MANAGEMENT DISCUSSION SECTION

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

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

Thanks for joining us today. I have with me Ward Nye, our Chief Operating Officer and Anne Lloyd, our Chief Financial Officer. The second quarter was dominated by energy shock, with affected both cost and demand in our Aggregates business. The unexpected rapid escalation in the price of diesel fuel, natural gas, and liquid asphalt increased these costs by $18 million over the prior-year period, which in turn reduced earnings by $0.26 per share. Escalating construction costs, particularly from liquid asphalt which is up 135% in the past year, and about 75% this year through the second quarter cut demand significantly.

Infrastructure spending was impacted by cost escalation, which reduces purchasing power resulting in lower volume consumption. State departments of transportation were also affected by lower gas tax revenues, as gasoline consumption declined due to high prices, the focus on higher mileage vehicles and reduced driving behavior by the American public.

Volumes declined 9% during the quarter with the largest declines being in Indiana, North Carolina, South Carolina and North Georgia. All of which were down more than 20%. The areas we expected to experience the most positive demand did so. Even though Iowa was notably impacted by rain and flooding, volume was up 9%. We also experienced positive volume in Texas, Oklahoma and Arkansas.

In response to the weaker than expected demand, we reduced aggregates production by 12% which impacted earnings by $24 million or $0.35 per share. Beyond the impact of energy and the impact of reduced production volume, our operating management did an excellent job of controlling costs in a demanding environment. Also our total SG&A cost was down 2.3 million or 5% with SG&A as a percent of revenue declining from 8.4% in the prior-year quarter to 8%. We continue to aggressively work hard to find ways to manage our business in a more cost-effective manner.

On a more positive note, we had record sales and earnings from our Specialty Products unit, with revenue up 14%, $45 million for the quarter, and earnings from operations up 20% to $9.7 million. Our sales of dolomitic lime to the steel industry are at a record volume level which is expected to continue through the year. In our magnesia chemicals business, we continue to see growth in demand for our water treatment products and flame retardants along with specialized products used in the paper industry and for the manufacture of LCD television screens. Also our recent acquisition of the Elastomag product line from Rohm and Haas is off to a very positive start.

During the quarter we completed an asset exchange with Vulcan Materials, which added five quarry locations in Atlanta area and one in Chattanooga, Tennessee. The integration of these assets into our system was accomplished quickly and has been seamless.

During the quarter the North Carolina Legislature acted on recommendations made by the 21st Century Transportation Committee. The most significant action was to provide sufficient gap funding to go forward with four previously approved toll-road projects valued at about $3.2 billion. As a point of reference, peak annual road spending in North Carolina has been about $3 billion.

The first of these projects, valued at almost $1 billion, is in the Raleigh area and is expected to begin late this year with completion in 2011. Estimated stone consumption is approximately 2 million tons. There are two projects approved for the Charlotte area, with starts scheduled in 2009 and 2010. The fourth project is a bridge in Northeastern North Carolina scheduled to begin in 2009. Of the total estimated 6.5 million tons of stone for these projects, Martin Marietta will be able to compete effectively on about 85%.

North Carolina's 21st Century Transportation Committee expects to present significant new revenue recommendations to the legislature by year end together with some likely additional toll-road projects. This would obviously be a major positive step for North Carolina and our business in the state.

Looking ahead, pricing has been remarkably resilient in the face of nine consecutive quarters of down volume. We were successful in implementing some level of mid-year price increase in most of our markets. We believe that our 6 to 8% price increase for the year is achievable, despite current market conditions.

The key issues for the remainder of the year are Aggregates volume and energy costs, with the two being closely linked. Given the significant impact of energy on second quarter Aggregates volume we're lowering our volume forecast to minus 3% to minus 6% for the year. In our Specialty Products business, we affirm our prior expectation of operating earnings of 36 million to $38 million. And in this context our range for net earnings per diluted share is $5 to $5.65 for 2008.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll go first to Arnie Ursaner at CJS Securities.

<Q – Arnie Ursaner>: Good afternoon, Steve.

<A – Stephen Zelnak, Jr.>: Hi Arnie.

<Q – Arnie Ursaner>: First question I have relates to the -- can you attempt to quantify the impact of flooding, that it had on you in Iowa?

<A – Stephen Zelnak, Jr.>: Yes, I'll give you a rough estimate, and it's really Iowa combined with the river system because that water has to go somewhere. And where it went was into the river system in the middle of country. If you take the two together and obviously this is a rough estimate, the impact is probably in the 7 to $8 million range, which on a per share basis would be 0.10 to $0.12. We will have overlap into Q3 with carryover damage and disruption. We have a quarry at Cedar Rapids, Iowa which got a lot of publicity. Our quarry is underwater -- it's a small quarry but it filled up with 1.5 billion gallons of water and we will be pumping that out probably through September, maybe into October. So, disruption there, we had disruption at sand plants along the waterways and we had major disruption on the river and some of that continues. So, that's where it is.

<Q – Arnie Ursaner>: Regarding the operations of your business, it sounds like or feels like you dramatically almost hit the brakes somewhere in the middle of the quarter. Your production volume I guess was down 12%, which is much greater than the volume reductions you're seeing for the industry. Is it fair to say you in fact have very aggressively taken actions to reduce production and are you also taking other actions like perhaps pulling down the number of hours you're working at some of your facilities. What other steps are you taking to better balance your inventories going into the slower part of the season?

<A – Stephen Zelnak, Jr.>: It's a good question. It's certainly highly relevant and very much on our minds. As a starting point, we are not real interested in tying up working capital sitting on the ground just to admire it and as it became clear that volumes were not going to be what we had expected, we did put the brakes on hard. And if you look at that difference it's a 12% reduction to production volume, as you noted and that compared to a 9% pull back in sales.

If you take year-to-date -- and actually we've been working this year-to-date, just more aggressively in Q2, we've got 11 million tons less production as compared to about 7.4 million tons lower sales. So we've just decided we're not going to get ourselves out of balance, we're not going to see how high we can make the stockpiles. And what it does is, it does conserve working capital. But it also puts you in a better mode to run when you get some pick-up, so that you are not working off inventory overhang. So we took a pretty good hit and that was intentional. We just thought it was the right and prudent thing to do.

With respect to cutbacks, a couple of metrics that might be interesting. First of all, with respect to number of employees that are employed in our Aggregates business -- and obviously Specialty Products is going great. We've added a few folks there. But -- in our total Aggregates business, if you compare end of second quarter this year to end of second quarter last year, so you've got the seasonal impact in it, the number of people is down about 6%.

If you adjust for the acquisition that we made from Vulcan, the asset exchange where we also put a quarry in their hands, we picked up about 75 additional people there. If you do same on same that number is closer to 7.5%. If you look at reduction of hours worked, year-to-date that number is about 9%, in the second quarter, it was 10%. And in the second quarter we reduced overtime hours by 23%. And just to give you a flavor for what this is all about -- first of all, I'll frame it, and since I'm the noted rock historian having been around the longest, this is clearly the toughest time since the early 1980s. And we're having to react accordingly. The big things you focus on and you go after them -- we are at point now where we're scrubbing very hard -- at what time do shipments take place at each quarry? Can we adjust the working time by 15 or 30 minutes or even an hour to get some more labor cost out with out disruption of sales? If you go around to our quarries all of our guys know what CFL light bulbs are now. And we're replacing conventional light bulbs with CFLs in high-use applications. It's not huge money but the point is we're just nibbling everywhere there is an opportunity. Because in doing that you get yourself set up. The first time you taste some up volume, it's going to be incredibly attractive. So that's where we are.

<Q – Arnie Ursaner>: One very quick final question if I may. In your guidance for the upcoming year two questions, one is in the quarter you had $0.13 from a discontinued operation. Is that included in your guidance and also what fuel cost is embedded in your guidance?

<A – Stephen Zelnak, Jr.>: The guidance does include the $0.13 and fuel cost assumptions -- actually the assumptions are basically flat to slightly up and as you know we are getting a downward trend and the way we get to the upper end of the range is to have that downward trend continue. That will be important.

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

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We will next to Jack Kasprzak at BB&T Capital Markets.

<Q – Paul Betz>: Hello, actually, this is Paul Betz for Jack. My two questions on guidance was answered but the interest expense kind of went up this quarter and I know you have done some activity there. Do you have a run rate that -- possibly for the year or quarter that we could use in our modeling assumptions?

<A – Anne Lloyd>: Yes, Paul. This is Anne Lloyd. We -- interest expense is expected to be about 74 million this year. Obviously it's up in the second quarter because of the advanced funding we did, $300 million of notes we issued in April. That run rate includes also the amortization of fees related to that -- to that offering.

<Q – Paul Betz>: Okay. Thank you. The 72 million gain that is in your -- from the asset exchange that's in your continuing operations, you said it was split between the West and the Mid-East. Is -- do you know the number for how much went into each region?

<A – Anne Lloyd>: The 7.2...

<A – Stephen Zelnak, Jr.>: Well, first of all, it's 7.2, not 72. We would have loved to have had 72 but we didn't get it.

<A – Anne Lloyd>: I will get that number for you Paul.

<Q – Paul Betz>: Okay. Lastly you said the Augusta Georgia quarry is opening sooner than you expected in this year. Does that do anything with your CapEx outlook for 2008?

<A – Stephen Zelnak, Jr.>: For 2008 it's going to make it a little bit heavier than we would have expected. When we get to 2009 we'll get the benefits of that.

<Q – Paul Betz>: Okay.

<A – Stephen Zelnak, Jr.>: And our early expectation for 2009 is that CapEx is going to be down significantly. We have other large projects but any starts would be later in the year. So I think we're going to see a major CapEx reduction.

<Q – Paul Betz>: In 2008?

<A – Stephen Zelnak, Jr.>: In 2009. We will see a reduction in 2008 – estimate for 2008 is 240, could be as much as $250 million and then when we get to 2009 we'll quantify it later but you should expect to see a pretty significant reduction.

<Q – Paul Betz>: Okay. Thank you very much.

<A – Stephen Zelnak, Jr.>: Okay.

Operator: We'll move next to Timna Tanners from UBS.

<Q – Timna Tanners>: Yes, hi, really just two questions as well. One was to ask, just to make sure I understand and to think about your pricing, to assume the low end of your six to 8% pricing we're going to have to see probably continued pricing from what you saw in the second quarter and actually a little bit of an uptick. So, are you continuing to pass on price increases and are you seeing anything like what TXI talked about in terms of an energy surcharge, are you planning to follow that initiative?

<A – Stephen Zelnak, Jr.>: We are not going to follow TXI on their pricing philosophy and the implementation, we will do our own thing. We had a much more successful round of mid-year increases than we had earlier anticipated. And not that they are big but they were much more widespread and in fact in virtually all of the areas of the company we got some type of mid-year increase, not necessarily on all sizes, not necessarily at every quarry but we did get far more than we expected. So, that's where the optimism comes for the 6 to 8%. And we feel quite comfortable with that based on what we're looking at that has already been implemented -- it's put in place.

<Q – Timna Tanners>: Okay. Great. The other question was about buybacks, you did a small amount during the quarter and I just wanted to get your philosophy on stock buybacks?

<A – Anne Lloyd>: We haven't done any stock buybacks during the quarter Timna. The only thing --

<Q – Timna Tanners>: Did I misread that? Okay.

<A – Anne Lloyd>: The only thing we've done this year is we had $24 million of cash that got paid out the first of the year to settle fourth quarter '07 buybacks, but we haven't acquired any additional shares.

<Q – Timna Tanners>: Okay. So then the question is how do you think about it then?

<A – Stephen Zelnak, Jr.>: Yes, the way we think about it is that first of all we did the very large deal for us with Vulcan and we took on additional debt to take care of that plus we did pre-funding of a debt maturity that comes up at the end of the year. We're actually quite pleased we did that pre-funding; we think that's advantageous.

The objective between now and the end of the year is to pay down debt. We have a defined target range and it was done thoughtfully, being between two times and 2.5 times debt to EBITDA, the expectation by the end of the year is it will be somewhere in the middle of that and get debt down $100 million or so, 100, 100 a quarter. So the focus will be on debt repayment first and foremost right now. We always try to keep ourselves in balance. Not that we don't like the share price, we do

– we love it, in terms of being a purchaser. But it would be foolish in our view to not take care of our balance sheet and also we need to take care of our debt ownership 18;20), so we try to balance that out.

<Q – Timna Tanners>: Okay. So the focus of uses of cash for the near term is to pay down 100 to 125 million by year-end in debt?

<A – Stephen Zelnak, Jr.>: Yes. Yes.

<Q – Timna Tanners>: Okay. Great, thanks.

Operator: And next we will go to David MacGregor of Longbow Research.

<Q – David MacGregor>: Hi Steve and Ward.

<A>: Hey David.

<Q – David MacGregor>: I guess a couple of questions. First of all, on the infrastructure one of your competitors was talking on a recent call about the Highway Trust Fund shortfall and the fact that there's a bill before Congress right now to try and address that. I guess the question is, if the bill passes in the next month or two, when do we actually see the benefit in your P&L in terms of these infrastructure projects?

<A – Stephen Zelnak, Jr.>: It will be 2009 before you will get anything notable that will happen there. But based on what has been proposed, it's not huge money but it could be very interesting. The typical flow on that money is that roughly 27% of it flows in the first year, mid 40s in the second year and then it stretches out beyond that. The state DOTs would be the ones that would decide which projects they're going to apply it to. I don't think there is any shortage of projects that have already been engineered and ready to go. So I think they could get out of the gate reasonably quickly but even if they do, cranking up projects of any size takes a while to mobilize and begin to actually put stone on the ground, put asphalt down, concrete. So it's a 2009 item.

I believe pretty strongly that given the ramp up in unemployment which I think is going to continue for a while, the fact that we've got a national election coming up in November that it's likely that the Democrats are going to make infrastructure a priority, they seemed to be doing it. And historically, they've been very good for our industry. So it would not surprise me if they come forward – what's kicking around right now is a fairly modest program under the -- characterized as stimulus, with the infrastructure being a component of stimulus. It would not surprise me that they come back with something that is broader, they've talked about a bond guarantee program. I think it is a function of unemployment, the amount of pain people are feeling and as that unemployment rate picks up toward 6% the pressure is going to grow. And given that I think the politics are leaning very heavily Democratic election-wise, they are really going to carry the ball on this. So actually I'm fairly optimistic about that part of it.

<Q – David MacGregor>: Two follow-up questions. Number one, you said '09 before you'd see the impact on the P&L, are we talking first half '09, second half '09? And then on the stimulus package, what kind of numbers are being discussed with respect to the magnitude of that?

<A – Stephen Zelnak, Jr.>: Okay. With respect to how things hit, highway work doesn't really get going typically until the second quarter, unless you're in Florida, very warm climates. So any impact that you would see in '09 would begin in second quarter. That's the earliest, I think you would see it.

The infrastructure components, Senator Byrd is the one who is carrying the water on this one right now. The infrastructure component of his stimulus package is roughly $7 billion and it is a variety of infrastructure components. But most of it would be aimed at roads and that's about a third of his total stimulus package. Anything that we're talking about with respect to bond guarantees, other programs would be beyond that. If you contrast his program, as a long-time Senate leader with that of Barbara Boxer in the House, her program is a $50 billion program and she is pretty adamant about what she thinks needs to be done. So it'll be interesting -- take the two, average them together, but it would tell you that the Democrats believe that there is additional stimulus needed and they actually think that stimulating the U.S. economy as opposed to the Chinese economy would be a good thing.

<Q – David MacGregor>: Yes, agreed. Last question, just with respect to gauging your confidence on pricing beyond 2008, what are the chances that you will see year-over-year pricing falling back to the low single digit levels that we saw in '82 through 2004?

<A – Stephen Zelnak, Jr.>: It is always possible but we just don't see it right now. Might pricing levels be less next year than they are this year, I think they could be but if they are they will be at – likely at or above the prior peaks that we saw for the last 20 years. We are just in a completely different environment.

And I'll give you – I will give you something to think about that I think is pretty interesting in measuring where we are and how this industry is reacting. If you look at volume decline and you annualize volume which is the way you need to do it, you go back to the first quarter of 2006 which was the peak of the cycle, as a company we were clipping along at about 206 million ton annualized rate. If you come forward to the second quarter just completed, we are at an annualized rate that's at about 175 million tons. That is a 15% decline in tonnage over that 9-quarter period on an annualized basis. If you go back to 1991, which was the last deep recession in our industry, volumes were down 10% and we gave up a third of our profit. This is pre public company days, but we've stated this before. So volume down 10%, we gave up a third of our profit. Volume is down 15%, if you take the range that we just put out, take the middle of the range and compare that with what we earned in 2006, which was 529, your profit's flat to slightly up on a 15% volume decline. I think it's pretty incredible we are where we are and frankly you ought to make that comparison with some of the other companies in the industry. I think we have separated ourselves in that regard. But it is an interesting way to look at it in my view, what it says is that we're positioned incredibly well from a cost structure standpoint and when we get a little volume, which will go with some better than historic pricing, your incrementals are phenomenal.

<Q – David MacGregor>: Thanks Steve.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: [Operator Instructions]. We will go next to Ajay Kejriwal at Goldman Sachs.

<Q – Ajay Kejriwal>: Hi, just wanted to clarify on the EPS question asked previously. So your guidance includes the entire 16.4 million or just the $0.13 of that 16 --

<A – Stephen Zelnak, Jr.>: It includes everything. It's a total roll up of the number that we would report at the end of the year.

<Q – Ajay Kejriwal>: Okay. And maybe some color on what's that 7.2, why would that be part of the operating income, is it sustainable or how should we think about --

<A – Anne Lloyd>: Those were properties that were operating properties, they had not been classified as discontinued. Therefore, it's just like selling any other land or equipment that we have during the course of the year.

<A – Stephen Zelnak, Jr.>: Which we do regularly and generate fairly significant income off of.

<Q – Ajay Kejriwal>: Okay. All right. Moving to your volume guidance, and if you back out what you did in the first half implies a second-half volume of what, minus 1 to minus 2, that's if my math is correct. But does that sound right?

<A – Stephen Zelnak, Jr.>: We think the second half is going to be much better. The Midwest should be very strong – baring some other disruption like a flood, we think the Midwest is going to be extremely strong. We are looking for a very robust agricultural lime season out there. We have some very good project work in most parts of the company. We think we will see positive volume in Indiana and Ohio in the second half. Now when I got asked the question about breaking out weather impact, I just concentrated on Iowa and on the river, but the reality is that Indiana, Ohio got impacted pretty heavily too.

And when we get to the compares in the second half there, they came down very sharply, very early. So the compare is getting easier. We think that will be a positive. We think Texas will continue to be pretty strong, Oklahoma should be positive, Arkansas should be positive. The big worry is the Southeast, the Carolinas, North Georgia in particular, Atlanta area, and if you look at the volumes in the second quarter in the Carolinas you're talking about off 25% which is far beyond anything we would have anticipated. Some loss of confidence, people deferring, pulling back. In Atlanta you're plus 35% reduction, and when you subtract out the quarries that -- same on same, take away the Vulcan quarries that we purchased. So that market is being brutalized, and in fact the decline in Atlanta probably is the worst since the mid-1970s.

<Q – Ajay Kejriwal>: Good color there. Do you have data on shipments by end-markets in the second quarter? How did your buckets do in terms of res, non-res and infrastructure?

<A – Stephen Zelnak, Jr.>: We don't calculate that till year-end. We obviously keep track of it more anecdotally. Reality is that res continues to come down obviously from a lower base. I will tell you that for the first time in probably 2.5 years I actually see a glimmer of hope in the residential sector. In looking down into the abyss I think I can see a bottom. And I haven't been able to say that in a long time. It would not surprise me that you begin to see some statistics – and in fact you're seeing a few, that indicate that we're getting down towards the bottom. It would not surprise me that you begin to see some positive statistics as we get into the middle of '09. I think inventory has probably peaked in terms of months of inventory, which is about ten, it would not surprise me that that number would be closer to 8 by the middle of next year. Major homebuilders have really pulled back sharply in terms of what they're doing and from the standpoint of our business the interesting thing is that they're running out of subdivisions, even at low levels of sales, they pulled back so sharply that sometime next year, probably by middle of the year, they are going to have to begin to develop property again, which is where a lot of our stone gets consumed.

So clearly down more in the second quarter, infrastructure was the big pullback and it was, that was surprising but it was really driven by the price of liquid asphalt and the total construction costs. I think the DOTs around the country got spooked when they saw asphalt at anywhere from 650 to $850 a ton. And their view would be, I can't buy much of that based on those prices. I need to pull back because I have to but also expectation that that price level will come down and I think they are correct in that regard. So I would expect as pricing comes down for asphalt that we will see more activity there plus there is a lot of activity at the state level. In addition to what we've talked about at the federal level, the states are very active in trying to increase their revenue. They have to do it, the demand is overwhelming. The question is how they raise the funds. It is not going to be through the gas tax, it is going to be through other fixed fees and a lot of toll roads which we have talked about before and some today.

Commercial work continues to be reasonably strong although we are seeing the pullback on retail and we're seeing the pullback on office, which we've noted before. But capacity driven projects continue to go very strongly. So it's the least impacted sector right now. Although in the leading indicators certainly those don't get you excited. But I think that switch can flip back on pretty quickly, because there are a lot of projects on the sidelines right now that people have ready to go as soon as their confidence is up. That is an anecdotal description of where I think we are.

<Q – Ajay Kejriwal>: Very good color there Steve, maybe just lastly on transportation. Are you seeing state DOTs, as they plan for next year, are they planning for a similar amount of dollar funding or given what's happening with property taxes and foreclosures, are you seeing lower spending being planned for next year?

<A – Stephen Zelnak, Jr.>: We really don't know yet, the DOTs hold that pretty close. They are obviously assessing their inflows from gas tax which is the primary component of their revenue structure. And as you know that is being impacted; you're seeing declining consumption of gasoline. And that is pushing them to go to other revenue sources, not that a particular state is going to come back two years in a row, but what you are getting is sort of a rotation right now, where states are coming out, they're raising funds, another state does the same thing. Iowa just came out with $140 million of new revenue -- in Iowa, that's big money. And that will flow into the back half of this year, particularly into '09. Oklahoma recently came out with something in the 150s. Earlier in the year, you had Louisiana, Minnesota. You're getting a lot of positives there. The big one for us is to see what North Carolina does, which is what I highlighted in my remarks, very successful in this recent session and the constraint was there could be no new money. It had to be a reallocation of funds and we were successful in getting that done. The legislature funded these toll-road projects. Because the need is just overwhelming. So they will have put in front of them a very large basket that will be a 10-year program, I'm going to guess that the numbers could be 8 to $10 billion of new money over 10 years, at least that's what's being talked about now. And in addition, potential total road projects that might add another 6 to $8 billion or even more. So we are not talking small change in North Carolina, because the needs are driving it.

<Q – Ajay Kejriwal>: Great. Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We will go next to Mike Betts of JPMorgan.

<Q – Mike Betts>: Yeah. Hi, Steve and Anne.

<A – Stephen Zelnak, Jr.>: Hi.

<Q – Mike Betts>: I had three questions if I could. The first one Steve, if you could just talk a little bit about Florida and what's happening to pricing now these three quarries are open again?

<A – Stephen Zelnak, Jr.>: Okay. We don't compete down in the Southern Tier in Miami. We've got a little bit of business down there, but nothing notable. We do compete with those quarries by rail, as they try to ship up to Orlando and up to Jacksonville. There were visions of another $5 increase, you can cross that one off, I don't think that's going to happen. They are trying to do some rebuilding of volume with the quarries that were shut down. Florida continues to have a pretty robust infrastructure program.

The hurt has come on the concrete side, as you can see with CEMEX's Rinker acquisition, Vulcan's Florida Rock. The interesting thing with the piece that we are involved in, we look at it in terms of our South Georgia business and Florida because they are tied very closely together. If you take the piece of South Georgia that feeds Florida, our volumes were up in the second quarter and we picked up some pricing. Where the competition is for concrete business, I would tell you that has become very aggressive and we're seeing more aggressiveness down there between the players who play in that game. Fortunately we don't – we're not involved in a significant piece of that. So it would not surprise me that on the concrete side that that's going to be a shoot-out for a while.

<Q – Mike Betts>: The first $5, the one that was due in October of '07, is that, as far as you're aware is still – because I guess you got some knock on benefit from that, you haven't seen any sign of that diminishing?

<A – Stephen Zelnak, Jr.>: Not really – I mean it's there in terms of the starting point, list prices and what volume discounts would be to the big customers. But there is some nibbling around the edges where people are seeking volume, because the volumes are off so dramatically that people get to a point where they really would like to steal a little volume from their competitor.

<Q – Mike Betts>: Okay. My second question if I could was just on cost cutting. Now hopefully we are reaching a trough in volumes but if we did have further declines in volumes next year, is there further scope for taking additional costs out of the business or have you done so much now that actually you'd be starting to damage the business for when things recovered? I mean, I wonder if you could just talk around that issue and give me some idea, also maybe how much of what you do is preemptive versus reactive on the cost-cutting side?

<A – Stephen Zelnak, Jr.>: We've obviously been very aggressive in managing our cost, a lot of that comes back to the information systems we have which allow us to do things that we don't believe other producers can effectively do and react real time. If we were to have further significant volume decline in 2009 I think what you will see is us shuttering some plants, rotating crews between two plants where we'd run one crushing crew between two plants and then we will have scale and load out people at the plants to keep them operating on a sales basis. So there are things that we can do.

I've already talked about capital coming down. We're well capitalized – we've done a nice job of getting ourselves set up with mobile equipment. This Augusta plant coming on is a huge plus for us in terms of being able to move more product where the market continues to be pretty robust and also by giving customers some longer term guarantees on supply to block in some volume and some agreements there.

So we don't see that volume decline – significant volume decline coming right now but we have got a long way to go to the end of the year. So we will reserve judgment until we get there. But no, we haven't done everything we can do; we are going to continue to adjust. The thing you can't adjust for is the hard fixed costs that go with the plant, the depreciation part of it you're not going to be able to adjust for.

<Q – Mike Betts>: No, understood. And earlier Steve, you mentioned the 15% reduction in annualized volumes over two years. How much of your employees or your -- I mean I'd ideally like cost but I guess employees is a good guide, how much have your employees actually dropped over the two years, I mean you gave the 12 month number which I think you said was 7.5%, could we double that for the two years that you were talking about earlier with the 15% drop in production?

<A – Stephen Zelnak, Jr.>: It's not 15% but it's in the low teens.

<Q – Mike Betts>: Okay, thank you for that. And then the final question Steve, was just on Texas given the importance of it – one of your biggest states. I mean obviously part of the growth that we are seeing this year is because of the bad weather a year ago but I guess my real question here is, is there any sign of any slowdown yet there either in the housing market or the other markets?

<A – Stephen Zelnak, Jr.>: The answer is yes, I don't – other than the farm bill I'm not sure that there is any place that's really immune to some slowdown, that economy is driven in a different way. If you look at housing statistics you're seeing San Antonio, Houston and even Dallas/Fort Worth back off – they are backing off from very high levels and there still is a very solid housing market there compared to other parts of the country but you are seeing diminishment. And with that you begin to potentially see some pullback on commercial and retail construction. Texas non-residential continues to be strong, that's part of what's driving the volume out there -- it is not part of it, it's the major component that's driving it.

Infrastructure has been a mixed bag in Texas, the toll side of the equation is going very well. The Texas DOT is funding challenged, shall we say, and they are pulling back accordingly to match expenditures to incoming cash. So you're seeing something but certainly relatively strong compared to most other parts of the country, stronger -- a lot stronger than the Southeast right now.

<Q – Mike Betts>: Okay. Now I should – this is my final question, I should know the answer but apologies, I don't, of the state and local funding, how much of that is reliant on the gasoline tax as against other sources of funding roughly?

<A – Stephen Zelnak, Jr.>: I can't give you a precise number because we've never racked it up by the states. But, you're probably talking about a number, at the federal level it's all gas tax. When you get to the states it's not unusual that that number is 75% or better gasoline tax.

And I'll tell you what I think is going to happen, and this is the thrust of the changes that have recently been made. You are seeing the increases come with respect to vehicle transfer taxes, i.e., a sales tax. You are seeing it with respect to registration fees, title fees, in other words fixed fees. One of the things we are talking about in North Carolina is a vehicle miles traveled assessment and there's talk about that around the country. We've got a construct we are looking at, it's fairly simple and straightforward, we think it's easily collectable. Whether or not there'll be the political will to implement it I don't know. But, we are going to talk about it a lot, it would not surprise me that we come forward with it as a recommendation. Over the next five years, you're going to have to see a significant movement to fixed fees and vehicle miles traveled assessments; the gas tax simply won't do it.

<Q – Mike Betts>: Okay. That's great. Thanks for those answers Steve, cheers.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll move next to Todd Vencil at Davenport & Company.

<Q – Todd Vencil>: Thanks, hi guys.

<A – Stephen Zelnak, Jr.>: Hey Todd.

<Q – Todd Vencil>: Steve, I think your guidance on the volumes of down 3 to down 6, that was parroted volumes net of acquisitions and divestitures, or net of acquisitions. About how much are the acquisitions you've done so far going to add to that.

<A – Stephen Zelnak, Jr.>: The acquisitions are really minor. You're talking about a partial year, you're talking about 1% or so change; remember, we divested too.

<Q – Todd Vencil>: Sure.

<A – Stephen Zelnak, Jr.>: So it's a net. And it just happened to be -- most of it is in the Atlanta market and I already told you what's happened to the Atlanta market.

<Q – Todd Vencil>: All right. Okay thanks for that and then, I don't want to beat this gain on sale thing to death, I just want to make sure I understand it; of the, of the 16.4, 7.2 was continuing, is that right, and it was split between those two groups?

<A – Anne Lloyd>: That's correct.

<A – Stephen Zelnak, Jr.>: It was the land sale component, which is part of our normal business.

<Q – Todd Vencil>: But on the income statement, the 7.2 is above the line and 9.2 is below right? [inaudible]

<A – Anne Lloyd>: Correct.

<Q – Todd Vencil>: Okay, great. Good.

<A – Stephen Zelnak, Jr.>: Yep.

<Q – Todd Vencil>: And then turning to price increases, you said you're getting price virtually everywhere and then later you came back and said roughly the same thing. Is there any place that you're not getting it that is surprising to you, where you're just not getting anything at all?

<A – Stephen Zelnak, Jr.>: No. I'm actually quite surprised that we are as successful as we've been, that we're able to get some price relief pretty much across the board. Because when we started out at the beginning of the year, we didn't think we would be able to do that and in fact if you recall coming out of the first quarter we bumped our price range 50 basis points. Up.

<Q – Todd Vencil>: Good work and congratulations on that. You talked the last couple of quarters about the fact that you were shifting mix away from some of your long-haul markets and maybe losing some price just due to mix shift in terms of what the average was coming out to be? Did you see any of that this quarter?

<A – Stephen Zelnak, Jr.>: Not nearly to the same degree. Geographic mix was a big piece of first quarter as was the transportation mix. The transportation mix is more normalized and the geographic mix still is a negative for us and in fact we go through a little calculation, if we'd had the same geographic mix in the second quarter that we had last year, we'd earn $0.09 a share more.

<Q – Todd Vencil>: Okay. And a couple of housekeeping items. You talk about CapEx, interest expense, can you tell us what you think the tax rate and full year DD&A are going to look like?

<A – Anne Lloyd>: Yes Todd. Full-year DD&A right around $165 million. The tax rate should be 31 to 31.5.

<Q – Todd Vencil>: And Steve you threw out a couple of times, the cost savings you guys are doing are really going to pay off when you start to – the first time you start to take some up volume, you kind of teased me with that and you weighed in with what you think the housing market is going to do so when do you think the timeframe is going to be when you start to see some up volume?

<A – Stephen Zelnak, Jr.>: Well, it's certainly too early to be definitive. But if we begin to see a break in the housing market in the second half of next year, obviously that's a lead. My view of the non-res side is that it's going to respond much quicker to what's going on in housing and in fact may respond independently based on investor confidence, because if you still look at, if you go back and look at the non-res construction, it continues to be behind the homebuilding footprint. So those two things could move pretty simultaneously, even the non-res could move in a positive manner a quarter before res – a res positive move becomes apparent.

But I think the key thing is going to be the infrastructure piece. I really believe that with the state of the country that the politics are calling for significant change, much more focus on the domestic economy. And the Democrats are articulating that very well and it seems to be resonating with the American public. And it would not surprise me that before November, they are going to make some promises that people are going to hold them accountable for that would be positive for our industry.

The big uplift that would really take this industry forward is going to have to come from infrastructure. Because even with housing coming back, I mean let's be realistic. You're not going back to a monthly rate of 2.4 million starts probably in the next two, maybe three cycles. You are not going back to an annualized rate of 2.1 million. You might get back to something that is in the 1.7, 1.8, as sort of peak rate, 1.5, 1.6 more likely. So certainly up – well up from where it is right now but it's not going back to where it was, I don't think, for at least two cycles out. So it puts more emphasis on infrastructure and more emphasis on what I refer to as the capacity driven non-residential projects. America really has to rebuild its capacity, be it transportation or other types of things that we produce.

<Q – Todd Vencil>: All right. Thanks for that.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll move next to Trey Grooms at Stephens Inc.

<Q – Trey Grooms>: Good afternoon. Quickly, you mentioned in the press release large industrial commercial jobs. Are these projects that you've already started or are they projects that are kind of in the pipe coming up or could you give us some color on that?

<A – Stephen Zelnak, Jr.>: With respect to large commercial and industrial jobs, we've got an array of those kinds of opportunities that are out there across the country. A lot of it's energy driven and if you were to go, I mentioned Iowa is awfully robust with the farm economy. But Iowa has become an energy state and we continue to have very robust business out there with the wind farm projects. Iowa is the number three producer of wind-generated electricity and is ramping up further, so I think that's going to be a positive.

We talked previously about the expansion of LNG terminals and refineries. We've talked about steel mill expansion. We've talked about foreign automotive expansion, which you've got the recently announced plant that's going into Chattanooga, VW, and you have the Toyota plant in Mississippi. Those are nice opportunities. You've got Tissen-Krup in Mobile. All of these are very, very big projects that are going to take a while to build out. So they really give a stimulus to our business, because whether we or a competitor get that work and typically it winds up getting split up, it soaks up capacity in the market and keeps people busy which is always a plus, tends to take pressure off of people getting extremely price aggressive, trying to seek volume for plants that just don't have any. So those things are key, absolutely key.

And one other little positive note that I will give you, since I've talked about toll roads, which are important to us in North Carolina. The letting took place this week on the work I mentioned in Raleigh and there were two projects let. The first of those projects was the small one. It has about 0.5 million tons of aggregate on it. We have been told that we will furnish that aggregate. The second project has about 1.5 million tons, it is a much larger project. We may not know for months there, but an expectation that we'll furnish some portion of it too. So those kinds of opportunities don't come along all that often. 0.5 million ton project is a very big project.

<Q – Trey Grooms>: Great. Thanks for that. And then also with the 24 million incurred to control inventory levels, I assume that this is kind of an ongoing initiative. Can you take a stab at what that impact might be in the third quarter or fourth quarter?

<A – Stephen Zelnak, Jr.>: I think we are much better balanced, as we go forward through the year. I believe that we took our big hit in the second quarter, where we really jammed on the brakes hard. The expectation is that we are going to be fairly well in balance as we go the rest of the year. That's not to say we might not have some fixed cost inventory type hit. I am sure we will. I don't think it's going to be of a similar magnitude.

<**Q – Trey Grooms**>**:** Okay. That's all I've got. Thank you.

<**A – Stephen Zelnak, Jr.**>**:** Sure.

Operator: Next we'll go to Clyde Lewis at Citi.

<**Q – Clyde Lewis**>**:** Good afternoon, Steve and Ward. Back and forth if I may. I probably should know this, but the West region came in with the lowest price increase, can you just sort of run through the reasons behind that, I suspect it's probably some mix changes, but I just want to check on that.

<**A – Stephen Zelnak, Jr.**>**:** Well, mix changes are a piece of it; where the material is being shipped even within that region, you've got transportation mix which is improved, but if you look at the pricing there, Texas was very strong at particularly the NAFTA corridor where we ship some very low price material. We referenced that in the first quarter. So the expectation out there has not been that we were going to get -- first of all, the starting point was, we weren't going to get the level of price increases we've seen in the Southeast in particular, and it's just what the economists would predict. You've got more competitors, the barriers to entry are not as high and the pricing reflects that. Plus you've got some very low cost material and low price material in the NAFTA corridor, colleche, which we've referred to before, which is a $2, $2.5 material and the market for that is quite good right now. That's really what's impacting it.

<**Q – Clyde Lewis**>**:** Okay. Thank you. The other operating income in Q2 was another good number. I suspect it's probably one for Anne, but can you give us a sort of -- again remind us what's in there and what sort of expectation you've got for the full year?

<**A – Anne Lloyd**>**:** Clyde, again those are typically land sales – of the 7.2 million in there is land sales that we did in the Vulcan asset exchange, you will have some used equipment that gets sold in there, the run rate, LMAT runs anywhere from 12 to $15 million a year if you look over the last three to five and we don't see any difference in that this year.

<**Q – Clyde Lewis**>**:** Okay. So that 7.2 is in that 7.6 rather than tucked up in the gross profit, is it?

<**A – Anne Lloyd**>**:** Correct.

<**Q – Clyde Lewis**>**:** Okay, okay. The other two I had Steve were sort of slightly bigger picture ones. One was on sort of concrete roads versus asphalt roads, given this other spike in asphalt prices or liquid bitumen prices, have the DOTs been sort of turning around and saying, well, let's build concrete roads instead and taking advantage of a weaker cement market?

<**A – Stephen Zelnak, Jr.**>**:** They're certainly looking at it. The problem that you have with concrete roads is rideability. People as they take their trips don't enjoy the noise that typically has gone with a concrete road. They don't enjoy the seams, the joints, so you get into rideability issues which the consumer just has a bias because the asphalt roads are much quieter and a smoother ride.

Now, the concrete industry is obviously working very hard to convince DOTs otherwise. But, the DOTs are – at the end of the day they are political animals that, they have to survive in that environment. And if they are not pleasing the driving consumer then they have a problem and you can go around the country and it's not hard to find anecdotal situations where the DOTs went to concrete on major roadways and regretted it very soon thereafter with the flurry of consumer complaints.

So, economically it makes all the sense in the world, Clyde, it's cheaper initial build right now to build with concrete and certainly life-cycle concrete construction cost is far better. That line crossed over in 2007 and it's heavily weighted toward concrete. I think where you may see it, where it really has an advantage, if you take parking lots – if you're Wal-Mart and you're accustomed to putting down an asphalt parking lot, you're pretty quickly going to ask the question, why am I doing that versus putting in concrete, which is initially cheaper and is going to last me a lot longer. So, if the economics stay anywhere in close proximity I think you're going to see a lot of non-res projects move away from asphalt parking lots to concrete parking lots. And that can happen very quickly.

<Q – Clyde Lewis>: Okay, thanks on that. And the last one I had was on margins. I mean, where are you now in terms of your sort of 10 margin improvement over sort of a five-year period. I mean are you still hoping to get there by 2010 with a sort of -- hopefully a more stable market in '09 and 2010 or do you think that's actually going to be pushed out into 2011 or 2012?

<A – Stephen Zelnak, Jr.>: I think it's going to be pushed out. I think we have to be realistic about that. This, this thing is deeper and more pronounced than certainly we expected. I'm going to frame it for you in a little different way and we'll talk more about this as we go. If you go back to the period 2002 to 2007 we increased margins 1,134 basis points. And you can compare to our primary competitors and I think you will agree we did a pretty good job. If you take the period going from 2007 to 2012, the next five-year period, the expectation is even though we're moving backwards right now that we're going to do that again, we're going to be 1,000 plus basis points during that period. From 2005 -- different point than we've been looking at, to 2010 we're not going to get there simply because of this year. By 2011 measured on that basis I think we've got a good shot at getting there. And being a statistical junkie I like to look at these things and try to break them apart. If you go back and look at 2002 through 2007 we essentially got that done in -- the bulk of it in a 3 year period. And most of it in two years. So it's not going to surprise me that the same thing plays out over the course of the next five years. You're going to get a lot -- when volume turns margins are going to ramp very significantly.

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

<A – Stephen Zelnak, Jr.>: Sure.

Operator: Our next question comes from Jason Brown at KeyBanc Capital Markets.

<Q – Jason Brown>: Good afternoon.

<A – Stephen Zelnak, Jr.>: Hi.

<Q – Jason Brown>: Just wondering how much your liquid asphalt costs have come down so far in this quarter?

<A – Stephen Zelnak, Jr.>: Well, first of all we are not big asphalt guys – we are into the third quarter and -- not appropriate to speak in the third quarter. In the second quarter – the first half of the year liquid asphalt costs started the year, in most places a good average would be about $400 a ton. And by the end of the second quarter those numbers were 650, 700 with larger increases promised as people came into the third quarter; it will be interesting to see whether or not those stick, how long they stick.

<Q – Jason Brown>: Okay. Thanks and -

<A – Stephen Zelnak, Jr.>: We haven't seen any – we haven't gotten any letters from anyone or any of our customers telling us that liquid asphalt is backed up.

<Q – Jason Brown>: Okay. And then the second question is just in Iowa – in Iowa and the whole Midwest I would assume there has to be a lot of maintenance and rebuilding that has to be done after the flooding. Do you expect to recover any of that volume in the second half or even first half of '09 and are you seeing any increased demand from that?

<A – Stephen Zelnak, Jr.>: Yes, I don't think there is going to be hugely impactful rebuilding tonnage. Cedar Rapids was the most impacted metro area. And Cedar Rapids is not a large place, the downtown area was pretty much destroyed and a question as to whether or not they even rebuild it there or just relocate. I think the economy out there is so strong that it was more the disruption of what would have been an exceptional volume upper that was the issue and as we go into Q3 and Q4, we think volumes are going to be very strong there regardless of what goes on with any reconstruction work. I don't think reconstruction's going to be the driver, it's just going to be the strong economy there.

<Q – Jason Brown>: Okay. Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And next we will go to David MacGregor, Longbow Research.

<Q – David MacGregor>: Steve, just a couple of quick ones. You had talked about CapEx being down next year, what is the maintenance CapEx number that we should be thinking about for Martin Marietta today?

<A – Stephen Zelnak, Jr.>: Well, maintenance CapEx for us typically hovers around DD&A; Anne had given you that number – about 165 which is – it's up, it's inclusive of the acquisitions that we did, predominantly the Vulcan – pick up of the Vulcan quarries.

<Q – David MacGregor>: Okay. Can you quantify the mid-year price increases?

<A – Stephen Zelnak, Jr.>: Actually if I wanted to, I could take you through area by area and tell you exactly what they are but I am not going to do that for you. They were modest single digit overall. There were some spots where we got some double-digit -- very selectively.

<Q – David MacGregor>: Yes.

<A – Stephen Zelnak, Jr.>: But that was unusual.

<Q – David MacGregor>: Okay.

<A – Stephen Zelnak, Jr.>: Some places you just nibbled and you got a very small single digit increase.

<Q – David MacGregor>: Okay. You had talked about Atlanta volume being down 35% which I guess is pretty extreme. Can you talk just a little bit about what happened to pricing in the face of a 35% volume decline?

<A – Stephen Zelnak, Jr.>: The Atlanta market has become much more competitive, this is a good way to put it. At the same time, I would go back in time and look at this industry. And if you had that kind of volume decline in another era where everything in the industry was production oriented, tons across the head bullets, I think you'd see significant pricing decline in that market. The fact is you're not seeing that, you're seeing a lot of competitive pricing job by job particularly where there is some volume. But frankly you are not seeing what I would call financially irrational behavior because you sit back and you do the analysis and given that the tons are not there, you are not going to create any more tons in Atlanta by whacking your price a dollar, $2 a ton. So where you can be clever and pick off a little work from your competitor, I'm sure everybody would like to do that but at the same time, you don't want to destroy the pricing you already have. So it's a fine line because you destroy the pricing structure by a buck or $2 and all of a sudden Atlanta becomes a place that people are not making much money, if any at all.

<Q – David MacGregor>: Good, thanks very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And that does conclude today's question-and-answer session. At this time I'll turn the conference back over to Mr. Zelnak for any closing remarks.

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

Okay. Thanks for joining us, a lot of questions and hopefully we've done a good job of answering them. We tried to give you a lot of specifics and some anecdotals that will help you understand what's going on in the industry. It is a difficult time, we are working our way through it, I think very effectively and we relish the first opportunity to taste a volume increase overall. And at that point, things -- life will get much more enjoyable. If you have any individual questions, feel free to call us and we'll look forward to reporting back to you at the end of the next quarter. Thanks a lot.

Operator: And that does conclude today's conference. Again, thank you for your participation.