MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Martin Marietta Materials Incorporated Conference Call. Today's call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to the President (sic) [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 this afternoon. I have with me today Ward Nye, President and Chief Operating Officer and Anne Lloyd, our Chief Financial Officer.

The third quarter was more challenging than we expected, as our aggregates volume dropped 6%. Although we had expected a volume decline, it was exacerbated by a sharper than expected pullback in housing construction, particularly in the Midwest and North Central areas in the United States. It was affected by a timing lag in some highway work and also the impact of certain transportation issues, especially the Lock 52 disruption on the Ohio River. Timing on Lock 52 repairs was unfortunate, as we just brought online our new 8 million plus ton a year plant at Three Rivers near Paducah, Kentucky which feeds our barge network. This item coupled with low water restrictions reduced earnings by $0.06 a share based on reduced volume and high shipping costs related to waiting time and lighter loading of barges.

The positive continues to be pricing. In the third quarter pricing improved 13% against a tough prior year comparable. As expected, pricing in the higher demand Southern states led the way. The Southeast volume was up about 2%, however volumes in the newly aligned Western United States aggregates operations declined 9%, with notable weakness in the farm belt area. In the Mideast area which includes Indiana, Ohio, West Virginia, Maryland, Virginia and North Carolina, volume was down 8%.

In spite of the down volume we were able to post record results for the quarter. After adjusting for the unusual items from last year and this year, earnings per diluted share increased 11%. This result on significant down volume further validates the step function change in the business that we've previously discussed.

Our Magnesia Specialties business had another excellent quarter, with operating earnings of $7.5 million, up 13% from prior year on a 16% revenue increase. Both our dolomitic lime and magnesia chemicals product lines performed well.

In our composites business, the loss of $2.5 million was down $1.7 million from prior year, primarily due to a write-down taken last year. During the quarter and through today we've picked up our first order for refrigerated railcars along with additional orders for ballistic panels. The orders total about $6 million. As previously indicated we will review the business at the end of the year to determine how to proceed in this business.

During the quarter we continued to make significant capital investment in our business, with the most significant project being a new mine entrance and a new higher capacity plant at our Weeping Water underground mine near Omaha, Nebraska. This project increases capacity from 2 million tons annually to about 3.5 million tons. Completion is expected in the third quarter of 2007.

Also during the quarter we raised our dividend 20% and repurchased 360,000 shares of common stock for $29 million. This use of cash is consistent with our stated objective of returning excess cash to our shareholders. It also demonstrates our confidence in our cash generating capability and our business prospects going forward.

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Based on our view of the current business environment and barring unusually negative weather events, we expect fourth quarter earnings to be in the range of $1.22 to $1.42 per diluted share versus $1.02 in the prior year. Earnings for the year are expected to be $5.15 to $5.35 versus 4.03 in the prior year. Aggregates pricing for the year should increase 12.5 to 13.5%, while volume is expected to be down 1 to 3%. Our current view of 2007 is positive based on strong pricing and some cost relief on energy. Volume continues to be the primary risk factor.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions]. We'll go first to Jack Kelly with Goldman Sachs.

<Q – Jack Kelly>: Good afternoon, Steve.

<A – Stephen Zelnak, Jr.>: Hey Jack.

<Q – Jack Kelly>: Can you give us some sense of what diesel cost headwind was in the third quarter and does it become a tailwind in the fourth quarter? And if you could maybe – if you could wrap some maybe average prices or just changes year-over-year in the third quarter and what might happen in the fourth?

<A – Stephen Zelnak, Jr.>: Yeah, in the third quarter for us average cost of diesel was up about 5% over the prior year. As we look ahead to the fourth quarter, and obviously I'm calculating off of September numbers, which were much improved and also what we seen through the first half of October, we expect we are going to have a nicely positive compare in the fourth quarter. By nicely positive, I think we could see 0.20 to $0.30 a gallon improvement in Q4.

<Q – Jack Kelly>: But that would be fourth over fourth, or…?

<A – Stephen Zelnak, Jr.>: Yes, fourth over fourth.

<Q – Jack Kelly>: Okay. And the up 5% in the third equated to how many, how much was the price…?

<A – Stephen Zelnak, Jr.>: It's about a dime.

<Q – Jack Kelly>: About a dime?

<A – Stephen Zelnak, Jr.>: Yeah, about a dime.

<Q – Jack Kelly>: Okay. And just on the Ohio River situation, is, I think you had indicated a couple of weeks ago that was going to be resolved by the end of the fourth quarter, is that still best guess?

<A – Stephen Zelnak, Jr.>: We are going to cross our fingers. Right now that Lock is open, they have got high water and the traffic is flowing. It's one of those unusual situations. We have to go through that Lock to get our barges down river, which is where virtually all of our shipments are coming out of Three Rivers. We really didn't anticipate the magnitude of the disruption. At one point mid-August there were 66 tows backed up, 8 of which were ours, and we wound up with wait times 3 or 4 days not being unusual. By the time we got to the end of August our biggest carrier, which is Ingram, had declared a force majeure, and basically said it's yours, boys, we are not going to take any risk or responsibility.

At this point the smaller of the two locks has been repaired successfully and it is back in service. The repairs on the larger lock were actually slated to be finished around mid-November, but we have high water now, that those repairs have been put off. So we are going to cross our fingers and hope that they get through by the end of the year. Particularly harmful to us, Jack, because we were coming off of the consolidation of two plants into the new one at Three Rivers, we were inventory short, we had a shutdown at Three Rivers to bring the new plant up, and we were just scrambling trying to find ways to get tonnage down into what is, you know, a very good marketplace in Louisiana.

<Q – Jack Kelly>: So just, finally on DOT work in North Carolina in '07, it appears, given you know the – what the contract awards have been in the recent months that, the volume of business just on DOT is probably going to be down in North Carolina. And do you have a, do you agree with that view, or is it, do you still think it's up in the air in your mind?

<A – Stephen Zelnak, Jr.>: No, directionally I think it's probably going to be down. We don't know when the North Carolina DOT is going to begin to let projects under the $900 million of GARVEE bond authority that they have, and that's going to be key. That's the thing that, as they begin to do it, will give the future a boost in this state. We do expect to see more money flow for road maintenance coming out of the budget surplus money that they have made available. But overall, I would agree with you that – I would expect that DOT business will be down next year. Hopefully, what we see is the lettings coming out of the GARVEE bonds that will sort of tee up '08.

<Q – Jack Kelly>: Good, thank you.

Operator: We'll go next to David MacGregor with Longbow Research.

<Q – David MacGregor>: Hi, Steve.

<A – Stephen Zelnak, Jr.>: Hi, Dave.

<Q – David MacGregor>: Can you just talk a little bit about the residential exposure. I know you talked in the past sort of being 18% of the overall model. But could you talk a little bit about what you're seeing within that? And then maybe, if it's possible to give us some sense of geographic breakdown and you know where it might be little bit better and then where it might be little bit worse?

<A – Stephen Zelnak, Jr.>: Yeah, our last year percentage was about 20% residential. So, the exposure in that sense is not great. I think I can probably speak with authority and say that I was the bear in our industry on housing, and I was not bearish enough based on what's really happened. The starts numbers actually are holding up okay. But, what's really happened is that if you track the major homebuilders, they're pulling back very sharply on their CapEx. They are pulling their horns in on the development of new residential subdivisions, and that's where we sell half or more of the stone that goes into homebuilding. So, we see them continue to build out houses in existing developed subdivisions, but we see a very sharp contraction in opening up new ones. And how long that's going to go on is anybody's guess. Certainly, we don't expect to see a turn in that probably until the middle of next year at best. We've said that before, and I don't see anything that would cause me to change that.

When you look at it geographically, it's a mixed bag. In our Southern tier markets, those markets continue to go pretty well. They are certainly much better than the national average in term of degree of pullback. We had indicated earlier, we thought that our Southern tier markets would probably pull back half or less of the national average. And I think that's likely to be the case. Where we're seeing some real downturn, much more than we anticipated is in the Northern tier markets, Midwest, North Central. And you've got pullbacks in those areas that are in the 20 to 30% range, I mean really severe. Now the good part of that is that pretty quickly you're getting inventories pulled back into line. As you get to next year in those areas you're probably going to be a bit more in balance. And likewise in the Mid Atlantic area, where volume began to come down earlier, it looks like that will be a little more in balance. So, I would expect that maybe we'd begin to get some slight pick up there in an area, particularly in the Midwest and North Central, where there is not much population growth. And I would expect that maybe that hits bottom a quarter or so earlier than the nation as a whole.

<Q – David MacGregor>: You know when we think about your local markets, there is an exceptionally high freight cost that represents a barrier to exit for material out of the market. So, I

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am wondering to what extent where you see residential weakness in a certain isolated regional market, that stone ends up having negative repercussions on pricing and volume fundamentals for infrastructure or private non-res customers?

<A – Stephen Zelnak, Jr.>: Well, there is always that possibility. When you look at the ready mix business, there are different types of ready mix companies. Some tend to specialize in residential, others tend to go for the more complicated work, higher specification work, higher quality work. We are well aligned with the bigger ready mixers who do the high spec work, which is good when non-res is going well, which it is. But there is always the possibility that the smaller guy focused on residential may try to come into that sector and pick up some of the smaller non-res, and in fact I would expect that if they are feeling some pain on volume. You know on the stone side of the equation, could that shift the market a little bit? It's possible, but it's pretty difficult when you start looking at individual quarry locations and customer mix to see any dramatic shifts. It's much more of a micro gain.

<Q – David MacGregor>: Great. Thanks very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We will go next to Jack Kasprzak with BB&T Capital Markets. We'll go on to Andrew Schaffer with Quality Capital.

<Q>: Yes, hi. I was looking at your gross profit margin for aggregates and I was just wondering with basically a 13% year-to-date price increase, and yeah I realize volumes were down and also if you back out the Lock 52 situation, I guess I would expect kind of higher gross profit margins. What has also increased in that cost of goods line, is it significant, is it the diesel cost that's way up?

<A – Stephen Zelnak, Jr.>: Well, certainly diesel cost has increased, but if you look at Q3 in particularly you've got two things that hurt us there. One is the lack of amortization of fixed cost because of the volume decline, not only in sales, but we tried to adjust pretty quickly on the production side. What we don't like to do is to build inventory and tie up working capital unnecessarily. So we made some adjustments pretty quickly in terms of production rates and that gave us some under-absorption of fixed cost, which was an issue. The other thing that has continued to run at very high rates, and it relates to Lock 52, is really transportation. When you look at the mix of business we have and the high concentration of long-haul transport, that's been where the major cost escalation has been this year and through the third quarter. So we got another healthy dose of that, and certainly that had its impact on margins. Those two things are the biggest.

Now as we go forward, a lot of the transportation contracts we have, in fact virtually all of them, have fuel adjustment clauses in them. So, we do have the potential to go in the other direction. We won't necessarily get that in the fourth quarter because it lags, but as we go into next year, we've already commented that we expect some favorables coming from energy. Part of the favorable would diesel fuel cost, where we burn 40 million gallons or a little better a year, and just the per gallon reduction there. The second favorable is that on some of these fuel adjustment clauses, we are likely to get some favorable adjustments, i.e. down.

<Q>: Okay.

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

<Q>: Okay. Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

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Operator: We'll go next to Clyde Lewis of Citigroup.

<Q – Clyde Lewis>: Good afternoon everybody. Couple of questions, if I may, Steve, first in terms of structural composites, obviously it's still, still a fairly tough year, but maybe a little bit better than you were hoping for. But I mean are you sort of any more confident about sort of getting to break-even now in the foreseeable future, and are you starting to pick up enough orders to justify that view, or is it still in a medium to long-term outlook for breaking even?

<A – Stephen Zelnak, Jr.>: Well, it's still too early to call. We've said that we are going to take a look at it at the end of the year, and I've reiterated that we're going to take a look at this business at the end of the year. The fact that we've picked up some railcars orders for refrigerated cars was really a big plus. We've actually worked on that for about two years. And it's been difficult to generate the confidence in the marketplace for somebody to step forward and do it. But we've got a signed purchase order in hand, and in fact we're manufacturing cars with a partner right now. We hope to get some follow-on orders there. And if, in fact we are successful, that could give us a nice boost to backlog, which is what we need. If we are not successful, then we'll look at that part of it very carefully. The place where we've had some success is with the flat panels and particularly with ballistic panels. We did pick up another ballistic panel order. All the feedback that we get from the military from a standpoint of the purchasing folks, as well as people who have utilized the material in the field is very, very positive. There are additional orders that are going to be let there, at least, we are told that. So we are kind of waiting to see what it is we are going to get in the fourth quarter, and that will color our discussions that we have at the end of the year.

<Q – Clyde Lewis>: Okay, thanks for that. And in terms of pricing, are you prepared to say at the moment as to what you're talking to your customers about, what the size of price rises might be at the start of '07?

<A – Stephen Zelnak, Jr.>: The only thing we've said, and the only thing I would say right now is that we've said in North Carolina, we've put out price increases early to the major customers. Expectation is that we are going to raise prices about 15% in North Carolina. I think that will, for free area of size, that will be our largest rate of increase for 2007. We will increase prices everywhere January 1, '07. However, I think what you are going to see based on some diminution of market conditions is you are not likely to see any extensive level of mid-year price increases like we've had in the last two years. So, I think you ought to count on that. We've said that the rate of price increase in '07 is going to be very good, but it will be a lesser rate than '06, and you ought to count on that also.

<Q – Clyde Lewis>: Okay. And one more question if I may on SG&A costs, they look as if they've sort of dipped a bit from where they were in the second quarter. Is that mainly down to the output again, is there a link there, or is it maybe a little bit of a driver on your behalf to cut some costs?

<A – Stephen Zelnak, Jr.>: Certainly, there is no lack of drive on our part to take some cost out and all the folks sitting around the table here today will tell you that. We're very focused on squeezing some more cost out of the overhead structure. With that said, we did have some unusual overhead cost in the first part of the year aside from the expensing of stock options, which you're already well aware of. We had some things related to our succession efforts, some outside consulting, move costs, a lot of things that we didn't really anticipate that were out of the ordinary. I think those are behind us. And I would hope to get back to a much more normal SG&A structure with some things coming out. I am giving everyone the opportunity to volunteer to take some things out, and if they don't volunteer, then they get some help.

<Q – Clyde Lewis>: Okay. Thanks a lot, Steve.

<A – Stephen Zelnak, Jr.>: Sure.

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Operator: We'll go next to Jack Kasprzak with BB&T Capital Markets.

<Q – John Kasprzak>: Thanks. Good afternoon, Steve.

<A – Stephen Zelnak, Jr.>: Good afternoon.

<Q – John Kasprzak>: I don't know what happened the first time there, it was a quick hook, but…

<A – Stephen Zelnak, Jr.>: You've got to speak quickly, Jack.

<Q – John Kasprzak>: Exactly. I wanted to ask about whether – a question with a couple of parts, related though, is it possible to pick out or parse out the weather impact in the quarter to try to get at what sort of organic volume environment we're in. If it was down 6 or so percent in Q3, is that even with the weather impact, the type of environment you think we're in, and do you think Q3 will be the low ebb for volumes in terms of the comparison?

<A – Stephen Zelnak, Jr.>: A very good question and a very difficult one to answer. We have certainly spent some time trying to analyze that with respect to Q3. Our best guess, and it's an educated guess, is that the economic decline probably accounts for roughly half of what we saw, the 6%, I would put about 3%, perhaps a little bit more on the back of the economic decline. So, certainly nothing close to all of it.

<Q – John Kasprzak>: Okay.

<A – Stephen Zelnak, Jr.>: We felt the downdraft, it's predominantly homebuilding, and we did – and the other piece of it, we also referred to some postponements on DOT work. It's stretching work out. If you are contractor and you see liquid asphalt coming down, if you can hold off on that work, your profitability is going to be much better next year, and I think they are certainly inclined to do that. Is it the low ebb in terms of volume decrease? I think it's too early to say. We are still in our planning process right now. We'll probably have a better view of the world certainly by the end of November, and we'll talk to you when we come out with the fourth quarter results, but I truly think it's too early to make that call.

<Q – John Kasprzak>: Okay.

<A – Stephen Zelnak, Jr.>: So, I am going to defer on that one.

<Q – John Kasprzak>: Fair enough. And we've talked already about the outlook in infrastructure and public works, particularly in North Carolina, but how about non-residential or commercial construction, which I think you mentioned before is still good. But how are you guys feeling about the outlook there? Various indicators still seem to suggest it should be positive in '07. Is that your view looking out into '07?

<A – Stephen Zelnak, Jr.>: Yeah, we don't see anything right now from the statistics or from talking to customers that would indicate that non-res would turn negative in '07. We see non-res being a positive. So, we think we'll see some increased demand. It's not going to be as good as it was this year. This year has been a very, very, very good non-res year early on for sure. The infrastructure side, we think is going to be positive based on what we know today. Part of that would be stimulated by the fact that the DOT paving cost, if asphalt comes down to where it's forecast, which is roughly $100 a ton for liquid lower than, you know, the peak of this year, maybe a little bit more, the DOTs are going to be able to get more for their dollars, and that would be a very, very positive thing in terms of demand for stone volume. Keep in mind asphalt is 94% aggregate, 6% of the liquid, but the liquid is the big cost element. So we are reasonably positive about infrastructure. We think non-res is positive. We think housing, as I said, continues to be ugly, and

we are not ready to say how ugly, but you know I can't imagine that the fourth quarter is going to provide a lot of comfort when we see what the homebuilders turned in.

<Q – John Kasprzak>: Very good, thanks Steve.

<A – Stephen Zelnak, Jr.>: Okay.

Operator: We will go next to Jonathan Goldberg with Highline Capital Management.

<Q – Jonathan Goldberg>: Hi.

<A – Stephen Zelnak, Jr.>: Hi, there.

<Q – Jonathan Goldberg>: Steve, you've already talked about this a little bit, but you know specific, as you look out to 2007, specifically at your two biggest markets of North Carolina and Texas, could you kind of go through residential, non-residential and infrastructure and just talk kind of qualitatively about the demand environment in those categories for those two states?

<A – Stephen Zelnak, Jr.>: Sure, I'll take a crack at it. Texas looks awfully good to us. Texas residential has actually been stronger probably than any other area of the country, it's held up better. You are seeing some pullback now in Texas in the res end, and I think that will continue into next year, but given the flow of people into Texas, the demand remains high. You know I think Texas is going to outperform the country pretty substantially as far as res. When you look at Texas non-res, I think it's going to be like the country except probably better. It will be positive, but probably at a better rate than the country in general. And Texas infrastructure looks good to us., part of that being driven by reduced asphalt cost to the DOT. DOT will have another very good program next year, and on top of that you have got a tremendous amount of toll work in Texas to augment it. So we feel extremely good about Texas.

When you get to North Carolina it's a little bit more of a mixed bag. Res in North Carolina has held up fairly well. We expect that to continue, just like Texas. Good strong flow of people coming here, Charlotte and Raleigh in particular have held up well on the residential side, but it will be down modestly next year. Non-res in North Carolina looks good to us, probably outperforming the country in terms of rate of increase. But the big issue in North Carolina was what we talked about, and that's infrastructure which we view as being down next year, and a big question mark in terms of the DOT schedule for putting work out, which they have the funding authority for. It's just a question of them deciding where they are going to use that funding authority. There's far more work than they can get done, a lot of political pressures to do specific projects, and I think they're trying to figure out where to place their bets and which jobs they'll go ahead and commit to. A lot of activity in North Carolina with respect to a Toll-way Authority and projects that the Toll-way Authority is looking at local option bond issues for infrastructure. So I think you are going to see more of it coming out of the local areas in particular as far as any positives than you will at the state level. So, that's the best I can tell you right now.

<Q – Jonathan Goldberg>: Okay, great thanks Steve.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll go next to Arnie Ursaner with CJS Securities.

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

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

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<Q – Arnold Ursaner>: First question I have is in the quarter you were hit $0.06 for the Ohio Lock 52. What do you have embedded in your Q4 guidance, please for that issue?

<A – Stephen Zelnak, Jr.>: Not $0.06, a much lesser number. We just don't anticipate we are going to have the same kinds of issues there, that we had in Q3.

<Q – Arnold Ursaner>: Second question, Anne's been pretty quiet there, so maybe we will get her involved, on cash and cash investments, you were way down in the quarter. Obviously you chose to invest the 12 million in pension expense, but I've heard you in the past, Steve, talk about trying to maintain something around 100 million of cash. Did you view the weakness in your stock in Q3 as an opportunity and got more aggressive in your share repurchase than you may have liked because the price is where you thought it would be?

<A – Anne Lloyd>: No, I mean Arnie our cash objective has been around the 40 to $50 million at the end of the fiscal year to be able to carry us through a slower period in the first quarter for cash – cash is obviously very cyclical. We looked at opportunistically the free cash flow available during the quarter, to look at you know obviously what we've said the investment intention, we obviously had some increase in CapEx during the quarter in accordance with plans and the left over free cash flow we went to the market with.

<A – Stephen Zelnak, Jr.>: You know we obviously like our shares. You know, we bought back almost 4 million of them in the last two years. We continue to think that that's a good use of excess cash. We think it's a very good investment based on our view of our outlook for our company. So we're going to stay focused on it. We clearly can fund our internal capital needs without any issue whatsoever and have some very nice free cash flow left over to purchase stock if that's appropriate.

<Q – Arnold Ursaner>: Okay, a few more follow-ons real quick, capital spending for next year, given the slowdown, are you thinking or changing any of your capital spending plans for next year?

<A – Stephen Zelnak, Jr.>: CapEx is going to come down next year. It was going to come down anyway. CapEx this year, you know, 250, could ramp up as high as 260 depending upon flow of projects in the last quarter and what happens when things slow a little bit is all of a sudden contractors get a whole lot more interested in moving on projects and material suppliers get a lot more interested in making materials available. So, things tend to move a little faster. We could be a little higher this year. I certainly would expect that next year we're going to see CapEx come down. Could be 10, probably on the high side 15%, while funding every project that we see that's got the kinds of rates of return that we've talked about in the past, i.e., rebuilding of plants that have 25, 30% IRRs after tax. We will be on everything like that that we can conceivably do. Returns are too good to ignore.

<Q – Arnold Ursaner>: My final question if I could regards the segment margin in aggregates, and it's really a 2-part question. What would it have been this quarter ex the Ohio River issue in your opinion? And the second question relates to '07. You gave us some preliminary views about your thinking on price for next year, and you've also given us some pretty good indication for some of the key costs involved. They're also coming down. When you equate the two, some price relief, some volume decrease, and some cost decreases, what sort of view do you think we are looking at for operating margin improvement next year in aggregates?

<A – Stephen Zelnak, Jr.>: Yeah, it's too early to give you a specific number Arnie, but I'll talk about it broadly. I have said previously that we expect margins to expand in 2007. And I don't have any reason to change my view of that. We think margin expansion is certainly in the cards and in the works for us. If you take the broader view, I have also said that as you look out over the next five years and maybe even a little quicker, you've got an opportunity to make this a 30% margin business as opposed to a 20 and some change kind of business. I firmly believe that that's there, and could you potentially get a dip in some year in that period? It's possible. But I think it

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would take a pretty healthy margin decline or some type of runaway inflation that you couldn't offset fast enough to do it. I think we're in an awfully good position as we go forward and come out of this lull, downturn in volume and start coming back up, what I can say with conviction is that aggregate is going to be short in the key markets where it makes a difference. And some of the other construction materials will be short also, which you ration that by price.

With respect to segment margins for the quarter, you've got to the Lock 52 number, you could take and translate that, but let me just take it a little more broadly. With the host of issues that we had, most of which you know it's both volume and there was a bit more cost in there, we had some other things that were bit more costly than we had anticipated. I would have expected to have margin improvement that was more along the lines of 200 basis points, 175, 200 basis points on the gross margin level, if everything had gone the way we wanted it to and expected it to.

<Q – Arnold Ursaner>: Is that a fair thought for Q4, something more like that?

<A – Stephen Zelnak, Jr.>: Well, I am not going to give you an expectation for Q4. But clearly, if you take a look at the numbers we put out with respect to EPS, I don't think you get there. We've already said down volume in Q4. So, if you take down volume and very good pricing, the only way you get to the numbers we put out is, you've got to have margin expansion.

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

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll go next to Wayne Cooperman with Cobalt Capital.

<Q – Wayne Cooperman>: Hey, guys how are you?

<A – Stephen Zelnak, Jr.>: Fine.

<Q – Wayne Cooperman>: I guess, first I would just wondered if you could, have your view on Cemex and Rinker, it seemed like you guys would, it might be a good fit too. And I guess on the share repurchase, I was just wondering you know might, you guys might be even more aggressive, if you could just touch upon that, and if maybe you have a target set to EBITDA or debt to cap that you are looking for?

<A – Stephen Zelnak, Jr.>: Okay, with respect to Cemex and Rinker, I think everyone in the world has commented on that, so you know it's really theirs to comment on, not ours, and I'm not smart enough…

<Q – Wayne Cooperman>: Can I ask what your view anyway, given your expertise in the industry?

<A – Stephen Zelnak, Jr.>: Well, I really don't have a view, because those are two totally different companies than we are. They are a very broad product lines. They're both international. They are in a different game than we're in. So, I am not smart enough to have any kind of view that's going to be helpful to you. So I'll pass on that one.

With respect to share repurchase, what we've said is that we plan to take a hard look at employing our free cash flow in the best interest of the shareholder. And we start out by investing in everything that will create long-term value, and we're doing that. And then beyond that, we've got excess cash. We actually got more aggressive in the second quarter when the share price went down much more sharply, dipped down into the 70s, and we actually did some short-term borrowing, which would not be our norm to repurchase shares. And we did that based on the fact that we had incredibly heavy CapEx in the first half. So we looked at it and we normalized the

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CapEx and said, if we'd had a normalized CapEx, what would we have had available? And we ended up the quarter, if I recall, at about 13 million of short-term borrowing which we employed to buy back shares.

<Q – Wayne Cooperman>: So you guys just don't have a view that your stock is still sort of misunderstood, and you would be willing to add on incremental leverage to create value by buying back stock because it's cheap?

<A – Stephen Zelnak, Jr.>: It's a good point of debate. It's obviously something that we think about a lot. We get a lot of commentary from shareholders who in some cases suggest we ought to, in other cases suggest that we find more ways to employ some of this higher return money within the business. So we look at it and we try to weigh it out. I'll tell you where we are right now. We're clearly a buyer of our stock. We'd like to see it up, and buy more, certainly I would, you know I have no problem with the valuation of the stock. We will buy all day, we were a buyer at 110. So that's not an issue. The real issue here is capital structure.

<Q – Wayne Cooperman>: Right.

<A – Stephen Zelnak, Jr.>: And part of the issue is we've got $700 million worth of bonds out there. And people loaned us money with a certain view of how we were going to run the business. And I am not particularly inclined to stiff bondholders. That's not my view of life. So what I wanted to do is make sure that we are keeping the faith with people on both sides of the equation. We paid down a lot of short-term debt to in fact bring debt to cap back into the 35 to 40% range.

<Q – Wayne Cooperman>: Right.

<A – Stephen Zelnak, Jr.>: …which is where we're keeping it now. And once we did that, the debt side of the equation said you guys ought to de-lever and bring it down to 25, 20, 15, and we said no, we are not going to do that.

<Q – Wayne Cooperman>: Right.

<A – Stephen Zelnak, Jr.>: It's the shareholders' time and we are going to deploy that cash to the shareholder.

<Q – Wayne Cooperman>: All right. Because, if you believe that you'll get to 30% operating margins over the next several years, and you run out a scenario, and then you assume that you had an incremental leverage and bought back more shares, I mean the delta in five years is unbelievable how accretive that would be. So, I am happy to share our numbers with you, if you would like.

<A – Stephen Zelnak, Jr.>: Better your numbers than some we conjure up, we'll be happy to take a look at them.

<Q – Wayne Cooperman>: Sure, okay, thanks lot.

Operator: We'll go next to have Mike Betts with JP Morgan.

<Q – Michael Betts>: Yes, good afternoon.

<A – Stephen Zelnak, Jr.>: Hey, Mike.

<Q – Michael Betts>: Hi, I had two areas of questioning, if I could, one in Florida, well the Cemex and Rinker situation you mentioned, but I would just, in terms of your business in Florida, which I

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think is about 5% of sales, firstly, just where are your strong points, where are you concentrated in Florida?

<A – Stephen Zelnak, Jr.>: In Florida, we only have two production locations, and they are up in the Panhandle of Florida near Tallahassee. They service the Tallahassee market, and they service the area going over to the coast, Panama City, Destin area. So those are the two producing locations. The majority of our business into Florida is in fact material that we ship in by rail and by water.

<Q – Michael Betts>: Okay.

<A – Stephen Zelnak, Jr.>: We have a lot of strength in Jacksonville, and we rail material, and it's granite that we're railing into Jacksonville, and in fact all the material we're railing is granite, which we do into Jacksonville, all the way down through the central part of the state, even down to Orlando, Tampa. We really have a niche in Florida, and our niche is the infrastructure component that is related to asphalt paving and the use of granite, because that's a superior material for that application compared to the porous Florida limestone. So, that's what we focus on, that's been a good niche opportunity for us, it continues to grow. As I am sure you know Florida DOT has a very, very strong infrastructure program. It looks like that will continue for several more years, and with population flow it may continue for a lot longer than that. So, that's where our strengths are, we bring material into Jacksonville, we come by water, both Bahamas and Nova Scotia into Jacksonville. We come by water into Port Canaveral, Port Manatee on the Gulf, Tampa on the Gulf, Panama City and Pensacola on the Gulf, so those are our key points of entry.

<Q – Michael Betts>: Okay. Thank you for that. And then just on North Carolina, and I've probably missed it in the past Steve, but I mean you described the market outlook which kind of looks a bit mixed, and yet you're putting your biggest price increase through in North Carolina. Has something structural happened in that market that I've missed, or is it just you feel that the price increases have lagged over the years, I mean, is it something you could talk about on the call?

<A – Stephen Zelnak, Jr.>: Yeah, I don't think that when you step back and do an economic analysis of the value, true underlying value of aggregate in North Carolina, we don't think current pricing reflects that is the bottom line.

<Q – Michael Betts>: Okay.

<A – Stephen Zelnak, Jr.>: So, when you begin to look it that way, what you don't want to do is to put it all on the customer at one time. And we have taken some time to roll out what we think is much more economically driven pricing. The customer has had some time to absorb that. The marketplace gets to absorb it. I think it's a better way to do it. So, the bottom line is the reason that the price increases will be fairly substantial next year in North Carolina is that there is a make-up component there, and we think we need to get the pricing of stone in North Carolina to something closer to its, what we would call economic value, based on our analysis.

<Q – Michael Betts>: So, I mean if I was doing it from here, I should assume that probably in future years there would also be increases in excess of the average, then?

<A – Stephen Zelnak, Jr.>: I wouldn't assume anything right now. I think we will just wait and see on that.

<Q – Michael Betts>: Okay. And then, a final question if I could, Steve, and I think I know the answer, but just to clarify it from my point of view. Transport surcharges, I mean generally you have been recovering the high cost through price increases. Are there any sort of energy-related surcharges that automatically disappear of any significance with the decline in energy costs?

<A – Stephen Zelnak, Jr.>: There are fuel adjustment clauses, which, that's just exactly what they are, is adjustment clauses. They go up and they can come back down based on the price of energy that the railroad is consuming, the price of fuel/energy that is being consumed in barging and likewise the deepwater ships. So, there is an opportunity to get some pullback there. We will just wait and see how that develops.

<Q – Michael Betts>: Okay. But are there any that you have pass on to your customers in that form, who could then be claiming that there should be a reduction because of that?

<A – Stephen Zelnak, Jr.>: We have done some very limited surcharges, fuel surcharges where in fact those would come off of a customer if things backed up in terms of fuel pricing, but quite limited. We've just, we've essentially taken the tack that we're just going to price the product and then we take the risk from there.

<Q – Michael Betts>: Okay that's great. Thank you very much.

Operator: [Operators Instruction]. We'll go next to David MacGregor with Longbow Research.

<Q – David MacGregor>: Yes, Steve, just as follow-up, one of the things I have always liked about the way you've managed this business is your commitment of capital to internal sort of de-bottlenecking projects that pay very high internal rates of return. But what I'm hearing is your CapEx is going to be down 15% next year, and I think obviously I think anybody who thinks about this realizes there is not an infinite list of projects. Is it possible we're approaching the sort of the end of the set of what you'd call projects with attractive marginal efficiency of investments, or are we – is there a still lot of mileage left there? Can you give us a sense of kind of what inning in the game might be in on those projects?

<A – Stephen Zelnak, Jr.>: Sure I think that's a very good question. First of all if you look at 2006, you need to keep in mind that we're coming off of two of the largest projects in our history, and that's the project at Three Rivers, which actually when you eliminate, when you look at the plant crushing side of it, that's probably the largest crushing plant piece exclusive of transportation that we've ever done. And you're looking at approximately 47, $48 million there, and then we go to North Troy in southern Oklahoma feeding Dallas on down to Houston, and that's another project that's going to wind up in the $40 million plus range. So we've had two huge projects which are very unusual for us in terms of their magnitude. So when you step back and put those away, you know I mentioned a big project, multi-year project out in Omaha, which is going to be a very good one.

What you should expect out of us over the course of the next five years is that we are on a program to systematically come across the Southern tier, particularly the Southeast, to increase capacity, in most cases we are looking at doublings, and to do that with a high degree of automation, which means that the headcount is going to remain essentially the same. And you are going to see that in North Carolina, South Carolina, Georgia in particular. We actually, as we have capitalized a lot of the acquired facilities, and particularly done a lot of build out in Texas and Oklahoma and then this Three Rivers project, we haven't put as much capital proportionately into what is really the guts of our business in the Carolinas and Georgia. We are going to dedicate probably the next five years to doing that. You'll see a very high level of automation implementation, and that is a key focal point internally. So I think we are in early, middle innings of this game. Out of the 250 or so plants that we operate, only about 25% of them – to be accurate let me say less than 30% are automated. So, we have tremendous automation opportunity, even without doing major rebuilds, doing the entire plant, and we are hard to work on that. It's a very good question.

<Q – David MacGregor>: So, as you automate a location, what typically happens to the location margins?

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<A – Stephen Zelnak, Jr.>: The history of automating locations is that the margins improve and in most cases pretty substantially.

<Q – David MacGregor>: Yeah, I guess I was going to try and get you to quantify pretty substantially.

<A – Stephen Zelnak, Jr.>: Well, I'll just take you back to the fact that when we do one of these big rebuilds, we've said that those are typically 25% to on up to 35% after tax IRR projects, and you know that you've got to have some significant margin improvement when you're investing big slugs of capital, so it's very attractive.

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

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And that does conclude today's question and answer session. I would like to turn the call back over to our speakers for any additional or closing remarks.

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

We appreciate you tuning in. Obviously, our outlook for the fourth quarter as we view it today is much more positive than what we saw in the third quarter. Again barring unforeseen weather, we would hope to come back and talk to you in the end of January or early February with some much better looking results, and at that point in time we will also talk to you about our view of '07 much more precisely. Thanks, we appreciate it.

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

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