluding discrete events. Capital expenditures are forecasted to be $155 million.

While still early, we started to frame our initial outlook for 2014, based on McGraw Hill Construction's recent economic forecast, together with our own market view. We expect shipments for all Aggregates end-use markets to increase compared to 2013. Infrastructure market shipments should increase slightly. We anticipate the non-residential market will experience mid to high-single digit volume growth, with continued strength in both the commercial component and the energy sector. We expect shipments to the residential market to have double-digit growth, based on the trend in housing starts.

Finally, we expect the ChemRock and Rail market to increase slightly.

To conclude, we believe significant upside exists in our markets and Martin Marietta has demonstrated an ability to translate this improved macroeconomic environment into increased sales, earnings, earnings per share and cash flow.

As noted, our future confidence is underscored by the growth of private sector construction activity that's spreading geographically. Non-residential growth is predicted to accelerate, especially as more states and municipalities get support and votes from their constituents to make infrastructure improvements, thus providing what is typically a greater proportion of more Aggregates intensive projects.

We're also cautiously confident that public sector activity will begin to grow and then expand as the overall economy recovers. Historically, infrastructure investment has been an area of political consensus. And while we've not factored any meaningful growth from federally funded infrastructure programs, all told, we're well positioned to capital on these opportunities and thereby enhance long-term value for our shareholders.

Thanks very much for your interest in Martin Marietta. The operator will now give the required instructions. We'll turn our attention to addressing your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Arnie Ursaner of CJS Securities. Your line is open.

<Q – Arnie Ursaner – CJS Securities, Inc.>: Good afternoon, Ward and Anne. Ward, in your prepared remarks, you mentioned atypical costs. Could you expand a little bit on what they were? And discuss the impact it may have had on your margin?

<A – Ward Nye – Martin Marietta Materials, Inc.>: Absolutely, Arnie. Really, they fall into several key buckets. I guess for one, we can look at some money that we spent simply bringing the acquired businesses that I spoke to in Atlanta really up to the type of level that we would expect. We spent a little bit over $3 million doing that in that market. If we take a look at what happened in Denver, you heard me reference the historic flooding that occurred there. We spent around $800,000 in repairs and other things in Colorado along the Front Range, attributable to that single event. What I'll tell you, perhaps even more notably, is we think the profit impact for the quarter was probably $2 million down for us in Colorado or around $0.04 per share. So that's notable all by itself.

And then lastly, and this one was odd for us, Arnie. We had about a $2.6 million debt on workers' compensation. As many of you have heard me say in the past, safety is a core function here at Martin Marietta, and we had two incidents earlier in the year that were serious, that are atypical for us. And it's not the way that we do business, and it's not the way we like to go about doing the things that we do, because it affects people's lives. It also affects your bottom line, and that had about a $2.6 million effect.

If we go back through and really take those atypical items that I tried to outline, Arnie, what we would see is cost per ton would line up more with about [ph] $6.54 (19:07) this quarter versus [ph] $6.56 (19:09) in the prior quarter. So you can actually see, it had a rather profound effect on the cost in the quarter.

<Q – Arnie Ursaner – CJS Securities, Inc.>: Okay. And then my other question if you will. On asphalt tons to external customers, that was down 14% in the quarter. Is that more just driven by highway work? Or was there some other factor – weather or some other factor that may have caused that big a drop in asphalt tons.

<A – Ward Nye – Martin Marietta Materials, Inc.>: I think what you hit is the weather piece of it, Arnie. Remember, we picked up a much, much bigger piece of asphaltpaving when we bought the assets in Colorado. If you go back to prior year, what you'll see is our asphalt tonnage was around 3.2 million tons, external was around 1.6 million, and internal around 1.5 million. So when we're watching asphalt tonnage go down, it's really the flooding that's in Colorado that hit that in the most profound way. So if I step back and simply measure it, what I can tell you is on a year-to-date basis 58% of our asphalt tonnage has been in Colorado. So when you've got that kind of a headline number in that market, that has a 500-year event, it'll certainly hit that percentage pretty hard.

<Q – Arnie Ursaner – CJS Securities, Inc.>: Okay. Thank you very much.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Thank you, Arnie.

Operator: Thank you. Our next question comes from Garik Shmois of Longbow Research. Your line is open.

<Q – Garik Shmois – Longbow Research LLC>: Hi, thank you. Congratulations on the quarter. First question is on pricing. Ward, you offered a preliminary view for 2014 volumes, just wondering how you're beginning to think about the rate of pricing growth for next year.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Hey, Garik, that's a fair question. Obviously, you've heard us say in the past how we feel like once we get some significant volume growth, pricing on a percentage basis, we believe will start to follow that volume growth on a percentage basis as well. And I think that's very much what we've seen this year.

What I like about what we've seen in this year, in particular, Garik, is we're looking at a very, very flat year. And the types of pricing that we thought we'd see, frankly, with more volume and I think we would have had it, but for the Q2 weather effect. It's actually held up very nicely. And I think to underscore that, and I think this helps you build toward next year, you're looking at 2.6% pricing up in the quarter. But if you really go and take a look at the mix effect that we had, it really would have a free handle on it, if there was more normalized.

Because what I'll tell is you we saw some big jumps in the quarter in base, and in sand, and in streams, and we actually saw some pretty notable drops in riprap. So in other words, we're selling more lower-priced product and less higher-priced product.

Remember, too, that during the last call, I spoke to the fact that we had seen midyear price increases in around 11% of our markets versus really about 2% in the prior year. So when you take what I feel like has been the type of growth that we've seen this year, and the mix effect that we've seen, I think when you come back and try to start modeling yourself on what that's going to look like next year, hopefully, that's given you some direction. We'll, obviously, talk in much more detail about the pricing when we come out with the full year results in February, but I think that should give you at least an eye on it.

<Q – Garik Shmois – Longbow Research LLC>: Okay. Yeah. Thanks for all the color. Just to follow-up on the mix effect. As you look out over the next, call it, two quarters to three quarters, should we think that the mix effect that you saw in Q3 is going to continue, just given the timing and the size of the projects carrying a lower mix in backlog is going to persist?

<A – Ward Nye – Martin Marietta Materials, Inc.>: I think you might see some of that, but I think you might see some of that for good reasons. And here are the good reasons that I would go to, Garik, and that is if I'm really looking at some of the major projects that we either have or that I think are coming up, they're of moment. I mean, I really break it down into two different buckets, and I'll give you a drive across the geography.

But I think this helps you again on the mix piece of it. In, right now, in Dallas, there's $5 billion of highway projects that we think will be there in 2014; that's up from $3 billion in 2013. To put things in perspective, the North Carolina DOT budget is $3 billion. We're talking more than that just in DFW.

I think when we go back to what we talked about in Colorado, I mean, the numbers that I'm seeing coming out of Colorado are in excess of $400 million, relative to just the work that has to be done to repair the flooding. That doesn't have anything to do with the RAMP program that's there as well.

Even as we suddenly turn and come east of the Mississippi and take a look at $1.2 billion of upgrades at the Orlando Airport or the I-4 project in Florida, all of these will be starting in many respects with base and working their way up. Same issues with a $1.2 billion light rail program in Charlotte, a lot of work at Douglas Airport. And then that's just in infrastructure.

I mean, if we come across and look at what's going on in non-res, we're seeing considerable work in a number of geographies right now. What Boeing is doing in South Carolina is of major significance. Both MetLife and Citrix are coming here to the triangle. What we've seen as far as data storage in Nebraska and Iowa has been absolutely amazing. I mean, big, big projects at

Facebook, Google, and Microsoft. And in Iowa, all by itself, Mid-America Energy has announced a $1.9 billion wind investment in that state.

The reason that I go through that, Garik, is if you got that degree of new projects starting, I think you can expect to see a higher degree of base going to a number of those. But the good news is you're also going to see during the fullness of those projects clean products going to it as well. So I think that's just important color for you to have, as you think about the pricing trends and what the volume mix may be.

<Q – Garik Shmois – Longbow Research LLC>: Okay. That was very helpful. And just one final question on residential construction. Your volumes into the residential end market lagged the broader market in the third quarter. You're expecting double-digit growth into residential next year, which would imply that the gap between your shipments and broader housing starts would narrow. Is that a fair assumption? And should we think that the residential volumes for you in 2014 will look closer to what housing starts do next year?

<A – Ward Nye – Martin Marietta Materials, Inc.>: Garik, if you think back to it, I mean, think of it in these terms: residential housing segment for us, at its lows, call it 6%, 7%; res for us at peak back in 2006 was around 21%. For the quarter, this quarter, res was around 13%. For the same quarter last year, res was around 8%. But here's what I think is happening, Garik, as we look at res, you've seen mostly a large explosion in multi-family residential over the last, let's call it, at 18 months. You're seeing more and more single-family residential right now. You're seeing considerable lot absorption. And what's going to end up happening, I believe, is you're going to see more and more single-family housing and you're going to see more subdivision development.

Remember, part of I discussed before relative to housing is we would end up being a laggard in housing this time because you had so many subdivisions that had the infrastructure built into them, that in the early phases of it, it would be about sticks and bricks. And what we have right now is Western construction that's not so much about sticks and bricks, but it's starting to be more about subdivisions.

And now what we're starting to see and I think certainly in the markets here in the East Coast, anecdotally, you would notice as well, it's becoming more mature and we are seeing new subdivisions. So I would expect to see res go up, but what I would tell you is in a normalized time, I wouldn't really expect residential to be much more than 14%, 15%, 16% of our volume anyway. So when we're getting in that 13% frame, that's not a bad place to be. But we will get the knock-on effect in non-res from it.

<Q – Garik Shmois – Longbow Research LLC>: Sounds good. Thanks for all the help.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Sure, Garik.

Operator: Thank you. Our next question comes from Todd Vencil of Sterne, Agee. Your line is open.

<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>: Thanks. Good afternoon, guys.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Hi, Todd.

<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>: So if I look at your guidance for the rest of this year, it looks like you brought the resi volumes – residential volumes, that is, down a little bit. Did something shake out in the quarter there?

<A – Ward Nye – Martin Marietta Materials, Inc.>: Yeah, I think we just brought a kind of smidge. I think part of what we're trying to sort out to, Todd, is really what can we expect in some of the markets that has had better residential activity? I mean, think about Colorado right now. I mean, that's one of the markets on res that's doing considerably better than others. And I think part of what we're trying to sort out in our minds is how long can we expect that season really to last in that type of market? So we're just trying to measure that out very carefully right now.

<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>: Thanks for that. In Atlanta, where you guys picked up the quarries, I mean, how is that market developing, is it starting to pick up?

<A – Ward Nye – Martin Marietta Materials, Inc.>: No, it is starting to pick up. And we actually saw some decent volume growth there. Kind of the biggest single issue in a market like Atlanta is it fell so far. I mean, we're operating in the teens as far as recovery on volumes in that market right now. So it's just a very volume challenged market. But we are seeing North Georgia getting considerably better. I mean, what I can tell you, for example, from the LaFarge quarries that we picked up during the quarter, we sold almost 380,000 tons of material from thosequarries just in Q3. And what you will have noted in the comments that I had is I did refer to Atlanta as a rebounding market and I do think that's where it is. Again, we're seeing good lot absorption there and we're seeing much better volumes. It's just got a long way to go, but the nice thing about the Southeast right now is the little bit of volume in that market is really very, very powerful. And you can see that a little bit of volume actually from a changing gross margin, added 200 basis points to that market right now. So yes, it's getting better and we think it will continue to get better. We don't think it's going to get explosively better, but we think it's on the right trajectory right now, Todd.

<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>: Got it. Switching to the highway side, your comments on TIFIA that only two projects have been approved from the, I guess, the latest bill for 2013 and 2014. But you're looking for the volumes to pick up significantly in the back half of 2014, and then even more in 2015. What needs to happen between now and then for that outcome to occur?

<A – Ward Nye – Martin Marietta Materials, Inc.>: They need to start letting projects [ph] start (30:41). I mean, it's inconceivable in so many respects that we're sitting here today and two projects have been let and, by the way, they're both in Chicago. I mean, as we sit here and simply do our top-side math, they're $46 billion worth of applications that are in right now, $46 billion. If we come back and take a look at the Martin Marietta markets, it's nearly $16 billion worth of work that we're going to have a very, very good and legitimate shot at right now.

And I guess, my sense is we're probably going to see two or three more TIFIA projects probably come out before the end of the year. But everything that we're hearing tends to indicate we're going to start seeing it come out in much more healthy chunks as we go into the new year. What has to happen, Todd, is they need to put some contracts out there and get it done. As I'm looking at the list that they have right now, I see there's one, two, three, four, five, six, seven projects right now under review. And again, as we said, only two of them have had the credit agreements actually executed. And again, this is under the new TIFIA projects, as you noted.

<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>: Got it. Thanks for that. And then final question, I guess, this one's probably for Anne. Anne, looking at SG&A in the Aggregates segment, I guess, it's been running right at $28.4 million a quarter, really, all year. Is that a good run rate to think about?

<A – Anne Lloyd – Martin Marietta Materials, Inc.>: Yeah, that's not an inappropriate run rate, because most of the excess costs have been at the corporate level with – whether it be our information systems project or other initiatives that we've been working on. So the Aggregates [ph] destination (32:24) should stay relatively constant.

<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>: Nothing seasonal in the fourth quarter there?

<A – Anne Lloyd – Martin Marietta Materials, Inc.>: There shouldn't be anything seasonal, not when it comes to that type of. And there are some per capita charges that go through there, but it's not materially consequential, Todd.

<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>: Okay. And then if we think about the $6 million plus corporate line, is that coming in with the – at the end of the IT project.

<A – Anne Lloyd – Martin Marietta Materials, Inc.>: That should come in as we move into 2014, with the end of the IT project, as well as some other initiatives that we've had going on this year.

<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>: So maybe you kind of continue with that run rate in the fourth quarter and then start coming in first quarter?

<A – Anne Lloyd – Martin Marietta Materials, Inc.>: That's not an unreasonable assumption.

<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>: Great. Thanks so much.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Thank you, Todd.

Operator: Thank you. Our next question comes from Kathryn Thompson of Thompson Research. Your line is open.

<Q – Chris White – Thompson Research Group LLC>: Hey, this is Chris calling in for Kathryn today. Just one question, I wanted to follow up a bit on Colorado if I could. Can you tell us what type of overlap Martin has in those areas that are expecting a lot of the rebuild due to the flood?

<A – Ward Nye – Martin Marietta Materials, Inc.>: If you think about where all the flooding was, I mean, it was truly in Denver Metro and principally north of there. I mean, some of the worst flooding was in Boulder. If you're at our single larger quarry in that market, Specification Aggregates, you are looking right into Boulder. So what I would tell you is we're in a very good place to be able to supply those projects.

The other thing that I like about it, Chris, is we've got good hard rock in that market. A lot of what's being fed in that market the farther north you go are from alluvial deposits. And some of alluvial deposits, I think, were probably hit pretty hard with that flooding. So I think it's two-fold, number one, I think we'll have a nice place to be very helpful and supply materials going forward. And I do think in many respects there are going to be some depletion plays that will benefit us going forward.

<Q – Chris White – Thompson Research Group LLC>: Great. Thanks for taking the call.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Sure, Chris.

Operator: Thank you. Our next question comes from Adam Rudiger of Wells Fargo Securities. Your line is open.

<Q – Adam Rudiger – Wells Fargo Securities LLC>: Thank you for taking my question. I just had a kind of a big picture question, if I think about people investing in aggregate stocks the last few years, really the biggest question seems to have been, besides the pricing power, just when volume is coming back. And so we're seeing a little bit of signs of that and there's reasons for to be a little more optimistic. My question was outside of simply volume recovering to the industry, what kind of opportunities are you looking at? Or do you see? Or should we focus on for you to continue to drive value in the underlying business? I'm just trying to understand just beyond cyclicality what the opportunity is.

<A – Ward Nye – Martin Marietta Materials, Inc.>: I think there it's two different opportunities. So I think opportunity number one is where you position your business relative to markets. You heard me say in my prepared comments that our long-term aim is to have a number one or number two position in markets that we think have near-term and long-term economic attractiveness. So if we pause and reflect on what that means for us, as we look at the swap that we did last year, Denver, Colorado for the River business, we think from our business that was really a very constructive thing for us to do. We think that added considerable shareholder value. I think you can and should expect us to continue to look for swaps and to engage in asset exchanges on a tax free basis. It's a very efficient type of transaction to improve our market position. So I think that's one thing you can expect.

I think as we turn our attention here to the corporate office, part of what Anne was saying in response to an earlier question, is we have made some investments here in different functions. Part of what we're talking about regularly is functional excellence in this organization, in the corporate office throughout our business as well. And we think we can continue to get better, faster, cheaper at everything that we do. Part of what we're sensitive to, pricing to your point, Adam, has been a great story, but we're still selling a product for less than $11 a ton.

And at the end of the day, that's all that you operate in, you'd better be good on costs, because if you aren't, you're going to be at our business. So improving our markets, moving our business the way that we need to, and being focused on functional excellence, in addition to the volumes, are the types of the things that I think you should headline for us.

<Q – Adam Rudiger – Wells Fargo Securities LLC>: Makes sense. That's all I had. Thank you very much.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Thank you, Adam.

Operator: Thank you. Our next question comes from Trey Grooms of Stephens. Your line is open.

<Q – Trey Grooms – Stephens, Inc.>: Hey, good afternoon, Ward and Anne.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Hello, Trey.

<A – Anne Lloyd – Martin Marietta Materials, Inc.>: Hey.

<Q – Trey Grooms – Stephens, Inc.>: Just a few questions really quick. Ward, can you touch on the progress with midyear price increases that you had this year and how it compares to some of the traction you've gotten, say, like in last year, for example?

<A – Ward Nye – Martin Marietta Materials, Inc.>: Yeah, absolutely. Well, Trey, as you recall, during the last teleconference, we spoke about the fact that we were seeing double-digit markets, with midyear price increases in them. Now we also said that as a practical matter, you're only going to capture a portion of that in the back half of the year, because you're going to end up protecting customers on larger jobs on which you quoted them.

So the midyear price increases that we discussed during the last conference call are in place and they're going forward, as you would imagine. The primary thing that that does, I believe, is it raises the bar on what your pricing can be going into the new year. Obviously, we haven't given you any pricing guidance yet for 2014 and we'll do that very, very early in 2014. But the midyear price increases that we discussed were far more – they're wider and more in dollars and cents than they were in the previous year and we think that bodes well for next year, in particular.

<Q – Trey Grooms – Stephens, Inc.>: How does that compare, Ward, to 2012. You said double-digit markets, what was that in 2012?

<A – Ward Nye – Martin Marietta Materials, Inc.>: In 2012, it was two.

<Q – Trey Grooms – Stephens, Inc.>: Okay.

<A – Ward Nye – Martin Marietta Materials, Inc.>: In [indiscernible] (38:37), go back and recall we had gotten midyear price increases in San Antonio and we' had gotten midyear prices in Houston and that was really it. So you're talking double digits versus two markets last year. So it was a dramatic change year-over-year.

<Q – Trey Grooms – Stephens, Inc.>: Okay. And then on oil and gas, I mean, obviously big for you guys this quarter. What percent of your overall shipments go into what you would consider oil and gas?

<A – Ward Nye – Martin Marietta Materials, Inc.>: Here is the way you can think of it, Trey. Last year we sold a little bit over 6 million tons to these different shale plays and we think it'll be slightly up versus where it was last year. What's fascinatingthough is to watch the way the movement works between these different plays. What I would tell you is Eagle Ford for us, it's clearly the single largest one and we're looking at tonnage there that's relatively flat. Now when we were having this conversation at the beginning of the year, we thought it would be relatively flat in Eagle Ford. I think people were a bit dismissive of that.

But now as we've come back and taken a look, part of what I really like to see is plays like Marcellus have gotten much better this year. We're seeing about 0.5 million tons up year-over-year into the Marcellus. And then we also have a new entry into the Avard play, which is more in Oklahoma and we think we're going to pick up nearly 200,000 tons there. So year-over-year, last year, slightly over 6 million, this year, a smidge more than that.

But keep in mind the thing that we haven't really seen yet, we're about to see it, it's going to be the follow-on effect of DOT lettings to come back and start to cure these roads, particularly farm-to-market roads in South Texas that have been destroyed by this heavy traffic. I've seen some bidding activity literally just this week on that. So that's been a very quiet issue that's been out there, but we know it's been building and I think that's something that you're likely to see the knock-on effect of as we go into 2014.

<Q – Trey Grooms – Stephens, Inc.>: Okay. And then Ward I know you don't have a crystal ball, but you're pretty well plugged in. What's your best guess or gut on kind of what we could see coming out of Washington as we approach the expiration of the current highway bill? Do you think that there's a chance we could get another short-term bill put in place? Do you think we'll be in a similar situation where we'll see a series of CRs? Or what's your best guess on how that could checkout?

<A – Ward Nye – Martin Marietta Materials, Inc.>: Trey, you're right. I mean that does take a crystal ball that I wish I had because I'd be doing something else, not that I don't love this. Trey, I guess, I think this, I think there's more consensus around at this time than there was last time. Let's start with that notion. At the same time, for me to sit here and suggest to you that I think there's going to be a sync from MAP-21 to the next highway bill, I just don't think is genuine. Because I don't think Washington can do that, frankly. Do I think they'll go through 9 CRs like they did last time? No, I don't think they'll go through 9 CRs.

But I think Barbara Boxer is taking a very constructive role in the Senate to try to push this along right now. At the same time, we got new leadership in the House and I think Congressman Shuster is taking a very, very productive approach on that. I think the bipartisan spirit that we're starting to see around highway funding is a very different conversation than we were seeing two years ago.

So my sense would be Trey, do I think we'll have a CR or two? Yeah, I think we probably will. Do I think we'll have 9? No, I don't. Do I think we might see more than a two-year bill? Yeah, I think we probably will. So again, that's worth what you're paying for right now, Trey, and I guess that's probably where [ph] I'll leave it (42:41).

<Q – Trey Grooms – Stephens, Inc.>: All right. Well, that's helpful, Ward. Thank you, guys, very much, and good luck.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Thank you, Trey.

Operator: Thank you. Our next question comes from Ted Grace of Susquehanna. Your line is open.

<Q – Ted Grace – Susquehanna Financial Group LLLP>: Thank you. Hey, guys, how're you doing?

<A – Ward Nye – Martin Marietta Materials, Inc.>: Good. How are you?

<Q – Ted Grace – Susquehanna Financial Group LLLP>: Good. Couple of just housekeeping questions. You went through some of the transient items, $3 million on acquisitions, $2.6 million on workers comp, $800,000 on Denver. Can you just help us understand where those costs actually flowed through? Was the $3 million a P&L cost that flowed through Aggregates?

<A – Ward Nye – Martin Marietta Materials, Inc.>: It was the Aggregates line of product production costs.

<A – Anne Lloyd – Martin Marietta Materials, Inc.>: Yeah. It's primarily your direct production costs, almost all of those costs, Ted.

<Q – Ted Grace – Susquehanna Financial Group LLLP>: Okay. And Denver would have been in there, too, so you're looking like $3.8 million of add-back?

<A – Anne Lloyd – Martin Marietta Materials, Inc.>: Correct.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Yes.

<Q – Ted Grace – Susquehanna Financial Group LLLP>: Okay. And what about the worker's comp?

<A – Anne Lloyd – Martin Marietta Materials, Inc.>: Same thing.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Same thing.

<A – Anne Lloyd – Martin Marietta Materials, Inc.>: All production costs.

<Q – Ted Grace – Susquehanna Financial Group LLLP>: Okay. You called out some transient costs in Specialty Products. I think it was maintenance work on the kiln.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Yeah, that's exactly right. About $1 million, Ted, that's the quick way to think about that. We'd taken number 4 kiln, number 7 kiln, and had some work also on number 6 kiln, all during the quarter, and it cost us about $1 billion.

<Q – Ted Grace – Susquehanna Financial Group LLLP>: Okay. So when you add those back, I mean, kind of incrementals look like what we would have expected and kind of you've been putting up?

<A – Anne Lloyd – Martin Marietta Materials, Inc.>: Yeah. And then we also look at coal; coal is about $1.5 million.

<Q – Ted Grace – Susquehanna Financial Group LLLP>: Yeah.

<A – Anne Lloyd – Martin Marietta Materials, Inc.>: You got about $2.5 million in the Specialty Products business that really completely reconcile prior third quarter to this third quarter.

<Q – Ted Grace – Susquehanna Financial Group LLLP>: Okay. So I guess, and I realize you're not giving 2014 guidance, but you're going to start getting decent volume absorption, knock on wood, that we get this kind of like mid-single digit or better volume growth. Is there any reason to think we won't see the incrementals that you've historically talked about in Aggregates of being 50% to 60% in 2014?

<A – Ward Nye – Martin Marietta Materials, Inc.>: You know what, Ted, the biggest single driver of that's going to be if we get the growth across the business. If we get it widespread across the business, I don't think there's any reason that you shouldn't expect to see that. Again, if the West continues to be disproportionally better than the East, it's more challenging, because the Eastern markets tend to be higher priced and more profitable. But if we really see these Eastern markets start to get some traction and we're starting to see places like Charlotte get well, and we're starting to see places like Atlanta get better. If we see that type of trajectory, I think what you're saying is right in the target zone.

<Q – Ted Grace – Susquehanna Financial Group LLLP>: Okay. That's really helpful. And then on your 2014 framework, I recognize you cited a couple of different sources for perspective. Where would you have the highest – well, I guess where would you see the best upside risk or biggest concern? And where is your confidence greatest among those kind of four end markets that 2014 is going to look better than 2013.

<A – Ward Nye – Martin Marietta Materials, Inc.>: As we come back, I think the places that I have the most resilience around, we've got a good looking backlog, at least, of projects that I'm looking at non-res in potential – I mean, in particular. So I think we'll continue to see non-res grow and I think we'll see that growth across the United States. And again, I tend to believe, Ted, that on the housing piece of it, where we are and, again, primarily a Southeast and Southwest company, the type of housing growth that we're going to see particularly as we start making that transition from less multi-family to more single-family, I think those two places add up a pretty good punch.

And again, when you come back with non-res at 30% of the business, and you come back at res, let's call it 13%, 14% of the business. And again, I liked what I saw in trajectory in ChemRock and Rail, too. I was seeing balanced volumes going up with BN, with UP and Kansas City Southern. And with the type of footprint we have there, suddenly, we're well over half of our volumes right there in those three. And I have – I feel pretty good about that, Ted.

<Q – Ted Grace – Susquehanna Financial Group LLLP>: Okay. That's great. Then the last thing I'll ask I promise, when we look forward to SG&A, I mean, you mentioned IT upgrades over in October...

<A – Ward Nye – Martin Marietta Materials, Inc.>: Yes.

<Q – Ted Grace – Susquehanna Financial Group LLLP>: If you could help us understand what that coming year-over-year benefit looks like next year? And then when we just think about headwinds and tailwinds, I'm guessing the pension expense should be down next year, we're kind of estimating $5 million to $10 million tailwind for you, which...

<A – Ward Nye – Martin Marietta Materials, Inc.>: Well, here's the way to think of it, Ted, I mean, we've really been spending about $1 million a quarter on the information systems. It's really, as we come back and look at Q3, it's probably about $1.5 million. And we're bringing in for a landing here, so as we wrap that up. The pension expense, if you've got a good sense of what the discount rates will be at year- end, that's going to really be your driver on what that's going to look like. And again, as we look at this year, we had $1.5 million for the quarter professional expenses tied back to that notion of functional excellence. And those are all costs that I wouldn't think would be repeating into next year. And the fact is we anticipate getting benefit from those investments next year.

<Q – Ted Grace – Susquehanna Financial Group LLLP>: But I recognize that none of us are – like you, if I had a crystal ball that I could forecast interest rates, I wouldn't be on this call with you. But would you expect that that should be a tailwind, short of something dramatic happening in the next seven weeks?

<A – Anne Lloyd – Martin Marietta Materials, Inc.>: Yeah, Ted, absolutely you would. I mean, particularly at a minimum the IS costs.

<Q – Ted Grace – Susquehanna Financial Group LLLP>: Yeah. Okay. Great, guys, best of luck this quarter.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Thanks, Ted.

Operator: Thank you. Our next question comes from Jerry Revich of Goldman Sachs. Your line is open.

<Q – Jerry Revich – Goldman Sachs & Co.>: Good afternoon.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Jerry.

<Q – Jerry Revich – Goldman Sachs & Co.>: Ward, can you just talk about, besides energy, which verticals – if you have the visibility, which verticals are driving the strength in your backlog for private non-res? And can you just talk about is it early-stage project work that you're seeing, just so we can use what you're seeing as a read across to other industrial markets with non-res exposure?

<A – Ward Nye – Martin Marietta Materials, Inc.>: Right. Jerry, I think that's exactly what it is. I do think it's early on, on that end and I think going back to that mix conversation that I was having earlier on the call. And part of what I think when I'm seeing sand volumes up, let me give you a sense of it, Jerry. Sand volumes were up almost 630,000 tons in the quarter; that's a big number. What that tells me is there's a lot more ready-mix going out the door in some respects. And again, that's going to all be structural type of work. And I think a disproportionate amount of that's going to be going into non-res projects right now.

So when we're seeing that, start thinking about markets like Denver, start thinking about markets like Des Moines, start thinking about markets like Houston and San Antonio, and even a now knock-on affect in places like Dallas. And again, what we're seeing in markets today like Charlotte or even heading down into Charleston, South Carolina is a very, very different feel than you and I would have been having at the same time a year ago. So I think your notion around commercial and product mix and ready-mix in those markets and either us supplying ready-mix in some of them or the products to ready-mix players is a good way to think about it.

<Q – Jerry Revich – Goldman Sachs & Co.>: Thank you. And in your downstream business, can you just talk about at which point do you expect to see pricing power, especially in concrete, ahead of material inflation? Do you think you might get to that next year once the cement capacity for some of your suppliers and competitors becomes fully utilized? Is that the tipping point that you're looking for to get better gross margin expansion for your downstream businesses?

<A – Ward Nye – Martin Marietta Materials, Inc.>: The short answer is absolutely, Jerry. And what's remarkable about the concrete business, if I look at the two principal geographies in which we're in the concrete business, there's a pretty big disparity in average selling price between one and the other. And the one that really has the higher selling price, we also have the ability to do more with pricing in period. And I think you'll continue to see that market get much better.

Remember, in my prepared remarks, I talked about ready mix pricing being up 7.1%. And my sense has always been that's the single weakest link in the heavy building material side. And when you're starting to see that type of pricing growth in ready mix, I think that's a very, very good sign for the balance of the industry.

<Q – Jerry Revich – Goldman Sachs & Co.>: And in terms of the overall volumes, obviously, nice performance in the third quarter. I think you're guidance implies more muted year-on-year performance in the fourth quarter. Is that just a function of comps or any moving pieces for us to think about in the fourth quarter? Any residual impact from the government concerns or anything like that?

<A – Ward Nye – Martin Marietta Materials, Inc.>: You know what, it's really more looking at something that we just have to say may feel more normal, like in weather. What I remember last year, in particular, our team in Colorado was doing some downstream work into December? And that's a great result and that's great for them and maybe they do that again this year. But my guess is it's a rare year when you're paving in December in places like Colorado. I was there yesterday, in the mornings it was 20-some degrees. So if it's a normal winter, I think that's at least how we're having to plan for it right now, and we're going to pray for better.

<Q – Jerry Revich – Goldman Sachs & Co.>: Okay. Thank you.

<A – Ward Nye – Martin Marietta Materials, Inc.>: Thank you, Jerry.

Operator: Thank you. I'm not showing any further questions in the queue. I'd like to turn the call over back to Ward Nye for any further remarks.

C. Howard Nye, President, Chief Executive Officer & Director

Listen, thank you again for joining our Third Quarter Earnings Call and for your interest in our company. We're dedicated to our disciplined approach to managing our business and increasing long-term value for our shareholders. And we look forward to talking with you about the fourth quarter and full year when we're together in February. Thanks so much. Bye-bye.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.