MANAGEMENT DISCUSSION SECTION

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

Stephen P. Zelnak, Jr., 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. We were very pleased with our second quarter results particularly given the volume challenges presented by extremely weak home building activity along was severe weather in Texas, Oklahoma and Kansas. Our earnings per diluted share increased 18%, to $1.92 from the prior years $1.63. Revenue increased 3% to $535 million on a revenue increase of $17.9 million, gross profit increased 24.9 million and operating earnings was up $17.2 million.

We continue to do a very effective job of managing our cost in a demanding environment. Our SG&A cost increased $7.2 million in the quarter to $44.3 million. Of the increase 5.3 million or 74% was related to performance based incentive compensation. Year to-date excluding the increase and management incentives SG&A is up about 3%. During the quarter we revised inventory standards to reflect the increasing cost which is particularly related to the significant escalation in transport costs to our distribution yards. Without this change we would have overstated operating costs by about $9 million. We will continue to review this item as we go through the second half to assure that we are providing the most accurate cost data possible.

Both weather issues and market weakness related to home building continued in the second quarter. We saw double-digit volume declines in Indiana, Ohio, West Virginia and in our South Central markets. The Southeast continued to do fairly well with volume ranging from small increases to small decreases depending on the state. Texas, Oklahoma and Kansas were significantly impacted by wet weather and San Antonio of 64 workdays scheduled for the quarter, it rained 55 days. In the Dallas area record rainfall over a 65 day period severely impeded shipments and production. The estimated negative profit impact in the west is 6 to $7 million for the quarter. Given the conditions a significant amount of work has been deferred to the second half of the year. In North Carolina the state announced that it plans to sell $300 million in Grant Anticipation Revenue Vehicles or GARVEE bonds in September of this year to finance various federal road projects statewide. This should be a nice positive in 2008-2009 for our North Carolina business. The State also passed a provision for a local sales tax option or real estate transfer tax, which we expect to be positive for infrastructure. Over the past four quarters volume is down 8.5% due primarily to the sharp decline in home building at the same time operating profit and our earnings per share are up over 14%. Good pricing plus very effective cost management has led to this result. The last significant downturn we experienced was in 1991, where volume dropped 10% with a resulting decline of over 30% in operating earnings.

In our specialty products business we also continued to put up very good numbers despite weakness in lime demand from the steel industry. Operating earnings increased 15% on a 9% increase in net sales. Excellent performance on our magnesia chemicals product line overcame the weakness in lime shipments.

During the quarter we continued to execute our leverage and share repurchase plan as previously announced. We repurchased 1,250,000 shares at an average price of 154.54 per share. Year to-date we have repurchased 3,585,000 shares or about 8% of the outstanding for a total of $495 million for an average of 138.12 per share. Going forward we are focused on deploying capital for significant expansion of our rail connected quarries in Georgia and South Carolina to meet increasing demand in these states and Florida.

We also intend to review our dividend and our share repurchase authorization at our August board meeting. We continue to stay focused on providing superior returns to our shareholders. Recently the federal judge in the Miami Lake Belt quarry litigation made a ruling. The ruling resulted in a shut down of three quarries operated by the Florida Rock, Teton and Basilio & Grogan. If this shut down stands we believe about 25% of the existing capacity in the Miami area will be lost. Although no one knows the ultimate outcome of this ruling, this situation presents upside opportunities for Martin Marietta.

Looking ahead we expect to have a flat to slightly positive volume comparison in our aggregates business in the second half led by commercial construction in the infrastructure coupled with more normal weather patterns. For the year we now expect volume to be down 4 to 6%, while pricing should be up 11 to 12% and our specialty products business we expect operating earnings of 33 to $36 million as compared to 22 million in 2006.

For the total company, we expect earnings per diluted share for the third quarter to be $1.95 to 2.25 versus $1.65 in the prior year period. Our range for the year is $6.15 to 6.65 versus 5.29 in 2006. The annual range reflects a $0.05 per share upward adjustment on the low end of the range and no change on the upper end of the range.

At this time I'd be pleased to take any questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instruction]. We will take a first question from Ajay Kejriwal with Goldman Sachs.

<Q – Ajay Kejriwal>: Good afternoon, Steve.

<A – Stephen Zelnak, Jr.>: Hi.

<Q – Ajay Kejriwal>: The question I had was on volume 9% decline in the second quarter, would it be possible to parse that out in residential versus non-residential and infrastructure, how are the three buckets in the quarter?

<A – Stephen Zelnak, Jr.>: I will give it to you directionally, but we won't rack everything up until the end of the year precisely but clearly home building was the total driver on that, if you look at the infrastructure and commercial – commercial would have been the strongest category, infrastructure was positive but modestly so.

<Q – Ajay Kejriwal>: Okay.

<A – Stephen Zelnak, Jr.>: The home building was down more than the – it drove more than 9%, very sharp now.

<Q – Ajay Kejriwal>: So, if we look at the headline number for home building down about 25%, would you say your volumes were down inline or slightly more than the 25%?

<A – Stephen Zelnak, Jr.>: I am not going to be – try to be that precise with you and break the percentage, you know I told you it drove more than the 9%, so I'll let you work the math backwards.

<Q – Ajay Kejriwal>: And would it be possible to kind of quantify how much was Texas responsible you know of the 9% decline in the quarter, how much was due to Texas sounds like it was a big number?

<A – Stephen Zelnak, Jr.>: Actually Texas, Oklahoma, Kansas were about in the 9% range. The areas that were weather impacted. The component of Texas that offsets is that the Texas economy is actually quite strong and the expectations for Texas as we came into this year were you know very positive. So, the weather is impeditive very sharply, the rate of decrease there was you know about the same it was for the company. If you go to the places that were sharply down, I had sited those earlier and I'll give you a little bit of hard data on those, if you go to Indiana, Indiana volume was down 13%. Ohio volume which continues to be very weak for us in Southern Ohio was down 24%. West Virginia was down 11% and the area which was frankly surprising to us in terms of rate of decline was that south central area along the river where business had been pretty strong, it had been tapering but pretty strong within the second quarter, that was off almost 30%.

<Q – Ajay Kejriwal>: Just on price increase, could you give us a sense of how mid-year price increases were this year versus last year.

<A – Stephen Zelnak, Jr.>: Significantly less as we had indicated. They were a little better than our earlier expectations and that's reflected in the change the adjustment we made to our rate of selling price increase for the year, we have adjusted that up slightly but certainly well below what we were able to do last year and the year before, and that was the expectation.

<Q – Ajay Kejriwal>: And the reason was tougher comps or that volume decline had to do something with the pricing being lower than last year.

<A – Stephen Zelnak, Jr.>: Yes, its basic economics. Supply demand, when demand goes down sharply, your pricing opportunity tends to be reduced and you could look at the numbers if you go back and you look at where we were last year in what was a peak economy early in the year began to taper off. But most of that pricing happened in early in the year and then mid-year. We finished the year plus 13.5%. We are going to be down to 11 to 12 this year. So, directionally we are down with a weakened economy, we're not going to forecast '08 for you yet, but the directional expectation given that we do not have the big mid-year increases is that you are going to see a lower rate of price increase in 2008 and that's consistent with what we've laid out before.

<Q – Ajay Kejriwal>: Great and lastly on your volume guidance of flat in the second half, what are you assuming for residential, are you assuming the residential flattening out at second quarter levels or are you assuming a sequential pick up?

<A – Stephen Zelnak, Jr.>: Certainly no substantial pick up, our expectation is that residential probably drifts down a little bit more in third quarter. Residential flattens out in the fourth quarter and then we would expect to see some positive – continued positive in commercial, which has been quite good and positive in infrastructure. And if you look at the quarters I would tell you that in the third quarter, I'd say there's a higher probability of modestly down volume versus modestly up volume and in the fourth quarter I think it's the other way around. You're getting into the statistical comps and there was pretty sharp drop off in the fourth quarter of last year. We think at this point based on our best information that the fourth quarter is more likely to be up.

<Q – Ajay Kejriwal>: Got you. Great, thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: Thank you, we will take our next question form Arnie Ursaner with CJS Securities.

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

<A – Stephen Zelnak, Jr.>: Hey Arnie.

<Q – Arnold Ursaner>: You and Ann typically are very good about keeping to your word on things you tell people, so there were two things I wanted to ask you about. One is on your dividend; you've had a policy in the past of a normalized dividend of 25 to 30% of – 25 to 30% of normalized earnings, to the extent you are going to meet that your August board meeting should have a pretty aggressive dividend increase, could you comment a little more on that?

<A – Stephen Zelnak, Jr.>: Yeah, if you go back to the 25 to 30% target that is a target over a cycle. Typically in the down part of a cycle which we are in you expect to see contracting earnings, we've been able to overcome that to this point and certainly feel pretty good about where we are. We are chasing that target obviously, right now. I hope that we continue to chase that target that will be good, but certainly as the board reviews dividend they will keep in mind the target range over a cycle and they will take that into account as they come forth with a reset of the dividend.

<Q – Arnold Ursaner>: And on share repurchase, couple of questions related to that. One is if you could remind us what is currently left on your authorization book, more importantly you've talked about kind of the goal of 2 to 2.5 times EBITDA for you know as a debt ratio with the predominance of that being used to repurchase shares given the weakness in your shares in the last few weeks and given your goal of hitting that target and given the normal seasonality of cash flow which grows quite a bit in Q3 and Q4, we seems to me you are going to have to be pretty aggressive in share repurchase in the back-half of this year to get near your goals.

<A – Stephen Zelnak, Jr.>: First of all I think we've got about 646,000 shares left, so we'll be requesting that the board review that and we deal with that accordingly at our August meeting.

Secondly, when you look at the leverage ratio we've indicated that first and foremost we are interested in investing capital in our business. Pretty clearly we do not have internal CapEx projects that consume our capital nor do we foresee that any time in the near future. Beyond that though the there are some possible acquisition opportunities would be of interest and I would sight specifically that Vulcan is going to be required to divest some of the Florida Rock quarries. We don't know precisely which ones, there is an expectation based on the analysis we've done and what little bit we do know that those quarries divestitures could potentially occur in Georgia, possibly Alabama, Chattanooga, Tennessee would be one that would be a possibility and in Virginia those would be significant interest to us, so first and foremost we are going to make sure we take care of our business and the opportunities to go with that. Beyond that you know we are no different than the people that you were speaking to 30 days or 3 years ago. I think we are very consistent and straight forward in our approach. We like our share value. We liked it at a 150 and 170. We obviously like it at 130ish, but keep in mind that we are not timing buyers, we are buyers relative to our cash flow metrics and we're also not going to jump off to the ends of the earth to try to time something, if we were that good we would not be sitting here on the call today. I would be playing golf as much as I dislike it with Warren Buffet and Bill Gates. So that's our approach.

<Q – Arnold Ursaner>: Ok, my final question on the SG&A line, you had a pretty unusual jump almost 5.8 million in performance based incentive comp, were there several factors that went into that or may be one single factor that drove the lion share of that?

<A – Stephen Zelnak, Jr.>: There are two parts for that, one of which is straight forward and the other is sort of a personally hot button for me. The first part is that we have a – it is a performance based plan and the performance metric relates to our exceeding cost to capital and then there are multipliers that go with that. So, we performed extraordinarily well, the multipliers were higher than anticipated and we got the rewards for that. The second part of it is something that just frankly irritates me and I see Anne our CFO looking at me ready to get her firehouse out to cool me down. You know I'm – most of you know me, I'm 62 and a half now and I'm going to work for couple of more years, most of you know that. However in there wisdom, the accounting profession deems me to be someone who from their view obviously will not make it to the next year. Therefore they require that we charge-off all of the incentive comp that relates to me which obviously is a big chunk in the period. Where our retirement program setup is that you can take unreduced retirement in terms of not being reduced against what should we do based on your service years at 62 but normal retirement is classified at 65, being a simple person and knowing that I'm going to work until somewhere between 64 and 65 probably, pretty well determined, it would be logical that you amortize over that period but logic and accounting has not converged. So, that you really don't want to get me going on that. My view is that it ought to be amortized over the right period, but the public accounting world views it differently. Age discrimination.

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

<A – Stephen Zelnak, Jr.>: I say that only half jokingly.

<Q – Arnold Ursaner>: Thanks again.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: Thank you. We will go next to David Macgregor with Longbow Research.

<Q>: Hi, this is Gareth Schmoises for David. I'm just wondering in the press release here you reminded us that home building was about 17% of your shipments last year. What would you estimate it is at right now, can you maybe let us know what infrastructure and commercial look upon the source make up?

<A – Stephen Zelnak, Jr.>: We don't rack it up until the end of the year, obviously with the big decline its down sharply, it's going to be a lesser part of our mix but also remember when you take that out you are reducing the denominator as well as the numerator.

<Q>: Sure.

<A – Stephen Zelnak, Jr.>: So, it's going to a drop, the lowest percentage that I can recall in our public company yesterday it was 15%. It could go lower than that.

<Q>: Okay. Okay and just secondly on the Lake Belt you mentioned in your prepared remarks you know there could be an opportunity for you to take advantage, could you expand on that and are the – the projects that you are working on in South Carolina, in Georgia are they at all related to getting tonnage down into South Florida?

<A – Stephen Zelnak, Jr.>: With respect to the opportunity for us, first of all we have no downside. That's not the case for some others. To the extent that people are put in a position where they need material, we have a distribution system that we have set up over time that is very robust, is in a position where we bring both limestone particularly granite in the past but in a position to bring more limestone into Florida to meet those demands limestone by water, granite by water and by rail. Given that we don't know the outcomes it's hard to know where this goes but it's not just the Miami area that's impacted because Miami is a supply point for much of Florida. Material is railed out of Miami up the FEC railroad to Jacksonville, some points in between. Miami comes out or excuse me, material comes out of Miami, heads to Orlando, some material heads toward Tampa, so its just not Miami but further away it gets from Miami and it can't be shipped out of there because of supply issues, it creates more opportunity for us, because we can be much more cost competitive with our network. People on the consumer end have got to weigh out and let me tell you where this is right now, if the judge made his ruling, the producers group went to the Circuit Court of Appeals and they asked for stay of that ruling, i.e. to keep the shutdown from taking place or staying in place. That stay was denied but there is in the legal world an expedited hearing process which will begin in November. Some point in here you're going to begin to feel the real pinch, the producers down there had begun to build inventory, so they will live off of the process inventory and shot rock inventory for the time being. But sometime toward the end of the year you are going to begin to feel the bite and there's going to be a supply issue. The question for customers is to how they want hedge this legal fight. So, we provide an opportunity for some hedging and obviously there is a lot of conversation on the part of customers and potential customers with us right now. With respect to the core expansions in South Carolina and Georgia those are very much focused on the growth not just in Florida but throughout Southern Georgia, the coastal plain of South Carolina, those are huge retirement destinations and they are also very vibrant economic areas in their own right. We see nothing but continued high population growth for those areas. You will have areas of high demand, you will have areas where there are times of lower demand but the population continues to flow and ultimately population growth drives our business. So we've seen the need for increased capacity and we have the long-term reserves, we have great locations and very economic locations from a production and also transportation standpoint, and we have excellent distribution. We do have the best distribution network in the industry. So, that's what we are setting up to feed and we think that is our long-term future, a lot of it. Hope that answers it.

<Q>: No, thank you for the detailed answer; I appreciate it and a good quarter.

<A – Stephen Zelnak, Jr.>: Sure.

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

<Q – John Fox>: Hi, hello everyone and a couple of questions.

<A – Stephen Zelnak, Jr.>: Hi John.

<Q – John Fox>: Steve, you mentioned you know in the second half guidance you know is based on is good information that you have at this point, which I understand can you talk about the visibility on residential, I mean how much visibility do you have you know I know the home builders report there orders and they know the others in hand and cancellation rates pretty well, but you know how reliable is that and what is the visibility on residential shipments?

<A – Stephen Zelnak, Jr.>: We're obviously queuing off the commentary of the home builders plus a variety of economists that we think have some credibility, nothing more complicated than that and a lot of experience in trying to read these things. You know its an interesting cycle you are in the mist of a pretty good economy overall, but you had you know an absolute plummeting in selected home building markets and with the recent mortgage issues tightening of credit, you are seeing it ripple across the board.

<Q – John Fox>: Right, sure.

<A – Stephen Zelnak, Jr.>: You know right now, in the first quarter there were markets that we service in the Southeast where we actually were seeing some positives in home building, by the second quarter that was all gone. My expectation is in the third quarter we won't see much in the way, we won't see any positives I don't think in any of those markets and then statistically by the time you get to the fourth quarter you there's an opportunity for some better comparatives. Keep in mind for the southeast and the Southwest that the population just keeps coming in.

<Q – John Fox>: Okay.

<A – Stephen Zelnak, Jr.>: Because the overall economy in those areas continues to be pretty dog gone good. The biggest you know as I've talked to realtors and home builders there biggest problem right now in the southern tier states that we are in, it's not the flow of people into the markets, it's their ability to sell their homes in...

<Q – John Fox>: Right.

<A – Stephen Zelnak, Jr.>: New Jersey, Ohio, Pennsylvania that's what's causing the drag.

<Q – John Fox>: Okay.

<A – Stephen Zelnak, Jr.>: That's as good as I can tell you.

<Q – John Fox>: Okay, well that's fine thank you and then maybe for Anne; do you just have the diluted share count at the end of the quarter?

<A – Anne Lloyd>: Yes, that diluted share count average was 43,143,000 shares.

<Q – John Fox>: Yeah, that's average, do you have end of quarter?

<A – Anne Lloyd>: You mean in the quarter actual share count.

<Q – John Fox>: Yes.

<A – Anne Lloyd>: Yes, hold on. That's October, you don't want that of last year. 41,792,000 shares.

<Q – John Fox>: Okay, thank you.

Operator: Thank you and we'll go next to Mike Betts with JPMorgan.

<Q – Michael Betts>: Yes, good afternoon. I have a number of questions. I don't know if you got the 10-Q there in front of you Steve but on page 20 it has the volumes and prices by region and I really had two questions on that one was the point of clarification on the Southeast group it shows there minus 14.2%. When you were talking about the southeast you were talking about it being slightly up or down at least, I think you were, obviously we are talking about different regions but maybe if you can give me a bit more detail about in that Southeast group, which of the states that are particularly weak. And then the second question on this table is the price increase in the west is obviously lagging the other regions, maybe you can give us a bit more explanation about where the price increases are particularly low in that region?

<A – Stephen Zelnak, Jr.>: Sure. When you take a look at the southeast in the quarter you see some significant pull back in volume you know impacted throughout the area but particularly impacted, that group includes if you remember I talked about the south central region and the Mississippi River area that group encompasses that area. So, the majority up and actually I was – I probably confused you a little bit with my terminology because I used southeast in a different way when I was relating volumes to you on the call. The southeast that I was talking about on the call really was the area from Alabama, Georgia, Florida, South Carolina and that area when you look at it slightly up, slightly down inclusive of North Carolina too. When you look at the Southeast group and that is a structural entity for us. The way we are organized that includes the area over to the Mississippi River includes Louisiana up through all the river area and that's where the real decrement is, so I hope that explains that.

<Q – Michael Betts>: Okay.

<A – Stephen Zelnak, Jr.>: Pricing there, up strongly but that pricing reflects very much, the significant cost increases that we have born on transportation over the last couple of years, on materials that move down the river and materials that move with deepwater ships into the costal ports. And now we are catching up and the pricing reflects that. When you get to the west keep in mind that the west includes not only Texas, which has a pretty robust economy and actually one of the positives for us in the quarter was Arkansas and East Texas, which despite what went out in the rest of Texas, East Texas the weather was not nearly as bad and demand was quite good, Arkansas had a good quarter. But it also includes the farm belt, the mid-western area and that area is awfully slow, it much more resembles business demand in Indiana, that north central area.

<Q – Michael Betts>: Right.

<A – Stephen Zelnak, Jr.>: So, you're being dragged down by the low demand in the mid-western area and then you are also being hampered by the weather. So, that's what's reflected in those numbers. When you get to the pricing metric you are averaging in the pricing of the low demand areas

<Q – Michael Betts>: Right.

<A – Stephen Zelnak, Jr.>: And you've also got an impact there where normally we would be moving more material to the coast and that is material that would be sold through distribution yards because of the weather impact on both shipments and production volume, that's been significantly produced so you are not moving the higher priced material. So it is truly a combination of things Mike.

<Q – Michael Betts>: Okay, no, thank you for that detail. I then had two or three other questions, if I could. You've talked in great detail about the Lake Belts and what you might do. Are you in a position that you can increase those volumes significantly quickly or is there some ramping up required to do that from South Carolina or in Georgia?

<A – Stephen Zelnak, Jr.>: We are in a position, where we could do some positive things I will tell you that we are not going to fill the void down there. If that void continues it's going to have to be filled by multiple parties but the position that we are in is that we have we made a conscious decision coming into this year knowing that demand was going to be somewhat weaker, that we would build inventory at distribution yards and that we would also build inventory at those points that produce the material that go to the yards. So, we are in the best inventory position that we've ever been in from our standpoint of our distribution system. So, we can move some material quickly if we need to do that. Behind that if you know truly this stays in place for a sustained period we are in a position to extend hours, double shift, more operations, we can pump more material down there. How much is hard to know, we would be very dependent upon the railroads but given the circumstances and I would expect that the railroad would work as hard as they possibly could, the CSX would have the majority of the burden but Norfolk Southern would have some of it too. So, we are prepared to put significantly more material down there. We've been asked this question before if – we were asked in the context that if the Lake Belt were shut down what could you guys do in the near-term and my answer to that has been if we pursue the Marshall Plan of aggregates and just truly geared up you know 12 to 18 months out, we could probably pump another 10 to 12 million tons a year into that marketplace. In the short-term we probably can get half of that into that marketplace, maybe a little better.

<Q – Michael Betts>: Okay, thank you for that. Just one other quick or two other quick questions if I could, when you were talking about explaining why the mid year price increase was lower, you were talking about the weak demand situation which I understand. My question is does that also have implications of the price increase next January I mean obviously demand is still going to be pretty weak then. I mean is it realistic to think that the increases in January might be lower than they were this year?

<A – Stephen Zelnak, Jr.>: Certainly, I think that's realistic you know we are not going to be able to defy economic logic, coupled with that if in fact that's the economy and the nature of business, expect less cost pressure.

<Q – Michael Betts>: Right.

<A – Stephen Zelnak, Jr.>: So, the real question is what your margin improvement going to be and we said pretty emphatically that we have a target of 1000 basis points over five years, I'll reiterate it, we haven't backed up from it and see no reason to do so. So, we would you know I would say again I expect in '08 that the rate of price increase will be lower, you don't have the carry over of larger mid-year price increases. I would expect that the rate of price increase come January 1 and throughout '08 will be lesser and with that you are going to rack up a lower overall rate of price increase than we've seen in the last couple of years. We'll play that against managing our cost and the expectation is we are going to produce some good results.

<Q – Michael Betts>: Okay and then just finally, if I could a couple of financial questions that should be short, one did you buy any more stock in July and secondly again in the 10-Q it refers a number of times to some unrecognized tax benefits that you might be able to – maybe I misunderstood this, but it suggests maybe to me that you might be able to credit these to the account. Do you have any I mean is that a correct understanding on that latter point, and do you have any indications of the timing if it is?

<A – Anne Lloyd>: We will advise you of any stock repurchases Mike when we actually make them, we typically don't announce prior to making those, so I'm not going to answer your first question. From a tax perspective, we do expect in the third quarter assuming that the statute of limitations runs on taxes that our third quarter tax rate will be lower than the average that we have seen through the course of this year, I think we are running at 32.3 through the first six months and we expect a tax rate of around 31-31.5 for the year. So, we anticipate that our tax rate in the third quarter will be below 30 to bring that average down, the tax benefit language that you are looking at I think is our the new accounting pronouncement that requires us to let you know of tax benefits that we have that haven't been reserved and that's – we've got an Internal Revenue Service exam ongoing right now and that will resolve itself pending the resolution of that exam.

<A – Stephen Zelnak, Jr.>: What we have given you with respect to tax expectations is totally consistent with what we talked about for the year – from the beginning of the year. Again that's been our expectation and on share buyback, we are never going to tell you during the quarter what we are buying in the quarter, just not appropriate practice in our view. We will tell you at the end of the quarter.

<Q – Michael Betts>: No that's fair. Thank you very much.

<A – Anne Lloyd>: Sure, thank you.

Operator: [Operator Instructions]. And we'll go next to Clyde Lewis with Citi.

<Q – Clyde Lewis>: Good afternoon everybody.

<A – Stephen Zelnak, Jr.>: Hi Clyde.

<Q – Clyde Lewis>: I mean I've got, I think I've got three questions if I may Steve. Firstly on transportation you haven't said an awful lot in the sort of Q2 statement about any transportation issues, I mean maybe you could just sort of update us with you know whether you've had any issues in terms of sort of trucking costs or sort of barge issues at all that you've had in the last couple of quarters, that would be the first one.

<A – Stephen Zelnak, Jr.>: Okay, we didn't say anything because there really wasn't much to talk about, the pressure has eased off you know, if you keep up with railroads you know their volumes have pulled back. The railroads are running much more fluidly and in some cases they are running in terms of velocity as well as they've ever run, in some cases better than. They are setting velocity records – average velocity that's the way they measure that. I would give nod to the CSX. The CSX has worked mightily to improve performance. They had lot of volume coming at them. They have done a much improved job for us, quite a good job overall and in the second quarter we had very good CSX performance. With respect to barges likewise has loosened up and also we are at a point of beginning to take delivery of our new barges, our 50 barges we ordered. So, I think we're going to be in great shape with respect to the barge fleet and as that business picks up, which it will, I think we are going to be able to transport it very economically. So, if we don't talk about it – it's a good indication that there really wasn't anything there of note.

<Q – Clyde Lewis>: And in terms sort of the cost pressure, the inflation you are seeing on the transportation side, has that changed at all in the last 3 to 6 months?

<A – Stephen Zelnak, Jr.>: The transporters continue to get their pricing. You know they are in the same position that we are in. You have limited capacities; you have demand that over time is going to grow. They know that they can get improved pricing and that's what they are doing. So, you know we've said ...

<Q – Clyde Lewis>: So the decision we heard from South Carolina, a subject along with North Carolina has been one of the sort of weaker states over the last, I don't know 12 months I suppose in terms of sort of infrastructure activity, can you maybe just update us with what's been going on there the state side, whether you're a little bit more optimistic as you are on in North Carolina?

<A – Stephen Zelnak, Jr.>: Nothing notable that would be positive going on in South Carolina, issues there are still not resolved, South Carolina needs to address its funding issues and they have not yet done that. North Carolina actually made some positive steps, it's not all that we or many believe they need to do, but I will give our governor and legislature real credit for stepping forward with some much needed funding activity. The first thing that happened, the GARVEE bonds that have already been approved, they have publicly announced that they are going to issue $300 million worth of those bonds in September. We've been waiting for that really, since the beginning of this year. So, we are very pleased with that, that's the first step in what we think is the right direction. The second part of it a was a real battle in our legislature down here with respect to what is known as local option taxation and the issue was whether or not counties, municipalities have the opportunity to place, to put in place a local option sales tax, which is bounded, the state limits it, or a local option real estate transfer tax up to a certain boundary. There was a really a vicious public relations and legislative battle over that issue. The againers were the homebuilders and the realtors who are a massive lobby in this state and nationally. They spent probably $1 million or so on advertising and a chunk on lobbying. At the end of that battle the governor stepped forward and came out very pointedly and challenged the legislature to do what was right, give the localities an opportunity to put in place the funding that they need to meet the infrastructure demands. So, that was past. What it means is that each one of these – if you are in one of these local areas and you want to put in place one of these taxes, you've got to go to the populous, you've got to go to a vote, but the history of those votes has been very good because the other side of it is that you can either do it this way or your property taxes are going to increase, so we were extremely pleased with that because most of that money is going to go for infrastructure and it will just be funded at the local rather than the state or federal level.

<Q – Clyde Lewis>: Okay, the last question I had was on weather, just personally on July, we had pretty poor weather in the UK, I'm just wondering whether you can just sort of say a little bit about your weather experiences in July, I appreciate it's in Q3 but presumably you know sort of it's all known to those that side of the pond but it would be useful for us to get some sort of idea as to what it was like in July.

<A – Stephen Zelnak, Jr.>: You know, we'll let you look it up at the end of the day I'll just give you one comment and it just depends on where you want to go in our system, you can go to extreme drought to you know record rainfalls just depending on the area. It is very erratic and what the impact of that will be you know we tried to incorporate that into our thinking but obviously we are very early in the quarter.

<Q – Clyde Lewis>: Okay and then I'd link to that, I mean in terms of your volume guidance for the second half of the year, I mean last year the fourth quarter was very mild in terms of weather from memory. I appreciate the comments about the residential differences and obviously the lower comps but what have you assumed in terms of weather for Q4 in the volume guidance?

<A – Stephen Zelnak, Jr.>: Well, we are just assuming a normal fourth quarter. The reality last fourth quarter is we did have milder weather, but we also had an economy that was headed down very quickly and if I recall I think our volume was negative 6% in fourth quarter last year. Even against the back drop of that milder weather.

<Q – Clyde Lewis>: Okay, thank you very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll take our next question from Thomas Russo with Gardner Russo & Gardner.

<Q – Thomas Russo>: Hi Steve. Anne a question for you, the first question is could you just walk us through the inventory revaluation and what was your thoughts behind that and what was the impact, it sounded to me like it led to a higher operating profit, I wasn't sure from Steve's comment or was it that I misread it?

<A – Anne Lloyd>: No, you didn't misread it, there was a $9 million affect in the quarter. However, that's appropriately staked and fairly presents the cost structure of the business for the quarter.

<A – Stephen Zelnak, Jr.>: But you need to look at it – I'll tell you how we looked at it. The only reason that we put in their to flag it for you is one, we're straight forward but secondly it represents a change in practice for us most in the industry actually revalues inventories on an ongoing basis, we typically ,our practice has been that we do it at the end of the year.

<Q – Thomas Russo>: Yeah.

<A – Stephen Zelnak, Jr.>: So, there's not going to be any impact on the year. We – as the cost begin to escalate last year particularly in the back-half of the year. We began to look at this as something that might create an issue in terms of materiality and perhaps Anne and I may be the only once on the call that this morning signed our certification of our financial statements that go with our 10-Q and if you look at the first element of that, it says that you are certifying that there is no material misstatement of fact or there's no omission of material fact and when you look at financials, if it's a couple of million dollars, I will tell you that its not anything in the size of the mix that would cause you to worry about materiality and you just stick with your practice.

<Q – Thomas Russo>: Yeah.

<A – Stephen Zelnak, Jr.>: But when it gets to $9 million, what you are doing is grossly misstating your cost and you're only halfway through the year. So as you pro rata this and go forward to the end of the year, you could potentially be looking at a fourth quarter where you've got a huge restatement, a huge adjustment which in fact could cause a restatement of all your quarters and the fact the years dead on.

<Q – Thomas Russo>: Yeah.

<A – Stephen Zelnak, Jr.>: So, if we are going to attest to it then we are not going to make a material misstatement and that's really all we did. We gave you a true and accurate representation of cost, it's that simple.

<Q – Thomas Russo>: What would have been for instance the year-end adjustment last year as you cycled through some of the same pressures but maybe less dramatically than the first half, how sizable was the catch up?

<A – Anne Lloyd>: The Q4 adjustment last year for the whole year was around $13 million and that was increased significantly. Before that they had around about 3 to $5 million and relatively inconsequential. But as we have had particularly run up in the transport cost and that side of the business that risk of potential restatement Steve referred to really was too high for the company to I think take.

<Q – Thomas Russo>: I see.

<A – Stephen Zelnak, Jr.>: Plus you are going to you know plus you are not going to get a good view of what we are doing on the cost side, if we are not representing it to you appropriately so.

<Q – Thomas Russo>: Yeah that feedback raises the second point, which is your march towards the 1,000 basis points improvement over five years. How far – how many of those improved points have you captured so far and off what base is that 1,000 calculated?

<A – Stephen Zelnak, Jr.>: Well, we were plus 200 last year and we're running plus 200 this year, so we're ahead.

<A – Anne Lloyd>: We are on our way.

<Q – Thomas Russo>: Thank you.

<A – Stephen Zelnak, Jr.>: And you know we are sitting here in a down time so through that period the if you look at last year and year-to-date that's 5 down quarters out of the 6 in that period and I've already told you higher likelihood of down than up on volume in Q3.

<Q – Thomas Russo>: Okay.

<A – Stephen Zelnak, Jr.>: I would expect we're going to have 6 down quarters in a row and then we'll see what happens in Q4.

<Q – Thomas Russo>: Okay and Steve the Florida the shortfall that might ensue if the judge doesn't lift that ruling or doesn't get lifted over his opinion. How much of that could be serviced out of water borne from Nova Scotia or are the depot structures just not adequate, does it have to come from the lower 48.

<A – Stephen Zelnak, Jr.>: In the short term Nova Scotia would not have the ability to service a great deal of that. We've got a pretty good business going on up there already. The demand in Florida really would be more oriented towards the inland rail quarries and more oriented towards the Bahamas limestone, both of which we would be in a position with inventory and production rates to do some good things in terms of meeting shortfalls in the market.

<Q – Thomas Russo>: And longer term...?

<A – Stephen Zelnak, Jr.>: You know we're not going to fill the void. The void is too big as it stands.

<Q – Thomas Russo>: And then where you sight weather as being part of the – at play maybe in the Mississippi Delta area as your shortfall in volumes. To what extent are we looking at delays versus lost production and if it's just delays, where do you see it coming back?

<A – Stephen Zelnak>: The Mississippi Delta really wasn't weather driven. That was economy driven and the timing of money flows, a relatively weak economy, commercial economy where people pull back plus things not moving as fast in the New Orleans area as they were moving or we had expected to this point. Baton Rouge continues to go very well but other than Baton Rouge that whole area along the Mississippi River has really softened up considerably. The weather impact was in Texas, Southern Oklahoma and Kansas.

<Q – Thomas Russo>: I see.

<A – Stephen Zelnak, Jr.>: And probably the hardest hit were San Antonio and Dallas.

<Q – Thomas Russo>: Does that business come back in later quarters or is it lost?

<A – Stephen Zelnak, Jr.>: No I don't think it's lost because the economy in those areas is pretty dog gone good. Dallas and San Antonio are two of the strongest areas we're in economically, lot of road work in Dallas, tremendous population flow into both areas.

<Q – Thomas Russo>: Great.

<A – Stephen Zelnak, Jr.>: We are optimistic.

<Q – Thomas Russo>: Okay then lastly Steve when you described to the earlier question how the Southeast is really a split region for you though its one segment and you said that so many of the states were plus or minus slightly, those states by laws would seem to be great volume states for you and if that bulk was plus or minus just a little bit, what does it say about those areas in the Southeast group that weren't – were they down you know 25% plus?

<A – Stephen Zelnak, Jr.>: We indicated that the river part of the businesses which is included in that was down 30%.

<Q – Thomas Russo>: Okay.

<A – Stephen Zelnak, Jr.>: It was the weakest area that we had next to Ohio or it actually more than Ohio. The next weakest area was Ohio, Southern Ohio was down 24. It definitely was our weakest area.

<Q – Thomas Russo>: Okay thanks a lot.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: Thank you. Next we'll go next to Andy Schaffer with Farley Capital.

<Q>: Hi, everyone. Steve could you talk about any productivity gains either you know in the last quarter or year-to-date or in terms of per unit labor costs like the benefit or improvement?

<A – Stephen Zelnak, Jr.>: I think the way I would give it you right now is that with reduced production rates we're doing an awfully good job of keeping the tons per man hour up which is very tough to do in our business – in the type of business that we're in. So we are pretty pleased with where we are. We continue to watch the head count carefully and in fact we continue to push head count out. I would also tell you that we have some initiatives to do some things that will we think will improve our structure and improve processes which we think is going to lead to further productivity improvement, so its the way we put it to our folks is that you just have to be relentless about this. I think we've been relentless in what was the very best of times. We certainly are no more relentless in tougher times. We like to make sure that we pay our people well, we treat our people well but at the some time we want to make sure that we are getting the utmost in productivity. We get to the end of the year we'll go through to the exercise and rack things up for you the way we have in the past and I would expect that you will be pleased with what you see.

<Q>: Okay so you don't have a count like right now in terms of employees or laborers from...?

<A – Stephen Zelnak, Jr.>: Oh I've got it I'm just not going to give it to you publicly.

<Q>: Okay.

<A – Stephen Zelnak, Jr.>: It's kind of information that we typically don't give out along the way...

<Q>: Okay.

<A – Stephen Zelnak, Jr.>: Because the reason for that is because it's volatile month-by-month. It is part of our reporting database and as you know we've got exceptionally good information systems. I don't think you are going to ask a question like that where we don't have a metric at our fingertips.

<Q>: Okay all right well thanks.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: Thank you. At this time it appears we have no further questions. I'd like to turn the program back over to Mr. Zelnak for any additional or closing comments.

Stephen P. Zelnak, Jr., Chief Executive Officer

Well again thanks for joining us. Challenging times but we are doing what it is we've told you we're going to do. I think we are being very consistent. Long term plan hasn't changed, the short-term focus on operating our business very cost effectively has not changed. We will look forward to coming back to you in the next quarter and laying out for you what develops in Q3. Thanks a lot.

Operator: That does conclude today's conference. You may disconnect your lines at any time.