

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1998

Commission File Number 1-12744

MARTIN MARIETTA MATERIALS, INC.

-----  
(Exact name of registrant as specified in its charter)

North Carolina

56-1848578

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer Identification Number)

2710 Wycliff Road, Raleigh, NC

27607-3033

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code

919-781-4550  
-----

Former name: None

-----  
Former name, former address and former fiscal year,  
if changes since last report.

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes  No  
-----

Indicate the number of shares outstanding of each of the issuer's classes of  
Common Stock, as of the latest practicable date.

Class Outstanding as of October 31, 1998

-----  
Common Stock, \$.01 par value 46,575,154  
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## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

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MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 1998	DECEMBER 31, 1997
	-----	-----
	(DOLLARS IN THOUSANDS)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$12,195	\$18,661
Accounts receivable, net	193,936	147,432
Inventories, net	145,947	132,583
Deferred income tax benefit	17,539	16,873
Other current assets	4,164	6,463
	-----	-----
Total Current Assets	373,781	322,012
	-----	-----
Property, plant and equipment	1,338,367	1,242,677
Allowances for depreciation, depletion and amortization	(704,126)	(651,257)
	-----	-----
Net property, plant and equipment	634,241	591,420
Cost in excess of net assets acquired	182,197	148,481
Other intangibles	27,652	26,415
Other noncurrent assets	18,517	17,385
	-----	-----
Total Assets	\$1,236,388	\$1,105,713
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$46,913	\$49,599
Accrued salaries, benefits and payroll taxes	24,503	19,742
Accrued insurance and other taxes	23,706	16,440
Income taxes	14,748	4,691
Current maturities of long-term debt	1,650	1,431
Commercial paper	19,000	--
Other current liabilities	17,737	16,332
	-----	-----
Total Current Liabilities	148,257	108,235
Long-term debt	313,720	310,675
Pension, postretirement, and postemployment benefits	67,456	63,070
Noncurrent deferred income taxes	51,974	50,008
Other noncurrent liabilities	13,187	11,889
	-----	-----
Total Liabilities	594,594	543,877
	-----	-----
Shareholders' equity:		
Common stock, par value \$.01 per share	466	462
Additional paid-in capital	347,810	335,766
Retained earnings	293,518	225,608
	-----	-----
Total Shareholders' Equity	641,794	561,836
	-----	-----
Total Liabilities and Shareholders' Equity	\$1,236,388	\$1,105,713
	=====	=====

See accompanying notes to condensed consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,		
	1998	1997	1998	1997	
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
Net sales	\$312,445	\$271,717	\$776,717	\$662,070	
Cost of sales	216,615	191,781	568,173	486,503	
Gross Profit	95,830	79,936	208,544	175,567	
Selling, general & administrative expense	19,702	18,874	59,879	50,486	
Research and development	873	1,042	2,492	2,323	
Earnings from Operations	75,255	60,020	146,173	122,758	
Interest expense	(5,823)	(5,615)	(17,085)	(11,380)	
Other income and expenses, net	422	1,583	75	5,230	
Earnings before Taxes on Income	69,854	55,988	129,163	116,608	
Taxes on income	23,947	19,714	44,264	41,058	
Net earnings	\$45,907	\$36,274	\$84,899	\$75,550	
Net Earnings per share					
	Basic	\$0.99	\$0.79	\$1.83	\$1.64
	Diluted	\$0.98	\$0.78	\$1.82	\$1.63
Average number of common shares outstanding					
	Basic	46,536,116	46,116,693	46,410,052	46,092,078
	Diluted	46,841,671	46,270,345	46,695,694	46,189,742

See accompanying notes to condensed consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997
	(DOLLARS IN THOUSANDS)	
Operating activities:		
Net earnings	\$84,899	\$75,550
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation, depletion and amortization	70,553	56,520
Other items, net	(651)	(2,878)
Changes in operating assets and liabilities:		
Accounts receivable	(42,480)	(46,498)
Inventories	(8,580)	7,668
Accounts payable	(5,437)	4,850
Other assets and liabilities, net	31,731	26,278
Net cash provided by operating activities	130,035	121,490
Investing activities:		
Additions to property, plant and equipment	(77,473)	(60,312)
Acquisitions, net	(65,291)	(278,645)
Transactions with Lockheed Martin Corporation	--	23,768
Other investing activities, net	2,726	5,792
Net cash used for investing activities	(140,038)	(309,397)
Financing activities:		
(Repayments) borrowings of long-term debt, net	(8)	224,738
Dividends	(17,177)	(16,589)
Debt issue costs	--	(937)
Commercial paper borrowings (repayments), net	19,000	--
Issuance of common stock	1,722	--
Net cash provided by financing activities	3,537	207,212
Net (decrease) increase in cash and cash equivalents	(6,466)	19,305
Cash balance (book overdraft), beginning of period	18,661	(4,260)
Cash and cash equivalents, end of period	\$ 12,195	\$ 15,045

See accompanying notes to condensed consolidated financial statements.

## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The accompanying unaudited condensed consolidated financial statements of Martin Marietta Materials, Inc. (the "Corporation") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and to Article 10 of Regulation S-X. The Corporation has continued to follow the accounting policies set forth in the audited consolidated financial statements and related notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 1997, filed with the Securities and Exchange Commission on March 30, 1998. In the opinion of management, the interim financial information provided herein reflects all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations for the interim periods. The results of operations for the nine months ended September 30, 1998, are not necessarily indicative of the results to be expected for the full year.

2. Proposed Acquisition of Redland Stone Products Company

On October 5, 1998, the Corporation announced it had signed a contract with an affiliate of LaFarge SA to acquire the common stock of Redland Stone Products Company ("Redland Stone"). The purchase price of \$272 million plus certain assumed liabilities and transaction costs estimated to be \$8 million, is subject to certain post-closing adjustments related to working capital. The business combination, when consummated, will be accounted for under the purchase method of accounting prescribed by Accounting Principles Board Opinion No. 16, "Accounting for Business Combinations". Management expects the transaction to close in the fourth quarter of 1998, subject to completion of due diligence and satisfaction of other conditions typical for such a transaction.

3. Investment in Meridian Aggregates Company

The Corporation consummated a transaction as of October 31, 1998 to purchase an initial 14 percent interest in the business of Meridian Aggregates Company ("Meridian"). The transaction provides a mechanism for the Corporation to purchase the remaining interest at a predetermined formula price within five years. The initial purchase has been accounted for as an investment. The Corporation's exercise of its option to purchase the remaining interest of Meridian is dependent, among other things, on the financial and economic condition of both the Corporation and Meridian at the first exercise date. The other investors in Meridian have the option to require the Corporation to purchase their interests annually beginning December 31, 2000, accelerated only by the death of an investor.

## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

## 4. Inventories

	SEPTEMBER 30, 1998	DECEMBER 31, 1997
	-----	-----
	(DOLLARS IN THOUSANDS)	
Finished products	\$120,014	\$108,707
Product in process and raw materials	11,950	7,886
Supplies and expendable parts	22,958	23,161
	-----	-----
Less allowances	154,922 (8,975)	139,754 (7,171)
	-----	-----
Total	\$145,947 =====	\$132,583 =====

## 5. Long-Term Debt

	SEPTEMBER 30, 1998	DECEMBER 31, 1997
	-----	-----
	(DOLLARS IN THOUSANDS)	
6.9% Notes, due 2007	\$124,951	\$124,948
7% Debentures, due 2025	124,202	124,195
Commercial Paper, interest rates approximating 5.7%	60,000	60,000
Acquisition notes, interest rates ranging from 5% to 10%	4,880	1,337
Other notes	1,337	1,626
	-----	-----
Less current maturities	315,370 (1,650)	312,106 (1,431)
	-----	-----
Total	\$313,720 =====	\$310,675 =====

No borrowings were outstanding under either of the Corporation's revolving credit agreements at September 30, 1998. However, these agreements support commercial paper borrowings of \$79 million outstanding at September 30, 1998, of which \$60 million has been classified as long-term debt in the Corporation's consolidated balance sheet based on management's ability and intention to maintain this debt outstanding for at least one year. At November 1, 1998, \$45 million remained outstanding under the Corporation's commercial borrowing obligations. See the "Liquidity and Capital Resources" discussion contained in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 14 of this Form 10-Q.

The Corporation's interest payments were approximately \$16.9 million in 1998 and \$8.8 million in 1997 for the nine months ended September 30.





## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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FOR THE QUARTER ENDED SEPTEMBER 30, 1998

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

## 6. Income Taxes

Deferred income tax assets and liabilities on the consolidated balance sheet reflect the net of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Corporation's effective income tax rate for the first nine months was 34.3% in 1998 and 35.2% in 1997. The effective rate for three quarters of 1998 was slightly lower than the current federal corporate income tax rate of 35% due to the effect of several offsetting factors. The Corporation's effective tax rate reflects the effect of state income taxes and the impact of differences in book and tax accounting arising from the permanent benefits associated with the depletion allowances for mineral reserves, amortization of certain goodwill balances, foreign operating earnings, and earnings from nonconsolidated investments.

The corporation's income tax payments were approximately \$32.9 million in 1998 and \$38.8 million in 1997, for the nine months ended September 30.

## 7. Contingencies

While it is not possible to determine the ultimate outcome, in the opinion of management and counsel, it is unlikely that the outcome of litigation and other proceedings, including those pertaining to environmental matters, relating to the Corporation and its subsidiaries, will have a material adverse effect on the results of the Corporation's operations or its financial position.

## 8. Other Matters

As of January 1, 1998, the Corporation adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (the "SFAS 130"). The SFAS 130 requires all non-owner changes in equity that are excluded from net earnings under existing Financial Accounting Standards Board standards be included as comprehensive income. The Corporation presently does not have any transactions that directly effect equity other than those transactions with owners in their capacity as owners. Therefore, the provisions of the SFAS 130 are not applicable.

The Corporation plans to adopt the provisions of the Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" and the Statement of Financial Accounting Standards No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits" in its annual reporting on Form 10-K for the year ended December 31, 1998. The impact of the adoption of these accounting standards on the Corporation's financial reporting and related disclosures is not expected to be material.

## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

## 8. Other Matters (continued)

In February 1994, the Corporation was authorized by its shareholders and the Board of Directors to repurchase up to 2,000,000 shares of the Corporation's Common Stock for issuance under the Corporation's Amended Omnibus Securities Award Plan. This authorization was subsequently decreased to allow the repurchase of approximately 1,000,000 shares which represented the aggregate number of shares that were subject to grants made through May 8, 1998. The shareholders of the Corporation approved on May 8, 1998, the Martin Marietta Materials, Inc. Stock-Based Award Plan, as amended from time to time (the "Plan"). In connection with the Plan, the Corporation was authorized to repurchase up to 5,000,000 shares of the Corporation's Common Stock for issuance under the Plan. On May 3, 1994, the Board of Directors authorized the repurchase of an additional 500,000 shares for general corporate purposes. The Board of Directors rescinded the general corporate purposes repurchase authorization on August 20, 1998. As of the date of this quarterly report, there have been 68,200 shares of Common Stock previously repurchased by the Corporation under these authorizations.

## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

**OVERVIEW** Martin Marietta Materials, Inc., (the "Corporation") operates in two principal business segments: aggregates products and magnesia-based products. The Corporation's sales and earnings are predominately derived from its aggregates segment which processes and sells granite, sandstone, limestone, shell and other aggregates products from a network of more than 250 quarries and distribution facilities in more than 20 states in the southeastern, midwestern and central regions of the United States and in the Bahama islands and Canada. The segment's products are used primarily by commercial customers principally in domestic construction of highways and other infrastructure projects and for commercial and residential buildings. The magnesia-based products segment produces refractory materials and dolomitic lime used in domestic and foreign basic steel production and produces chemicals products used in industrial, agricultural and environmental applications. The magnesia-based products segment derives a major portion of its sales and earnings from the products used in the steel industry.

**PROPOSED BUSINESS COMBINATION WITH REDLAND STONE PRODUCTS COMPANY** On October 5, 1998, the Corporation announced it had signed a contract with an affiliate of LaFarge SA to acquire the common stock of Redland Stone Products Company ("Redland Stone"). The purchase price of \$272 million plus certain assumed liabilities and transaction costs estimated to be \$8 million, is subject to certain post-closing adjustments related to working capital. The business combination, when consummated, will be accounted for under the purchase method of accounting prescribed by Accounting Principles Board Opinion No. 16, "Accounting for Business Combinations". Management expects the transaction to close in the fourth quarter of 1998, subject to completion of due diligence and satisfaction of other conditions typical for such a transaction. Management believes the transaction will be neutral to earnings in 1999; however due to the timing of the transaction, interest expense associated with acquisition related financing may negatively impact 1998 fourth quarter earnings. Management continues to expect that this transaction will offer an excellent opportunity to grow sales and earnings of the Corporation in 2000 and beyond.

The information systems technology at Redland Stone is not Year 2000 compliant. The Corporation is currently assessing the required remediation, and the related costs to achieve Year 2000 compliance at Redland Stone. Management believes, based on its assessment to date, that the information systems technology at Redland Stone will be Year 2000 compliant on a timely basis.

**INVESTMENT IN MERIDIAN AGGREGATES COMPANY** The Corporation consummated a transaction as of October 31, 1998 to purchase an initial 14 percent interest in the business of Meridian Aggregates Company ("Meridian"). The transaction provides a mechanism for the Corporation to purchase the remaining interest at a predetermined formula price within five years. The initial purchase has been accounted for as an investment. The Corporation's exercise of its option to purchase is dependent, among other things, on the financial and economic condition of both the Corporation and Meridian at the first exercise date. The other investors in Meridian have the option to require the Corporation to purchase their interests annually beginning December 31, 2000, accelerated only by the death of an investor.

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## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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FOR THE QUARTER ENDED SEPTEMBER 30, 1998

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
(Continued)

THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

RESULTS OF OPERATIONS Net sales for the quarter were \$312.4 million, a 15% increase over 1997 third quarter sales of \$271.7 million. Earnings from operations were up \$15.2 million, or 25%, over the same period in 1997, to \$75.3 million for the third quarter of 1998. Consolidated net earnings for the quarter increased 27% to \$45.9 million, or \$0.98 per diluted share, from 1997 third quarter net earnings of \$36.3 million, or \$0.78 per diluted share. Sales and earnings increases continue to reflect strong performance from the Aggregates division and the positive impact of acquisitions.

Net sales for the first nine months of 1998 increased 17% to \$776.7 million, from \$662.1 million for the year-earlier period. Earnings from operations were \$146.2 million for the nine-month period ended September 30, 1998, up 19% from the comparable prior-year period. For the nine-month period ended September 30, 1998, net earnings increased to \$84.9 million, or \$1.82 per diluted share, from net earnings for the comparable prior-year period of \$75.6 million, or \$1.63 per diluted share. Year-to-date 1998 earnings continue to reflect the new seasonal earnings patterns resulting from 1997 acquisitions made in the Midwest and North Central regions of the country, as well as the increased interest expense associated with acquisition activity. Also, on a year-to-date basis, other income and expenses, net, was \$5.2 million unfavorable to prior year.

Sales for the Aggregates division increased 18% to \$278.0 million for the third quarter, compared with the year-earlier period. The division's sales increased 21% to \$671.2 million for the first nine months of 1998, compared with the first nine months of 1997. This increase in sales reflects record year-to-date aggregates shipments (including acquisitions) of 109.0 million tons and an increase in the division's average net selling price, when compared to the same period in 1997. The division's third quarter operating profits were \$72.4 million, an increase of 28% over operating profits for the year-earlier period of \$56.6 million. The division's operating profits for the first nine months of 1998 increased 21% to \$136.0 million from \$112.8 million for the first nine months of 1997. The Corporation's aggregates business is highly seasonal, due primarily to the effect of weather conditions on construction activity levels, most of which occurs typically in the spring, summer, and early fall.

The Magnesia Specialties division had third quarter 1998 sales of \$34.4 million, a 3% decrease compared to the third quarter sales of 1997, and had nine month 1998 sales of \$105.5 million as compared with \$105.3 million in the prior-year period. Magnesia Specialties experienced softening in its refractories and dolomitic lime products as a direct result of decreased steel production from United States mills. While U.S. steel demand remains strong, foreign imports, principally from Japan, Korea, Russia and Brazil, are currently supplying a substantially increased percentage of U.S. demand. Also, worldwide competition in the periclase and industrial chemicals products areas continues to intensify. The Magnesia Specialties division's earnings from operations for the third quarter were \$2.9 million as compared to \$3.4 million in the year-earlier period. Earnings from operations for the first nine months of 1998 increased to \$10.2 million from \$10.0 million in 1997.

Management expects these market trends to continue and expects Magnesia Specialties product sales and earnings to decline further in the fourth quarter of 1998 and for 1999. Fourth quarter 1998 earnings will also be negatively impacted by the recognition of the costs related to the expected closure of a manufacturing facility that mills and grinds shells into calcium carbonate products. Management is currently evaluating the costs associated with the closure of this facility which are not expected to be material to the Corporation.

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## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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FOR THE QUARTER ENDED SEPTEMBER 30, 1998

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
(Continued)

THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

The following tables present net sales, gross profit, selling, general and administrative expense, and earnings from operations data for the Corporation and each of its divisions for the three and nine months ended September 30, 1998 and 1997. In each case, the data is stated as a percentage of net sales, of the Corporation or the relevant division, as the case may be:

	THREE MONTHS ENDED SEPTEMBER 30,			
	(DOLLARS IN THOUSANDS)			
	1998		1997	
	AMOUNT	% OF NET SALES	AMOUNT	% OF NET SALES
Net sales:				
Aggregates	\$278,009	100.0	\$236,269	100.0
Magnesia Specialties	34,436	100.0	35,448	100.0
Total	\$312,445	100.0	\$271,717	100.0
Gross profit:				
Aggregates	\$88,165	31.7	\$71,982	30.5
Magnesia Specialties	7,665	22.3	7,954	22.4
Total	\$95,830	30.7	\$79,936	29.4
Selling, general & administrative expense:				
Aggregates	\$15,513	5.6	\$14,915	6.3
Magnesia Specialties	4,189	12.2	3,959	11.2
Total	\$19,702	6.3	\$18,874	7.0
Earnings from operations:				
Aggregates	\$72,395	26.0	\$56,615	24.0
Magnesia Specialties	2,860	8.3	3,405	9.6
Total	\$75,255	24.1	\$60,020	22.1

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## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
(Continued)

THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

	NINE MONTHS ENDED SEPTEMBER 30,			
	(DOLLARS IN THOUSANDS)			
	1998		1997	
	AMOUNT	% OF NET SALES	AMOUNT	% OF NET SALES
Net sales:				
Aggregates	\$671,211	100.0	\$556,746	100.0
Magnesia Specialties	105,506	100.0	105,324	100.0
Total	\$776,717	100.0	\$662,070	100.0
Gross profit:				
Aggregates	\$182,817	27.2	\$151,610	27.2
Magnesia Specialties	25,727	24.4	23,957	22.8
Total	\$208,544	26.9	\$175,567	26.5
Selling, general & administrative expense:				
Aggregates	\$46,123	6.9	\$38,095	6.8
Magnesia Specialties	13,756	13.0	12,391	11.8
Total	\$59,879	7.7	\$50,486	7.6
Earnings from operations:				
Aggregates	\$135,957	20.3	\$112,802	20.3
Magnesia Specialties	10,216	9.7	9,956	9.5
Total	\$146,173	18.8	\$122,758	18.5

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## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## FORM 10-Q

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

(Continued)

THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

Interest expense was \$5.7 million, or 50%, higher in the first nine months of 1998 over 1997. The increase in 1998 resulted from the effect of the additional long-term borrowings by the Corporation associated with its acquisition of the American Aggregates business in May of 1997, including the Corporation's public offer and sale of its \$125 million, 6.9% Notes in August 1997. See Note 5 of the Notes to Condensed Consolidated Financial Statements.

The Corporation's estimated effective income tax rate for the first nine months was 34.3% in 1998 and 35.2% in 1997. See Note 6 of the Notes to Condensed Consolidated Financial Statements.

**LIQUIDITY AND CAPITAL RESOURCES** Net cash flow provided by operating activities during the first nine months of 1998 was \$130.0 million, compared with \$121.5 million in the comparable period of 1997. The cash flow from operating activities for both 1997 and 1998 was principally from earnings, before deducting depreciation, depletion and amortization, offset by working capital requirements. Working capital requirements for the nine months ended September 30, 1998 are primarily the result of increases in accounts receivable, increasing inventory levels at the Magnesia Specialties division, a reflection of declining sales, as well as decreases in trade accounts payable. Working capital requirements during the comparable period in 1997 resulted from increases in accounts receivable, decreased inventory levels, as well as increases in trade accounts payable. The seasonal nature of the construction aggregates business impacts quarterly net cash provided by operating activities when compared with the year. Accordingly, full year 1997 net cash provided by operating activities was \$195.6 million, compared with the \$121.5 million provided by operations in the first nine months of 1997. For 1998, capital expenditures, exclusive of acquisitions, are expected to be approximately \$130.0 million. Comparable capital expenditures were \$86.4 million in 1997.

The Corporation continues to rely upon internally generated funds and access to capital markets, including funds obtained under its two revolving credit agreements and cash management facility to meet its liquidity requirements, finance its operations, and fund its capital requirements. With respect to the Corporation's ability to access the public market, currently the Corporation has an effective shelf registration on file with the Securities and Exchange Commission (the "Commission") for the offering of up to \$50 million of debt securities, which may be issued from time to time. Presently, management has the authority to file another shelf registration statement with the Commission. It should be noted, however, that the Corporation has not determined the timing when, or the amount for which, it may file such shelf registration. The Corporation's ability to borrow or issue debt securities is dependent, among other things, upon prevailing economic, financial and market conditions.

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## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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FOR THE QUARTER ENDED SEPTEMBER 30, 1998

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
(Continued)

THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

The Corporation intends to finance the proposed \$280 million acquisition of Redland Stone initially through its existing commercial paper program. On November 6, 1998, the commercial paper program was amended to increase the available funds from \$300 million to \$450 million. The commercial paper program is collateralized by a \$150 million interim loan which expires, by its terms, on December 29, 1998, and the existing \$300 million available under two revolving credit agreements. The terms of the interim loan are identical to the Corporation's existing 364-day, \$150 million revolving credit agreement. Management intends to replace, before year-end, the interim loan and its \$150 million, 364-day revolving credit agreement with a 364-day, up to \$300 million revolving credit agreement with a group of domestic and foreign banks under terms substantially the same as its existing revolving credit agreements. Further, management expects that the Corporation will access the public markets to reduce the increased amount of commercial paper obligations as a result of this transaction. However, there can be no assurance that the above financing arrangements will ultimately be utilized to finance the transaction.

Based on prior performance and current expectations, the Corporation's management believes that cash flows from internally generated funds and its access to capital markets are expected to continue to be sufficient to provide the capital resources necessary to fund the operating needs of its existing businesses, cover debt service requirements, and allow for payment of dividends in 1998. The Corporation may be required to obtain additional levels of financing in order to fund certain strategic acquisitions if any such opportunities arise. The Corporation's senior unsecured debt has been reaffirmed and rated "A" by Standard & Poor's and "A3" by Moody's. The Corporation's \$450 million commercial paper program has been rated "A-1" by Standard & Poor's, "P-2" by Moody's and "F-1" by Fitch IBCA, Inc. While management believes its credit ratings will remain at an investment-grade level, no assurance can be given that these ratings will remain at the above-mentioned levels.

The Corporation's debt to total capitalization is 31% at October 31, 1998 and is expected to increase to approximately 49% at December 31, 1998, after consideration of the Meridian and Redland Stone transactions.

The Corporation is authorized to repurchase up to 6.0 million shares of its common stock under authorizations from the Corporation's Board of Directors for use in its option plans. As of November 1, 1998, there have been 68,200 shares repurchased under the Corporation's authorizations to repurchase shares. On August 20, 1998, the general corporate purposes authorization was rescinded.

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## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

(Continued)

THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

**YEAR 2000 ISSUE** The "Year 2000 Issue" is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Corporation's computer programs or hardware that have date sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations or a temporary inability to engage in normal business activities. In response to this issue, the Corporation developed, in late 1997, a Year 2000 Task Force ("Task Force") whose project scope included the assessment and ongoing monitoring of all information technology computer hardware and software and non-information technology equipment affected by the Year 2000 issue. The Task Force is granted the authority and resources to address the Year 2000 issue and receives supervisory support as needed from a Steering Committee made up of key executive management personnel representing all areas of the Corporation. The Corporation's plan to resolve the Year 2000 issue involves the following four phases: assessment, remediation, testing and implementation. To date, the Task Force has completed its assessment of all systems that could be significantly affected by the Year 2000 issue and have identified as the initial area of focus the processes that are critical to ongoing operations.

The Corporation's information systems technology infrastructure consists primarily of internally developed software, some unique to the Aggregates or Magnesia Specialties divisions, running in a mainframe environment. The Corporation also has a network of personal computers, through both a wide area and local area network. A Year 2000 environment has been installed on the Corporation's mainframe operating system for testing and the wide and local area network of personal computers and related software are substantially Year 2000 compliant.

The Corporation's information systems mainframe software applications that support its critical processes are in various stages of remediation and testing. The current plan is that all critical applications will be Year 2000 compliant by March 31, 1999.

After completion of the Year 2000 compliance of critical processes, the Corporation's focus will shift to remediation and testing of its legacy accounting and reporting information systems software which is scheduled to be Year 2000 compliant and implemented by June 30, 1999.

The Corporation has no significant single supplier, vendor or customer ("external agents") that is critical to its ongoing operations; however, it is currently querying major external agents in regards to their Year 2000 compliance. The Corporation expects to complete this review by March 31, 1999. To date, the Corporation is not aware of any external agent with a Year 2000 issue that would materially impact the Company's results of operations, liquidity or capital resources. However, the Corporation has no means of ensuring that external agents will be Year 2000 ready. The inability of external agents, principally financial institutions, insurance companies, energy suppliers and other third party employee benefit related providers, to complete their Year 2000 resolution process in a timely manner could materially impact the Corporation. The effect of non-compliance by external agents is not determinable.

(Continued)

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## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
(Continued)

THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

The Corporation has and will continue to utilize both internal and external resources to reprogram, test and implement the software and operating equipment for Year 2000 modifications. The total external costs of the Year 2000 project are estimated to be approximately \$3.6 million. Through September 30, 1998, the Corporation has expensed approximately \$2.4 million related to all phases of the Year 2000 project that have been funded through operating cash flows. The remaining Year 2000 project costs will be incurred primarily in 1999. The results of ongoing remediation and testing, however, could result in additional costs to the Corporation.

Management of the Corporation believes it has an effective program in place to resolve the impact of the Year 2000 issue in a timely manner and does not expect the Year 2000 issue to materially adversely affect the Corporation. But, as noted above, the Corporation has not yet completed the conversion of all information systems identified in its Year 2000 program. In the event that the Corporation does not complete any additional Year 2000 work, the Corporation might be unable to take customer orders, manufacture and ship products, invoice customers or collect payments using its current information systems technology. In addition, disruptions in the economy generally resulting from Year 2000 issues could materially adversely affect the Corporation. The amount of the potential liability and lost revenue, if any, resulting from these risks cannot be reasonably estimated at this time.

The Corporation currently has no formal contingency plans in place in the event it does not complete all phases of the Year 2000 program. However, the progress of the Year 2000 program is being closely monitored and additional measures will be taken as risks are identified. The Corporation plans to evaluate the status of completion in the first half of 1999 and determine whether such a plan is necessary.

(Continued)  
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## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

(Continued)

THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

**ACCOUNTING CHANGES** As of January 1, 1998, the Corporation adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (the "SFAS 130"). The SFAS 130 requires all non-owner changes in equity that are excluded from net earnings under existing Financial Accounting Standards Board standards be included as comprehensive income. The Corporation presently does not have any transactions that directly effect equity other than those transactions with owners in their capacity as owners. Therefore, the provisions of the SFAS 130 are not applicable.

The Corporation plans to adopt the provisions of the Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" and the Statement of Financial Accounting Standards No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits" in its annual reporting on Form 10-K for the year ended December 31, 1998. The impact of the adoption of these accounting standards on the Corporation's financial reporting and related disclosures is not expected to be material.

**OTHER MATTERS** Investors are cautioned that statements in this Quarterly Report on Form 10-Q which relate to the future are, by their nature, uncertain and dependent upon numerous contingencies - including political, economic, regulatory, climatic, competitive, and technological - any of which could cause actual results and events to differ materially from those indicated in such forward-looking statements. Additional information regarding these and other risk factors and uncertainties may be found in the Corporation's other filings which are made from time to time with the Securities and Exchange Commission.

## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

## PART II - OTHER INFORMATION

## ITEM 5. OTHER INFORMATION

On August 26, 1998, the Corporation announced that the Board of Directors had declared an increase in the Corporation's regular quarterly cash dividend on the Corporation's Common Stock from \$0.12 to \$0.13 per share, payable September 30, 1998, to shareholders of record at the close of business on September 15, 1998.

On August 27, 1998, the Corporation announced it purchased an underground limestone mine in Preston County, West Virginia from Greenbrier Aggregates, Inc. The operation has annual production capacity of about 750,000 tons with mineral reserves in excess of 40 million tons. The purchase was a cash transaction for assets. The purchase price was not disclosed.

On August 27, 1998, the Corporation also announced the purchase of a ready-mixed concrete operation in Little Rock, Arkansas from Tri-City Concrete. The operation produces about 80,000 cubic yards per year. The transaction was a purchase of assets for cash and the purchase price was undisclosed.

On September 1, 1998, the Corporation announced it purchased a limestone quarry located in Ottawa, Kansas, from Fogle Quarry Company, Inc. The quarry, which is the largest in the state, has annual production capacity exceeding 1.8 million tons. Mineral reserves exceed 25 years at the current shipment level. The purchase was a cash transaction for assets. The purchase price was not disclosed.

On October 5, 1998, the Corporation announced it had signed a contract with an affiliate of LaFarge SA to acquire the common stock of Redland Stone Products Company for \$272 million subject to certain post-closing adjustments relating to working capital. The transaction is scheduled for closing prior to year end subject to satisfaction of conditions typical for such a transaction.

On October 21, 1998, the Corporation announced that it had signed a non-binding letter of intent to invest in Meridian Aggregates Company. The transaction gives the Corporation the option to purchase the remainder of Meridian in five years based on a predetermined formula. Further, the other investors in Meridian will have an annual option, beginning on December 31, 2000, to require the Corporation to purchase their interests. No financial details of the transaction were disclosed.

On November 4, 1998, the Corporation announced that it had consummated a transaction to purchase an initial 14 percent interest in the business of Meridian Aggregates Company. The transaction provides a mechanism for the Corporation to purchase the remaining interest at a predetermined formula price within five years. No financial details of the transaction were disclosed.

On November 13, 1998, Stephen P. Zelnak, Chairman and Chief Executive Officer of the Corporation announced that the Board of Directors has declared a regular quarterly cash dividend of \$0.13 per share on the Corporation's common stock. This dividend which represents a cash payout of \$0.52 per share on an annualized basis, is payable on December 31, 1998, to shareholders of record at the close of business on December 31, 1998.

Also, on November 13, 1998, the Board of Directors of the Corporation announced the election of Janice K. Henry as Senior Vice President of the Corporation.

## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

PART II - OTHER INFORMATION  
(Continued)

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## (a) Exhibits

EXHIBIT NO. -----	DOCUMENT -----
11.01	Martin Marietta Materials, Inc. and Consolidated Subsidiaries Computation of Earnings Per Share for the Quarter and Nine Months Ended September 30, 1998 and 1997
27.01	Financial Data Schedule (for Securities and Exchange Commission use only)

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MARTIN MARIETTA MATERIALS, INC.

(Registrant)

Date: November 16, 1998

By: /s/ JANICE K. HENRY

-----  
Janice K. Henry  
Vice President, Chief Financial  
Officer and Treasurer

## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

## EXHIBIT INDEX

EXHIBIT NO. -----	DOCUMENT -----	PAGE -----
11.01	Martin Marietta Materials, Inc. and Consolidated Subsidiaries  Computation of Earnings Per Share for the Quarter and Nine Months Ended September 30, 1998 and 1997	25
27.01	Financial Data Schedule (for Securities and Exchange Commission use only)	



## EXHIBIT 11.01

## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## COMPUTATION OF EARNINGS PER SHARE

FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
Net earnings	\$45,907	\$36,274	\$84,899	\$75,550
Weighted average number of shares outstanding:				
Basic earnings per share	46,536,116	46,116,693	46,410,052	46,092,078
Effect of dilutive securities	305,555	153,652	285,642	97,664
Diluted earnings per share	46,841,671	46,270,345	46,695,694	46,189,742
Net earnings per share - Basic	\$0.99	\$0.79	\$1.83	\$1.64
- Diluted	\$0.98	\$0.78	\$1.82	\$1.63

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 1998 AND THE RELATED CONDENSED CONSOLIDATED STATEMENT OF EARNINGS FOR THE NINE MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1998.

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	JAN-01-1998	
	SEP-30-1998	
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		1.82