MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone and welcome to this Martin Marietta Materials Incorporated Fourth Quarter 2008 Full Year Financial Results Conference Call. Today's call is being recorded. At this time for opening remarks and introductions, I'd like to turn the call over to the Chairman and Chief Executive Officer, Mr. Stephen Zelnak. Please go ahead, sir.

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

Thanks for joining us on a beautiful sunny day in Raleigh, North Carolina. I have with me Ward Nye, our President and Chief Operating Officer and Anne Lloyd, our Chief Financial Officer.

The fourth quarter was extremely challenging as we coped with a 21% volume reduction in our aggregates business, along with a sharp contraction in lime demand for the steel industry and our Specialty Products business. The volume downturn in aggregates was partially mitigated by 9% pricing improvement along with about $8 million in reduced diesel fuel expenditures as energy prices trended down.

We also experienced down aggregates volume in all areas except Northwest Louisiana and Arkansas, which were driven primarily by energy related projects. Granite shipments into Florida also increased as contractors prepared for the beginning of a $1.4 billion highway work from the accelerated Florida initiative. Shipment volumes were particularly weak in North Carolina and South Carolina, which were down over 30% and Atlanta, which saw volume drop close to 50%.

During the quarter we continued to manage our costs effectively which produced earnings per diluted share of $0.80 prior to $0.20 in non-recurring charges. Severance charges accounted for $0.08 as we reduced our workforce consistent with the decline in business. Remaining non-recurring charges were for resolution of a royalty dispute, property losses and a write-down related to structural composites products.

SG&A expenses declined $2 million or 6% during the quarter. For the year SG&A expense was down $3.8 million and was 8.1% of net sales versus 7.9% in 2007, with sales decreasing 5%. For the year, earnings per diluted share of $4.20 included the $0.20 in non-recurring charges, as well as a gain of $0.24 per diluted share on the sale of quarries in our transaction with Vulcan Materials. Aggregates volume was down 13%, while pricing improved 7%.

Specialty Products results were reduced $3.3 million for the structural composites write down, as well as by the sharp fourth quarter decline in lime shipments. Although energy cost was positive in the fourth quarter, our results were reduced by $0.43 a share for the high energy prices that prevailed most of the year. Even though it was a difficult year, we continued to generate excellent cash flow, as net cash provided from operating activities was $342 million, in spite of a net income drop of $87 million for the year. Control of working capital, coupled with lower cash taxes and the benefits from bonus depreciation deductions were beneficial to cash flow.

With respect to liquidity, in December 2008 we refinanced our expiring $200 million of 5.875% notes through our revolving credit facility, effectively converting the fixed rate notes to a floating rate, which is currently LIBOR plus 225 basis points. We expect this to reduce interest expense in 2009 by about $3 million. We expect to take some further actions that will improve our liquidity to ensure that we are fully funded for upcoming debt obligations, along with being prepared to take advantage of some possible acquisition opportunities.

As we look at 2009, our current view is a weak first half with some growth opportunity in the second half, fueled primarily by passage of an economic stimulus package. The current spending numbers appear to be in the 30 billion range for highways, plus 15 billion to 18 billion for transit and airports.

We firmly believe that states are ready to move quickly on this level of work, with notable impact on our business in the second half of 2009 and into 2010. We're also encouraged that attention is being given to significantly more funding for transportation in the follow-on Transportation Act, which will replace the current program that expires in September 2009.

For 2009, we expect volumes will be down nine to 12%, excluding the impact of the stimulus package. Rate of price increase for the aggregates product line is expected to be 4% to 6%, which reflects increased competition based on lower capacity utilization. We expect our Specialty Products segment to contribute a record 32 to $35 million in pre-tax earnings. We also anticipate 35 million to $50 million in energy cost reductions. Given these assumptions, we currently expect net earnings per diluted share to be $3.70 to $4.30, excluding the stimulus package. If the stimulus package is passed, with approximately 30 billion in highway expenditures in the program, that could add $0.50 to $0.75 per diluted share.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] And we'll take our first question today from Arnie Ursaner with CJS Securities.

<Q – Arnie Ursaner>: Hi, Steve. How are you?

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

<Q – Arnie Ursaner>: Hi, and good afternoon to you, Anne, as well.

<A – Anne Lloyd>: Good morning.

<Q – Arnie Ursaner>: My question is, can you give us a little bit of feel for the shape of the volume decline you saw in Q4? Meaning, several of your quarries, I'm assuming, shut down fairly early in the quarter. Where I'm going with that is can you also perhaps comment on how that might translate to when we would see some pickup in activity in Q1? I know you've generally spoken broadly about Q1, in your view, being essentially nonexistent. So can you kind of walk us through maybe the monthly pattern of the trends you're seeing?

<A – Stephen Zelnak, Jr.>: Well, the trends obviously were sharply down in the quarter with a 21% volume decline. What we chose to do was make sure that we did not build inventory. We actually produced in line with our sales. So, we cut back very sharply on production. With that, it said to us that we needed to shut plants down early and based on the outlook in the first half of 2009 that we're going to need to keep those plants down much longer than normal. And in some cases we may have some plants that don't come up all year, where we will serve that business out of existing stockpiles, as well as supplemented from other nearby locations. So, we're very focused on the balance between sales and production.

If you look at our year, we actually brought down inventory by about 3.7 million tons. The inventory valuation went up because of the increased cost, but we scaled the volume back, which is pretty substantial volume decline.

So we won't be producing at very high rates, certainly not in Q1 and if you think back to prior Q1 certainly going back to 2006 and '07 which were incredibly good years. We were producing at very high rates because of demand. So we'll have very low production to amortize cost against and I'll reiterate the comment, the first quarter is going to be pretty non-existent. The weather has been tough and on top of that there is just very limited demand out there, there is no reason for a contractor to go work early.

<Q – Arnie Ursaner>: My second question...

<A – Stephen Zelnak, Jr.>: I believe that helps?

<Q – Arnie Ursaner>: That's very helpful. My second question relates a little more generally, you have one very highly visible public competitor, where your views are quite different in terms of quantification and outlook for 2009. Perhaps you could comment a little bit on your view of where you think you may differ from your leading competitor in aggregates in terms of the outlook for '09?

<A – Stephen Zelnak, Jr.>: Well, obviously we're looking at what other people put out and always read it with interest. There is a disparity in views with respect to volume. If I recall, you're referring to Vulcan and I think their volume outlook was five to 10%, we're nine to 12. So, we expect a further volume decline. We operate in a lot of the same areas but not in all the same areas. So, the big difference would be the presence in California that they have, which we do not and a much larger presence in Florida that they have. We have a small presence focusing on the granite market. So, I

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would assume that they have a positive outlook for California and a positive outlook for Florida to get to that forecast, but I am just speculating. With respect to pricing; their forecast for pricing is higher than ours, again it may relate to those markets. I would think in the markets we're both in the same places, its going to be pretty similar.

<Q – Arnie Ursaner>: In the Southeast -- ?

<A – Stephen Zelnak, Jr.>: That's probably the best I can do on that.

<Q – Arnie Ursaner>: In Q4, the Southeast had 16% pricing improvement versus high single digit for the year, I am assuming that was just mix?

<A – Stephen Zelnak, Jr.>: It was very much mix. It relates to the decline in volume in the Carolinas -- or in Georgia and Atlanta in particular. And the decline in volume of truck business relative to what was pretty good business with long-haul transportation. So, you're trading-off tons on long-haul, you got tons that are selling for, say $20 a ton. in the truck market, half that. So, it is a mix issue. By no stretch of the imagination do we increases prices by double-digits in the Southeast.

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

Operator: Thank you sir. We'll take our next question from Jack Kasprzak of BB&T Capital Markets.

<Q – Jack Kasprzak>: Thanks, good afternoon everyone.

<A – Stephen Zelnak, Jr.>: Hey Jack.

<Q – Jack Kasprzak>: Hi. I was wondering if you guys could give us an estimate for the tax rate for '09 and interest expense?

<A – Anne Lloyd>: Jack, this is Anne. We expect the tax rate for '09 to be at 30%. And right now, assuming current interest rates and our current mix of fixed to floating, we would say that interest expense will come in around $70 million next year. (Editor's Note: Management clarified this response after the call: Interest expense will be around $80 million in 2009.)

<Q – Jack Kasprzak>: And with regard to SG&A, which Steve you mentioned in your prepared comments, was down in absolute dollars for the full year, do you think it can be down again in absolute dollars in '09?

<A – Stephen Zelnak Jr.>: Yes. That certainly is the expectation.

<Q – Jack Kasprzak>: And you mentioned the potential impact from the stimulus package, eight to 10 million tons for you guys, which seems consistent with a forecast that has been on your website for a while, but the stimulus package as it appears today is about 30 billion for highways, unless I'm mistaken, the initial estimate was maybe that it might be 50 to 70 billion for highways. Am I not squaring the two estimates correctly?

<A – Stephen Zelnak, Jr.>: What we've done is go back – gone back and done a little revision, Jack. The numbers that correlated with the 50, we had a much lower market share than the actual numbers. I think we use a 6% number, the number is closer to 7.5.

<Q – Jack Kasprzak>: Okay.

<A>: And we've used the figure of 10,000 tons per $1 million, I think that number is going to be higher. So expectation is that the eight to 10 million tons looks to us to be a pretty good number and that essentially divides the tonnage up into, one-third of it coming in the latter half of '09 and the rest of it coming in 2010.

<Q – Jack Kasprzak>: And Steve, you mentioned also in your comments that you thought there was more attention being given to the – to higher transportation funding in the next highway bill. Were you referring to anything in particular that's occurred recently or just a general feeling that a Democratic regime is more friendly to highway spending?

<A – Stephen Zelnak, Jr.>: No. There is some proposals floating around, probably the baseline proposal is to look at increasing the gas tax on an inflation basis, running it forward from the last increase at the federal level in 1993 to 2009 or 2010, whenever they actually get this done. That could be pretty significant numbers, you may be looking at roughly $0.15 a gallon and it's about, a penny equals about $2 billion. So, we think there is an opportunity. We think there is some real appetite.

And I'll tell you what gets my attention. This administration is clearly focused on job creation. This Congress, it has to be focused on it if they want to be reelected in 2010. You've got the infrastructure program, it's going to be put out there, certainly appears it will very shortly. If you do not have a follow on that maintains a similar level, those jobs are going away. So, I think there is going to be a tremendous amount of pressure on the Congress to have a follow on that perpetuates the jobs. And then with that they would be hoping to see economic recovery, which will take it forward even more. So that's what gives me some optimism. I am actually, actually like the structure of what has been put out there as opposed to some very large overwhelming number that removes the problem for a while, I think this just refocuses people on what has to be done with the renewal.

<Q – Jack Kasprzak>: Great. Thanks for that. That's it for me.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: Thank you. And we'll take our next question from Gareth [inaudible] with Longbow Research.

<Q>: Hi, good afternoon.

<A – Stephen Zelnak, Jr.>: Hi.

<Q>: Hi. Just my first question is on your pricing guidance. How much of that is dependent on opportunities that you might see in the middle of the year, once you get a little bit more visibility I guess on the stimulus package?

<A – Stephen Zelnak, Jr.>: Essentially none, we have a couple of places where we think we may have modest mid-year opportunities, but we do not believe that given the economic environment and given the cost environment that there will be much of an opportunity to look at mid-year prices increases. So the pricing we have put into affect reflects prices that are either already in effect, as of January 1, will be by April 1, some of the markets are different in terms of timings, just when we put them. And it reflects a little carryover from mid-year price increases that were put into effect in 2008.

<Q>: Okay, thanks. And on commercial construction, do you have a forecast on what you are using as far as demand for this year?

<A – Stephen Zelnak, Jr.>: Yes, we think it's going to be an ugly non-residential market in 2009, which we've -- recently re-looked at, as we tried to formulate our volume forecast for the year. Expectation is that we are going to see volume declines there overall that, probably in the 12 to 15% range. It will be very severe with respect to office and retail, I would expect those numbers are going to be 30ish and then when you get to capacity driven projects, then I think the decline there would be very modest.

<Q>: Okay, thanks for that. And just lastly, I think at the end of the last quarter you talked about the North Carolina tollway initiative that were set to get underway at the end of '08 or early '09, can you just provide an update on those, are you still seeing those on schedule or have those been pushed out?

<A – Stephen Zelnak, Jr.>: Pushed out a little bit based on the ability to place the bonds. The first project has already been let. The timing on letting the other projects, I haven't seen any slippage in, which would be two projects in '09 another project in 2010. What the North Carolina Turnpike Authority is trying to figure out the timing on is the placement of those bonds. They have indicated publicly that they hope to place those bonds in the first quarter. And frankly, in terms of work actually getting done, there wasn't anything that was going to be done anyway over the winter to any great degree, so hopefully they'll get those placed in the first quarter and that project will get underway in Q2.

<Q>: Great, thanks.

<A – Stephen Zelnak, Jr.>: That's a project in Raleigh, by the way.

<A>: Right, right. Okay, thanks for the update.

Operator: And we'll take our next question from Chris Manuel with KeyBanc Capital Markets.

<Q – Chris Manuel>: Good afternoon.

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

<Q – Chris Manuel>: Couple questions for you. First, could you just maybe run us through, at the year end just – and if you'd update us on the percent of your business coming from the different markets, how it ended the year, residential, public works, private, non-res, et cetera. Can you give us a little bit of an update on where you thought 2009 would be for the private non-res side? Could you give us, fill in the pieces for the remainder as well?

<A – Stephen Zelnak, Jr.>: I'll take a crack at some of it. We're not ready to give you the end use markets yet. We're still working our way through that. We do that compilation once a year and we will provide that a little bit later. As we look at 2009, and I've already talked about non-res, which we think is pretty ugly. Expectation that the infrastructure market is going to be down probably mid-single digit. I'm a little more optimistic, perhaps a lot more optimistic about housing than most people. The qualifier on that was that I was bearish while other people were still bullish. So I may be right, may not, but I've got a somewhat different view.

My expectation would be that we will see a bottoming of housing probably third quarter. And that we'll begin to see a little bit of activity. Our understanding is that the, in the stimulus bill as it is being put together, that the $15,000 tax credit has been stripped out, but that the 7,500, and we'll have to see if this is the actual language, becomes a credit or some type of recovery as opposed to a loan. And I want to see what that really is. So anything there, I think, is going to be helpful.

Most of the houses that need to move are houses that are priced at less than $500,000, you can get conforming loans on those houses. The interest rates are pretty attractive and as you know

home prices have come down sharply, they're still coming down. My expectation is by the middle of the year you're going to have pricing in the home market that's pretty attractive for those people who are qualified buyers.

On top of that, if the homebuilders are going to stay in business, even at the modest levels out there, they're going to have to start to develop some more subdivision properties. And I don't expect that to just break loose, but I do expect to see some activity for the first time in well over two years. So I'm a bit more positive about that.

I would expect housing demand for us to be down this year, but probably modestly based on that subdivision component, if I'm correct there. And then one differentiator between us and other companies is the other category of business. About 10% of our aggregates business falls outside of building construction and we think that 10%, which is railroad ballast, flue gas desulfurization stone and agricultural lime is going to be flattish, plus or minus a little bit. So that would be our view of the world as we look at '09 and that's how we come to the nine to 12, and that big number is really driven heavily by non-res.

<Q – Chris Manuel>: Okay, and then that infrastructure piece, you talked about it down mid-single digits, that's not taking into account stimulus?

<A – Stephen Zelnak, Jr.>: That's correct.

<Q – Chris Manuel>: Okay, one of the challenges that I wrestle with is thinking about – as we look at all the state budgets and local municipality budgets and public-private partnerships, et cetera that are all seemingly under so much pressure and hearing of projects being delayed, put on hold, waiting for the stimulus piece to be -- to pass. It's trying to figure out what is incremental when we look at that 30ish billion in the proposed stimulus piece of incremental for infrastructure. And then another 90, I think, in total, for all of these different projects. How could you help us maybe think about that as to what is incremental, what is effectively going to be left pocket federal government replacing right pocket local state sort of funding?

<A – Stephen Zelnak, Jr.>: Well, I would say to you that I don't think it really makes a difference, because what we're trying to give you is a forecast that is based on the condition the states were in, as they stand today without stimulus. So whether it turns out to be replacement or some other projects, really doesn't make a difference. We're trying to baseline you. So whatever comes out of the stimulus program is incremental to that volume that we would expect to do. Doesn't make any difference which project it goes on, it's going to be incremental tonnage running through our plant versus what we expect to have come without it. And we've been pretty explicit in terms of laying out those expectations, the eight to 10 million tons in 2009, that's not been done without a lot of thought.

<Q – Chris Manuel>: Sure.

<A – Stephen Zelnak, Jr.>: And we've laid out a margin expectation too, and I'll tell you how we did that, because we've had some questions on it. Pretty straight forward, we're running at very low levels of capacity, roughly 65% of capacity utilization. Incremental tons coming through our plants right now are going to be, at a minimum, 50% incremental margin, at a minimum. So, if you take a $10 aggregate price, which is actually understated for us, you put a 50% margin with that which I think is low end expectation and then put that with eight million tons and 10 million tons, you're going to get an EPS that pops out the back end an incremental number of 67 to $0.82. So we framed it as 50 to 75. So, that's the math that -- assumptions that goes with that for us.

<Q – Chris Manuel>: Okay, thank you. And then just one last housekeeping question, couple of housekeeping questions for Anne. In the press release you talked about pension expense being up

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in '09, can you tell us what the assumption is for both on the expense, the differential year-over-year, and also the cash funding?

<A – Anne Lloyd>: Yeah, the cash funding needs will range from 7.5 million to 36 million with the best estimate today of around 20. And the incremental cost, that number is going up about -- it's doubling, I have it going up to $36 million.

<Q – Chris Manuel>: That's helpful. And what is your free cash estimate for the year, if you -- corresponds to your EPS guidance?

<A – Anne Lloyd>: Corresponding to our EPS guidance, assuming the 185 million in CapEx, we'd be looking at free cash flow of around 150 to $175 million, excluding the stimulus.

<Q – Chris Manuel>: Okay. Thank you very much.

Operator: And we'll take our next question from Trey Grooms with Stephens Inc.

<Q – Will Green>: Good afternoon. This is Will Green on the line for Trey.

<A – Stephen Zelnak, Jr.>: Okay.

<Q – Will Green>: I kind of wanted to expand on cost reduction, if I could. What kind of cost reduction do you expect from the workforce that you reduced in Q4 and how much of that is going to be in SG&A versus COGS?

<A – Stephen Zelnak, Jr.>: The SG&A component of it and it's not just people, it's a lot of services too that we've scrubbed pretty hard. Could range up on the order of eight to $10 million is what we're looking at there. On the hourly side of the equation, based on demand out there, we've got more that we're looking at there to match up with demand. Lot of it's not necessarily people reduction, it's that we will add a lot of people who will be working light hours to the year, because they're simply not going to be called back to work. So, it's hard for me to give you a number there, we've got a bottoms-up forecast plant-by-plant that we've built and that's rolled up into a cost of goods sold, but I wouldn't try to give you a number per se on hourly workers coming out.

<Q – Will Green>: Okay. And then on the margin compression, it looks like that if you exclude the one-times it was mostly a volume issue. Can you remind us what the cost structure looks like right now for fixed versus variable, if main fixed costs being DD&A and labor?

<A – Anne Lloyd>: Your fixed costs are in that, about a third of totals cost, Will.

<Q – Will Green>: Okay.

<A – Anne Lloyd>: So that really hasn't changed a lot, but you are talking about DD&A and some other tax --property tax costs, insurance costs et cetera

<Q – Will Green>: Okay. All right I appreciate, that's all I had.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And we take our next question from Todd Vencil with Davenport.

<Q – Todd Vencil>: Thanks guys. Good afternoon.

<A – Stephen Zelnak, Jr.>: Hi Todd.

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<Q – Todd Vencil>: Couple of things, just to clarify something on that last bit. Is that greater pension expense issue running through SG&A?

<A – Anne Lloyd>: It will match the employee, it will go through either COGS or SG&A, depending on the where the employee is, so it's going to be pretty well split between the two.

<Q – Todd Vencil>: Okay got it. Steve, with regard to pricing; is there any market right now where you are seeing prices start to fall off?

<A – Stephen Zelnak, Jr.>: There are markets where we've got, certainly have more pressure than others. I indicated that Atlanta is a market where the volume was off about 50% in the fourth quarter. Atlanta is a market that has a lot of price pressure. Our expectation is that we are going to see a very modest improvement in pricing, but it's split between sizes of material. If you were in the market for base material in Atlanta, based on that soft granite there, there is an abundance of base material and you may well buy that at a lesser price than you paid in '08, but you're going to pay more for clean stone, would be the expectation.

So, I would cite Atlanta as being a highly competitive market right now, if you get up into the North Central area, the automotive belt, also highly competitive. Those are two most competitive markets that I could think of at this point.

<Q – Todd Vencil>: Okay, but still in Atlanta, for instance, you think you feel like the average is going to remain rising?

<A – Stephen Zelnak, Jr.>: Yeah, I think we're going to be up a little bit and in fact every one of our markets is budgeted up.

<Q – Todd Vencil>: Okay.

<A – Stephen Zelnak, Jr.>: Anywhere from modestly to, in some cases, higher single-digits. We certainly have no double-digit increases in our plan anywhere.

<Q – Todd Vencil>: Got it. And then Anne, on the debt, can you just remind us what maturities you guys -- you spoke a little a bit about it in the prepared remarks, but just out -- looking out maybe at to the end of 2010, what are you looking out for maturities and what are your covenants?

<A – Anne Lloyd>: The only covenant we have is 3.25 times debt to EBITDA with the exception of 3.5 times for 180 days post an acquisition. And the maturity schedule, we have 250 million due in April of 2010 and another – excuse me 225 in April 2010 and 250 in April of 2011.

<Q – Todd Vencil>: Got it, thanks for that. And then with the comment there on covenant, you sort of segued me in. Steve, as I recall, back in the third quarter you guys spent a fair amount of money on professional fees, looking at what may or not had been a deal that obviously didn't come off. Is there any chance that that thing resurrects itself or otherwise are you seeing anything interesting in the market that's available now that hasn't been in the past?

<A – Stephen Zelnak, Jr.>: We think it's a very interesting time. And as I am sure you know, we haven't been active in the acquisition market to any great degree since 2002, after an eight run where we did 62 of them. We weren't enamored of the pricing. You're at a point now where there may be some reasonably motivated sellers, you're clearly not going to be buying off of peak earnings and I don't think you're going to paying double-digit EBITDAs. So that gets a lot more interesting and we happen to be in a position where we could take advantage of that and we are looking.

There are a number of things out there that are for sale. We are an active looker, we will likely be an active proposer or bidder on a few things, and we may land something that's interesting, but I've kind of defined what the metrics won't be on it. So I think if in fact we do something, it will be very interesting for our shareholders. Limited competition out there right now because of the very bloody balance sheets on the part of most players. It's tough to get out from under those 10 to 12 time EBITDAs off of peak earnings. That's all the gas paid.

<Q – Todd Vencil>: Fair enough, all right. Thanks guys.

Operator: And we'll take our next question from Kathryn Thompson with Avondale.

<Q – Kathryn Thompson>: Thank you very much. What are your debt and free cash flow targets for fiscal '09?

<A – Anne Lloyd>: Kathryn, I mean, obviously, we talked about free cash flow earlier, that 150 to $175 million of free cash flow after about 185 million in CapEx. We'll see what incrementally gets added if we are fortunate at the 50 to $0.75 from the stimulus, that would contribute another 20 to $30 million of free cash flow. You are wanting to keep your debt to EBITDA target within the covenant and we would anticipate by the end of the year, assuming these projections hold true, that we would be substantially below the three times level.

<Q – Kathryn Thompson>: And tagging along with the acquisition question, how -- what is your thought process for how you would fund an acquisition yet still keep a fairly clean balance sheet? In other words, how willing would you be to do, to fund the acquisition with equity?

<A – Stephen Zelnak, Jr.>: It comes down to the deal and the reality is that if you are going to do something now of any size, you are going to have to do it with equity, certainly a significant majority equity. We've had a lot of expressed support from some of our major shareholders with respect to the possibility of wanting to fund something like that. There seems to be interest, I think there is, certainly is a sense that there might be some good opportunities. If we see it and obviously we are going to calculate it based on the amount of equity that we would have to put out there to do it as we look at the deal, if it looks attractive then we're not going to be reluctant to step forward if we think it's something that works both short-term and long-term. So I won't do one of these deals where it works three or four year out, it's going to have to work in the short-term too.

<Q – Kathryn Thompson>: Okay, perfect. And as far as pricing, did the pricing at the end of the quarter vary at all from your average pricing throughout the quarter? And if you could talk about any type of pricing trends that have changed since the quarter end?

<A – Stephen Zelnak, Jr.>: No significant variation in the quarter relative to normal quarterly trends. So there was nothing there. And as we come into 2009, we've articulated what we expect and we really haven't seen anything that changes our views there. As we indicated earlier, we put our price increases into effect for most of what we're going to do January 1, we've got some places where it may stretch out as far as April 1, based on the individual market. But the customers know what those are; we have reached agreement. I don't expect any surprises there.

<Q – Kathryn Thompson>: One additional question I forgot to ask on the acquisition side, who is your competition for acquisitions? Is it mainly private players or is it also publics? If you can give some sense on the type of people that are competing for these properties that are up for sale?

<A – Stephen Zelnak, Jr.>: Well, certainly private equity folks are back looking; different sizes of firms that have an interest in our kind of business. You have a few public firms that potentially could get into the mix. It will be a question as to whether or not they have the will and whether or not they have the ability to get synergies, I think. One of the advantages that we have is that when we look at something, we're typically able to get better synergies than other people. I can say that with

reasonable conviction having gone through a lot of these exercises, in some cases with other players where we may have been jointly looking at the possibility of buying something together, splitting it up or JV or whatever. Our synergy numbers and synergy capabilities seem to be far in excess of anybody that we've seen out there, comes back to our systems, comes back to the management approach. So you can look at the balance sheets of public players and you know very quickly which ones could play and which one can't, it's a very limited number. And frankly when we started – Pardon?

<Q – Kathryn Thompson>: No, go ahead.

<A – Stephen Zelnak, Jr.>: Yeah, when we – if you go back in our history, when we started acquiring heavily, going back to 1994 when we came out public, it was a similar situation where there were only a couple of people out there who were in a position to bid because the balance sheets were bloodied, coming off the late '80s and early '90s. So we actually like the environment.

<Q – Kathryn Thompson>: Okay, and just to reconfirm, so that would imply that some larger private players wouldn't have as much dry powder as you for making a meaningful acquisition?

<A – Stephen Zelnak, Jr.>: I think we can be competitive with the large private players, put it that way. In terms of the size of the deals that are likely to be out there, and particularly in terms of ability to manage them and generate a return.

<Q – Kathryn Thompson>: Okay. And just touching on a topic you talked about earlier, just to re-clarify. So, for your stimulus calculations, you're using an incremental and not a normalized margin for that?

<A – Stephen Zelnak, Jr.>: Yeah, that is correct.

<Q – Kathryn Thompson>: Make sure I'm clear on that subject. And if you could just explain one more time why you use incremental versus normalized?

<A – Stephen Zelnak, Jr.>: Okay, what we've given you is a normalized forecast, which is the nine to 12% down volume, the pricing and the earnings estimates that go with that. So, we've taken the fact that the states are going to have down programs without stimulus, and we impacted our volume estimate with it. So that is your new baseline. From that baseline, the stimulus program will create additional tons and those tons were going to be incremental to that baseline. So, in order to put it with the baseline earnings that we've given you, what we tried to do is to estimate both the tons and I've taken you through the calculation of what we think that will yield in terms of earnings. And it is an incremental yield right, because those are new tons to us, outside of our forecast.

<Q – Kathryn Thompson>: Okay, thank you. I missed a portion of this comment, so I was just cut off.

<A – Stephen Zelnak, Jr.>: Okay, sorry.

<Q – Kathryn Thompson>: Thanks for going through that again. And then my final question is on the status that state budgets, particularly state DOTs going into their fiscal year and July, really fiscal year '10, what is your sense of where state budgets on the DOT side stand and how has that impacted your forecast?

<A – Stephen Zelnak, Jr.>: Well, it's impacted it in a negative way, because certainly we think revenue is for the states without stimulus, are going to be down. Another part of that is that the cost of construction for the states is going to be down too. Contracting capacity is readily available, you're seeing very aggressive bids, fuel has come down and contractors consume a lot of fuel.

Don't underestimate that on work – with the work they do. Liquid asphalt is down. Essentially all materials are down with the exception of aggregate hanging in there at modest increases.

So, states are going to get much more of a bargain on any construction activity they do, but they're going to have fewer dollar to do it with. So, even with that decreased cost, we think the reduced dollars against that decreased cost takes you down mid-single digits in terms of what they can do.

I will also tell you that the state DOTs are probably gaming it a little bit right now. Given the times, they're being very conservative. They expect to see the stimulus money come rolling out, and they're just sitting on the sidelines and waiting to see it come and then I think you'll see more work at the state level than you expected, because they will feel that they are in a much better position overall to move forward, have a bit more buffet. Lot of private --

<Q – Kathryn Thompson>: Do you think that -- and just to additional color on that; do you think that when state DOTs, in particular, are talking about their budgets in '10, when they give a number they're basically sandbagging?

<A – Stephen Zelnak, Jr.>: I think their having been burned in the last couple of years, both by escalating cost and by recently declining revenue, I think they are being extremely conservative. And I think part of what they're trying to tee up in each one of their states is a premise that says, which is true, they need more revenue. So politically it's something that they're promoting to try to get some more revenue.

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

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And we'll take our next question from Mike Betts with JP Morgan.

<Q – Mike Betts>: Yes. Hi, good afternoon.

<A – Stephen Zelnak, Jr.>: Hey, Mike.

<Q – Mike Betts>: I have a number of questions. Steve, I mean maybe can I just go back to the pricing issue and could you just maybe remind us or maybe finalize, what on average did you get mid-year '08 in the end? Was it sort of a couple of percent across the board or was it a bit more than that?

<A – Stephen Zelnak, Jr.>: No it was in that range Mike, we had talked about it before. But if you go back to the original forecast, we did not expect to get any significant mid-year increases. And with the sharp escalation in fuel prices and energy, we were able to go out and do that. So couple of extra percent at that time and if you recall, we actually bumped our yearly forecast up to reflect that and then you've got the carry over effect of it.

<Q – Mike Betts>: Just to remind me again, I mean, typically it takes what, six to eight weeks. If you put a price increase in July, it would be really sort of August, September before you got that? Or was that an out of date view of mine?

<A – Stephen Zelnak, Jr.>: No, you're going to have some lead time because it will stretch out even further than that for projects where you've quoted somebody on a bid project, where they've made a commitment, you're not going to change that price. So you've got some kind of price locked in, typically today as with escalators. But it would not reflect the mid-year increase. You will have other customers who will have committed work and you're going to give them some protection on that work, you're not there to destroy their cost structure. So, by the time you really get that moving, you don't see the full impact until you get into the fourth quarter, if you do it July 1. And

that's called impact on work but you can get impact on is contractual work, you have to wait till that expires.

<Q – Mike Betts>: I guess we're going with this and then I'll move to another question, Steve. But the similar thing would apply with the January 1, '08 rate increase, it would take awhile if you get it all through. So, carries through into '09 from the price increases in '08 must be at least a couple of percent, isn't it?

<A – Stephen Zelnak, Jr.>: Maybe a little bit of, yeah, with a cut, with contractual work, yeah you'll always be moving forward based on the contractual work that rolls off, the new contractual work coming on. When you look at the January '08 increases and the January '09 increases, in both cases you have much less protected tonnage that is not contractual. Because what we've done is go out to customers early, tell them not to quote work based on those old prices, because they've got new prices coming and they should check with us before they make any significant commitments. So we have attempted to minimize that lag time.

<Q – Mike Betts>: Okay. Then if I could move onto the Specialty Products. And I apologize to the people involved in this business, because we probably tend to only ask about it when it's at more difficult times. But it was barely profitable in Q4, obviously there was a 3.3 million provision, but the run rate is way less than what you're forecasting for the whole of '09. I mean, and the line for the steel industry, I mean are you kind of assuming that that business is going to struggle in the first half and then its going to strengthen in the second half, is that the kind of the way we should look at that for '09?

<A – Stephen Zelnak, Jr.>: I think the general trend line would be that. I think what you're going to see is just what we saw in the fourth quarter. The steel industry is going to be highly volatile in terms of its production rates. As you know, they very quickly adjust today as opposed to building inventory. And what you saw in the last part of the year was that steel production dropped 50%. We had shut downs that we didn't anticipate and certainly steel makers didn't anticipate. Volumes dropped sharply and they said, look we're not going to build inventory. So to the extent that, we can make reasonable estimates, what we're trying to do, we have tried to bake that into the forecast.

And if you look at the fourth quarter, we had a good quarter in the magnesia chemicals business, that business continues to grow, lot of water treatment products, market share gains against caustic soda in a number of areas, good ceramic products business and lots of other chemical specialties. Expectation is we're going to have a very good year in that segment.

In 2009, we've got a couple of things working for us as we come out of the chute. Last year, we produced our new Elastomag product that we acquired early in the year at the existing facility owned by Morton Salt. We're moving that production to our facility, we've been getting it ready. So we will cut close to $2 million production cost that will go to the bottom line, so that's a good place to start. And then we've also got another product where we picked up a take-or-pay contract and based on volume and price, that contract is worth close to $3 million. So those are two things that didn't happen in '08 that happened in '09 as a place to start. So mag chemicals should have a very, very good year and we think the dolomitic lime business will be down relative to '08, we think volume and profit.

<Q – Mike Betts>: Okay, then my final question, if I could, is on the redundancy cost. I mean, you've not separated them out in previous quarters, so I guess they were much, much lower. Was -- I mean, how many of the 4,900 redundancies, during the year of the employment reduction, how many of that occurred in Q4?

<A – Stephen Zelnak, Jr.>: Total head count reduction in Q4 was probably around 200 or so people, the SG&A component of that, if I recall, was 58. But we had hourly layoffs as we went and

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may have been a little bit more than that, I'm just working strictly from memory and I tend to compare it more year-to-year, although I'm looking at the sheets by the month.

<Q – Mike Betts>: I guess I'm wondering why there was a significant severance cost in Q4, not in the other quarters?

<A – Stephen Zelnak, Jr.>: Well, you had some senior long-term people who came out of the organization.

<Q – Mike Betts>: Okay.

<A – Stephen Zelnak, Jr.>: The severance cost associated with senior salaried people was really what drove that.

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

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And we'll take our next question from Timna Tanners with UBS.

<Q>: Hi, this is PT Luther in for Timna today.

<A – Stephen Zelnak, Jr.>: Okay.

<Q>: Just following up on a question just asked. Can you tell us what the percentage steel represents as the end-market for specialty chemicals?

<A – Stephen Zelnak, Jr.>: Yes, about 30%.

<Q>: Okay.

<A – Stephen Zelnak, Jr.>: If you take our lime business, just to break the whole thing out for you, in terms of revenue, the mag chem business is roughly 60%. The lime business is about 40, but 10% of that lime we consume internally. So it's about, puts it to a 70:30 split.

<Q>: Okay. Great, thanks. And then, can you talk about what leverage you're comfortable with as you're looking at these acquisitions, I guess before equity? What kind of debt levels you're comfortable with?

<A – Stephen Zelnak, Jr.>: Well, in this marketplace we're not going to do anything that puts us in a liquidity problem situation. We're not going to skate close to violating covenants. We are fully committed to maintaining our investment grade rating. So we're going to protect that first and foremost and then what you do when you look at these acquisitions is, from there you're going to back into what you need to do on the equity line and it's going to be the significant majorities, not all. And then you're going to price the deal accordingly, based on the fact that you're using equity as opposed to using the debt.

<Q>: Right, okay, thanks. And then lastly, with your free cash flow forecast, are you anticipating much benefit from working capital release in that?

<A – Anne Lloyd>: No, I wouldn't think not.

<Q>: Okay, all right, great. Thank you.

<A – Anne Lloyd>: Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

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

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

<A – Stephen Zelnak, Jr.>: Hi Clyde.

<A – Stephen Zelnak, Jr.>: Hi Clyde.

<Q – Clyde Lewis>: Three if I may. The comment you made on fuel cost being sort of 35 to 50 million better this year. Was that based on static volumes or was that based on your volumes being down nine to 12? I just wanted to clear that up.

<A – Stephen Zelnak, Jr.>: It's based on the volumes that we're looking at.

<Q – Clyde Lewis>: Okay, okay great. I mean on a --

<A – Stephen Zelnak, Jr.>: There are two components of that, Clyde, just so I can be clear on it. There is a diesel fuel cost component in there, which is the reduction of the price we pay for diesel fuel and also there is a reduction related to fuel escalators we have that are attached to our long-haul transportation contracts, both rail and water. So the 35 to 50 million is a sum of that plus natural gas savings that we're looking at in our magnesia specialty's business.

<Q – Clyde Lewis>: Okay, could you maybe give an indication for what you think it would be on a static basis on flat volumes?

<A – Stephen Zelnak, Jr.>: No, I'd be guessing, we would have to go back and calculate it.

<Q – Clyde Lewis>: Okay, okay. The second one I had was on acquisitions, I mean, I know you had plenty of questions already on acquisitions, probing and prodding. I mean, do you – would you expect to sort of, a) move into to any new regions, new markets that the group's not in already? Or would you actually sort of look at all about getting involved in other products that you're not really currently involved in, in a bigger way? Would the focus very much be on where you are now and really just trying to grow your business share in these current markets?

<A – Stephen Zelnak, Jr.>: Well, from a strategic standpoint, I'm an old military guy and I like to kind of move down the road and take some adjacent territory as opposed to doing parachute drops in enemy territory. So we would be more focused on things that are complementary to where we are geographically, that would have higher value to us because we can leverage that from an SG&A standpoint most effectively, sharing of equipment. So that's what we like the best.

Would we look at something that is remote from where we are right now in the United States? We would, but it's going to have to be pretty compelling to us to want to do it and we would price it accordingly. Product lines, certainly we're aggregates folks first and foremost, no question about that. It's going to have to have a very significant aggregates component.

Some of the things that people want to sell are vertically integrated. We will look at the vertically integrated packages, but we're going to price it accordingly. Clearly the vertical integration has shown its volatility and one of the nice things about the aggregates business is that it's not as volatile with the infrastructure component and it is a bit easier to manage the volatility, I think, in the aggregates business. So, hopefully that's helpful.

<Q – Clyde Lewis>: Yeah, that's great. Thank you Steve. And the last one I have, just can you remind us, do you have any new quarries coming on stream now in 2009? And what sort of tonnage they will contribute?

<A – Stephen Zelnak, Jr.>: Yeah, I couldn't give you that. There are very few and even some of the ones that were announced, people have said, no I don't think so, not right now.

<Q – Clyde Lewis>: No, no, not for the market, for just yourself.

<A – Stephen Zelnak, Jr.>: For our self, we've got one quarry that is coming on near Fort Bragg, that we got underway with late last year, and we will open that up. The Fort Bragg area in North Carolina, Fayetteville is a very high growth area. It's a beneficiary of base realignment, probably somewhere in the neighborhood of 60,000 additional people moving in there, over there over four years. And we would have the only quarry in Fayetteville, certainly the only one close to Fort Bragg, so we are pretty excited about that. We've got another small quarry that we opened, base quarry in North Carolina, in the latter part of '08 in Eastern North Carolina and we may possibly get another one opened up at a low level in '09, but that's going to be it.

<Q – Clyde Lewis>: Okay, so one to two million tons extra?

<A – Stephen Zelnak, Jr.>: It won't be that much.

<Q – Clyde Lewis>: Okay, okay.

<A – Stephen Zelnak, Jr.>: Ultimately it will be out of those locations, but certainly not in '09.

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

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And we'll take our next question from John Fox with Fenimore Asset Management.

<Q – John Fox>: Hello, everyone I just have a couple of minor questions. I guess for Anne, do you have a DD&A for 2009?

<A – Anne Lloyd>: Expected to be about 182 million.

<Q – John Fox>: Okay. And with the reduction in CapEx this year will DD&A shrink like for '10 or is there, what's the relationship there?

<A – Anne Lloyd>: It will eventually, you'll see a dip in it, I think it won't change dramatically for '10.

<Q – John Fox>: Okay, great and then your free cash flow 150 to 175, that's before dividend is, that correct?

<A – Anne Lloyd>: Correct.

<Q – John Fox>: Okay. That's all I have. Thank you.

<A – Anne Lloyd>: All right. Thank you, John.

Operator: And Mr. Zelnak, at this time I'll turn the call back to you sir, for any additional or closing remarks.

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

Okay, thanks for joining us. Certainly a lot of very good questions. It's the interesting times. Certainly everybody's challenged, we think we're managing the times quite well. I'll just add that, on a personal basis, I am extremely proud of our management group for adapting to the toughest environment we've seen since the early 80s and before it's through, maybe the toughest that anybody's seen since 1930s. So, I think our group is doing an excellent job. They're being very realistic and we're doing what we need to do to turn in the best performance that we can possibly put up and be ready for a little of that incremental tonnage coming off the stimulus program. Thanks a lot. Call us if you need anything.

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

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