MARTIN MARIETTA MATERIALS INC
Form 10-Q
July 27, 2018

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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	(I.R.S. Employer
incorporation or organization)	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 by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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 July 23, 2018
Common Stock, $0.01 par value	63,011,972

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

(UNAUDITED) CONSOLIDATED BALANCE SHEETS

	June 30, 2018	December 31, 2017	June 30, 2017
	(Dollars in Thousands)		
ASSETS			
Current Assets:			
Cash and cash equivalents	$33,779	$1,446,364	$36,722
Accounts receivable, net	675,570	487,240	570,618
Inventories, net	650,917	600,591	549,865
Other current assets	96,887	96,965	87,092
Total Current Assets	1,457,153	2,631,160	1,244,297
Property, plant and equipment	8,118,705	6,498,067	6,306,083
Allowances for depreciation, depletion and amortization	(3,005,279)	(2,905,254)	(2,800,823)
Net property, plant and equipment	5,113,426	3,592,813	3,505,260
Goodwill	2,401,505	2,160,290	2,160,060
Operating permits, net	435,761	439,116	437,713
Other intangibles, net	78,925	67,233	65,526
Other noncurrent assets	109,982	101,899	103,004
Total Assets	$9,596,752	$8,992,511	$7,515,860
LIABILITIES AND EQUITY			
Current Liabilities:			
Bank overdraft	$—	$—	$3,794
Accounts payable	188,761	183,638	187,227
Accrued salaries, benefits and payroll taxes	38,870	44,255	36,202
Pension and postretirement benefits	13,089	13,652	8,802
Accrued insurance and other taxes	61,615	64,958	59,958
Current maturities of long-term debt and short-term facilities	320,046	299,909	140,037
Accrued interest	15,696	19,825	18,746
Other current liabilities	71,056	67,979	79,559
Total Current Liabilities	709,133	694,216	534,325
Long-term debt	2,898,876	2,727,294	1,641,944
Pension, postretirement and postemployment benefits	249,967	244,043	253,908
Deferred income taxes, net	644,469	410,723	663,414
Other noncurrent liabilities	238,837	233,758	221,738

Total Liabilities	4,741,282	4,310,034	3,315,329
Equity:			
Common stock, par value $0.01 per share	629	628	627
Preferred stock, par value $0.01 per share	—	—	—
Additional paid-in capital	3,389,028	3,368,007	3,355,992
Accumulated other comprehensive loss	(125,883)	(129,104)	(125,906)
Retained earnings	1,579,674	1,440,069	967,058
Total Shareholders' Equity	4,843,448	4,679,600	4,197,771
Noncontrolling interests	12,022	2,877	2,760
Total Equity	4,855,470	4,682,477	4,200,531
Total Liabilities and Equity	$9,596,752	$8,992,511	$7,515,860

See accompanying notes to the consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

(UNAUDITED) CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2018	2017	2018	2017
	(In Thousands, Except Per Share Data)			
Products and services revenues	$1,128,777	$996,843	$1,882,082	$1,789,159
Freight revenues	73,626	66,681	122,325	118,224
Total Revenues	1,202,403	1,063,524	2,004,407	1,907,383
Cost of revenues - products and services	812,430	722,195	1,454,049	1,366,813
Cost of revenues - freight	74,056	67,235	124,049	119,410
Total Cost of Revenues	886,486	789,430	1,578,098	1,486,223
Gross Profit	315,917	274,094	426,309	421,160
Selling, general & administrative expenses	71,070	68,373	141,191	137,908
Acquisition-related expenses, net	12,126	1,982	12,836	2,004
Other operating income, net	(31,232)	(9,113)	(30,752)	(8,754)
Earnings from Operations	263,953	212,852	303,034	290,002
Interest expense	32,971	24,045	68,059	44,896
Other nonoperating income, net	(7,122)	(5,420)	(15,626)	(5,956)
Earnings before income tax expense	238,104	194,227	250,601	251,062
Income tax expense	52,601	51,986	55,058	66,514
Consolidated net earnings	185,503	142,241	195,543	184,548
Less: Net earnings (loss) attributable to noncontrolling interests	126	(38)	143	(65)
Net Earnings Attributable to Martin Marietta Materials, Inc.	$185,377	$142,279	$195,400	$184,613
Consolidated Comprehensive Earnings: (See Note 1)				
Earnings attributable to Martin Marietta Materials, Inc.	$186,979	$144,798	$198,621	$189,394
Earnings (Loss) attributable to noncontrolling interests	126	(37)	144	(63)
	$187,105	$144,761	$198,765	$189,331
Net Earnings Attributable to Martin Marietta Materials, Inc. Per Common Share:				
Basic attributable to common shareholders	$2.94	$2.26	$3.10	$2.92
Diluted attributable to common shareholders	$2.92	$2.25	$3.08	$2.91
Weighted-Average Common Shares Outstanding:				
Basic	63,021	62,858	62,989	62,961
Diluted	63,285	63,141	63,253	63,246

Cash Dividends Per Common Share	$0.44	$0.42	$0.88	$0.84

See accompanying notes to the consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

(UNAUDITED) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six-Months Ended June 30,	
	2018	2017
	(Dollars in Thousands)	
Cash Flows from Operating Activities:		
Consolidated net earnings	$195,543	$184,548
Adjustments to reconcile consolidated net earnings to net cash provided by operating activities:		
Depreciation, depletion and amortization	163,545	146,102
Stock-based compensation expense	17,098	17,727
Gain on divestitures and sales of assets	(33,527)	(17,514)
Deferred income taxes	14,986	2,464
Other items, net	(4,757)	(4,669)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable, net	(157,603)	(112,708)
Inventories, net	(7,133)	(28,240)
Accounts payable	44,266	11,663
Other assets and liabilities, net	5,615	29,950
Net Cash Provided by Operating Activities	238,033	229,323
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(188,270)	(216,089)
Acquisitions, net	(1,645,698)	(2,200)
Proceeds from divestitures and sales of assets	58,213	32,089
Payment of railcar construction advances	(28,306)	(40,930)
Reimbursement of railcar construction advances	28,306	40,930
Investments in life insurance contracts, net	424	276
Net Cash Used for Investing Activities	(1,775,331)	(185,924)
Cash Flows from Financing Activities:		
Borrowings of debt	665,000	941,244
Repayments of debt	(475,025)	(845,023)
Payments of deferred acquisition consideration	(1,426)	-
Payments on capital lease obligations	(1,725)	(1,752)
Debt issuance costs	(3,194)	(1,055)
Change in bank overdraft	—	3,795
Contributions by owners of noncontrolling interest	—	211
Dividends paid	(55,795)	(53,135)
Proceeds from exercise of stock options	6,943	7,937

Shares withheld for employees' income tax obligations	(10,065)	(8,938)
Repurchases of common stock	—	(99,999)
Net Cash Provided by (Used for) Financing Activities	124,713	(56,715)
Net Decrease in Cash and Cash Equivalents	(1,412,585)	(13,316)
Cash and Cash Equivalents, beginning of period	1,446,364	50,038
Cash and Cash Equivalents, end of period	$33,779	$36,722

See accompanying notes to the consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

(UNAUDITED) CONSOLIDATED STATEMENTS OF TOTAL EQUITY

(in thousands)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	63,176	$ 630	$ 3,334,461	$ (130,687)	$ 935,574	$ 4,139,978	$ 2,612	$ 4,142,590
Consolidated net earnings	—	—	—	—	184,613	184,613	(65)	184,548
Other comprehensive earnings, net of tax	—	—	—	4,781	—	4,781	2	4,783
Dividends declared	—	—	—	—	(53,135)	(53,135)	—	(53,135)
Issuances of common stock for stock award plans	122	2	12,742	—	—	12,744	—	12,744
Shares withheld for employees' income tax obligations	—	—	(8,938)	—	—	(8,938)	—	(8,938)
Repurchases of common stock	(458)	(5)	—	—	(99,994)	(99,999)	—	(99,999)
Stock-based compensation expense	—	—	17,727	—	—	17,727	—	17,727
Contributions by owners of noncontrolling interest	—	—	—	—	—	—	211	211
Balance at June 30, 2017	62,840	$ 627	$ 3,355,992	$ (125,906)	$ 967,058	$ 4,197,771	$ 2,760	$ 4,200,531
Balance at December 31, 2017	62,873	$ 628	$ 3,368,007	$ (129,104)	$ 1,440,069	$ 4,679,600	$ 2,877	$ 4,682,477
	—	—	—	—	195,400	195,400	143	195,543

Consolidated net earnings								
Other comprehensive earnings, net of tax	—	—	—	3,221	—	3,221	1	3,222
Dividends declared	—	—	—	—	(55,795)	(55,795)	—	(55,795)
Issuances of common stock for stock award plans	139	1	13,988	—	—	13,989	—	13,989
Shares withheld for employees' income tax obligations	—	—	(10,065)	—	—	(10,065)	—	(10,065)
Stock-based compensation expense	—	—	17,098	—	—	17,098	—	17,098
Noncontrolling interest acquired in business combination	—	—	—	—	—	—	9,001	9,001
Balance at June 30, 2018	63,012	$ 629	$ 3,389,028	$ (125,883)	$ 1,579,674	$ 4,843,448	$ 12,022	$ 4,855,470

See accompanying notes to the consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies
Organization

Martin Marietta Materials, Inc. (the Company or Martin Marietta) is a natural resource-based building materials company. The Company supplies aggregates (crushed stone, sand and gravel) through its network of more than 300 quarries, mines and distribution yards to its customers in 30 states, Canada, the Bahamas and the Caribbean Islands. In the western United States, Martin Marietta also provides cement and downstream products, namely, ready mixed concrete, asphalt and paving services, in vertically-integrated structured markets where the Company has a leading aggregates position. The Company's heavy-side building materials are used in infrastructure, nonresidential and residential construction projects. Aggregates are also used in agricultural, utility and environmental applications and as railroad ballast. The aggregates, cement, ready mixed concrete and asphalt and paving product lines are reported collectively as the "Building Materials" business.

The Company's Building Materials business includes three reportable segments: the Mid-America Group, the Southeast Group and the West Group.

BUILDING MATERIALS BUSINESS

Reportable Segments	Mid-America Group	Southeast Group	West Group
Operating Locations	Indiana, Iowa, northern Kansas, Kentucky, Maryland, Minnesota, Missouri, eastern Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, Virginia, Washington and West Virginia	Alabama, Florida, Georgia, Tennessee, Nova Scotia and the Bahamas	Arkansas, Colorado, southern Kansas, Louisiana, western Nebraska, Nevada, Oklahoma, Texas, Utah and Wyoming
Product Lines	Aggregates	Aggregates	Aggregates, Cement, Ready Mixed Concrete, Asphalt and Paving

The Company has a Magnesia Specialties business with manufacturing facilities in Manistee, Michigan, and Woodville, Ohio. The Magnesia Specialties business produces magnesia-based chemicals products used in industrial, agricultural and environmental applications, and dolomitic lime sold primarily to customers in the steel and mining industries.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and in Article 10 of Regulation S-X. Other than the required adoption of two new accounting pronouncements described below, the Company has continued to follow the accounting policies set forth in the audited consolidated financial statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, the interim consolidated financial information provided herein reflects all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the results of operations, financial position and cash flows for the interim periods. The consolidated results of operations for the three- and six-months ended June 30, 2018 are not indicative of the results expected for other interim periods or the full year. The consolidated balance sheet at December 31, 2017 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by U.S. GAAP for complete financial statements. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

New Accounting Pronouncements

Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which changes the evaluation and accounting for revenue recognition under contracts with customers and enhances financial statement disclosures. The Company implemented ASU 2014-09 using the modified retrospective approach. The adoption had an immaterial impact on the Company’s financial position and results of operations but required new disclosures (see Note 2).

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

Effective January 1, 2018, the Company adopted ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which provides clarification or additional guidance on certain transactions and its classification on the statement of cash flows on a retrospective basis. The adoption had an immaterial impact on the Company’s statement of cash flows.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)

Pending Accounting Pronouncement

Lease Standard

In February 2016, the Financial Accounting Standards Board (FASB) issued a new accounting standard, *Accounting Codification Standard 842 – Leases,* intending to improve financial reporting of leases and to provide more transparency into off-balance sheet leasing obligations. The guidance requires virtually all leases, excluding mineral interest leases, to be recorded on the balance sheet and provides guidance on the recognition of lease expense and income. The new standard is effective January 1, 2019. The FASB recently proposed to eliminate the need for retrospective presentation of comparative financial statements and to allow the use of certain practical expedients in the adoption of the new standard. The Company has developed an implementation plan and is currently gathering data to further assess the impact of the ASU on its financial statements. The adoption is anticipated to have a material impact on assets and liabilities due to the recognition of lease rights and obligations on its balance sheet effective January 1, 2019.

Consolidated Comprehensive Earnings/Loss and Accumulated Other Comprehensive Loss

Consolidated comprehensive earnings/loss and accumulated other comprehensive loss consist of consolidated net earnings or loss; adjustments for the funded status of pension and postretirement benefit plans; foreign currency translation adjustments; and the amortization of the value of terminated forward starting interest rate swap agreements into interest expense, and are presented in the Company's consolidated statements of earnings and comprehensive earnings.

Comprehensive earnings attributable to Martin Marietta is as follows:

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in Thousands)			
Net earnings attributable to Martin Marietta Materials, Inc.	$185,377	$142,279	$195,400	$184,613
Other comprehensive earnings, net of tax	1,602	2,519	3,221	4,781
Comprehensive earnings attributable to Martin Marietta Materials, Inc.	$186,979	$144,798	$198,621	$189,394

Comprehensive earnings attributable to noncontrolling interests, consisting of net earnings and adjustments for the funded status of pension and postretirement benefit plans, is as follows:

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in Thousands)			
Net earnings (loss) attributable to noncontrolling interests	$126	$(38)	$143	$(65)
Other comprehensive earnings, net of tax	—	1	1	2
Comprehensive earnings (loss) attributable to noncontrolling interests	$126	$(37)	$144	$(63)

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)

Consolidated Comprehensive Earnings/Loss and Accumulated Other Comprehensive Loss (continued)

Changes in accumulated other comprehensive earnings (loss), net of tax, are as follows:

	(Dollars in Thousands)			
	Pension and Postretirement Benefit Plans	Foreign Currency	Unamortized Value of Terminated Forward Starting Interest Rate Swap	Accumulated Other Comprehensive Loss
	Three-Months Ended June 30, 2018			
Balance at beginning of period	$(126,806)	$(609)	$ (70)	$ (127,485)
Other comprehensive loss before reclassifications, net of tax	—	(476)	—	(476)
Amounts reclassified from accumulated other comprehensive earnings, net of tax	2,008	—	70	2,078
Other comprehensive earnings (loss), net of tax	2,008	(476)	70	1,602
Balance at end of period	$(124,798)	$(1,085)	$ —	$ (125,883)
	Three-Months Ended June 30, 2017			
Balance at beginning of period	$(126,463)	$(1,025)	$ (937)	$ (128,425)
Other comprehensive earnings before reclassifications, net of tax	—	389	—	389
Amounts reclassified from accumulated other comprehensive earnings, net of tax	1,910	—	220	2,130
Other comprehensive earnings, net of tax	1,910	389	220	2,519
Balance at end of period	$(124,553)	$(636)	$ (717)	$ (125,906)

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)

Consolidated Comprehensive Earnings/Loss and Accumulated Other Comprehensive Loss (continued)

	(Dollars in Thousands)			
	Pension and Postretirement Benefit Plans	Foreign Currency	Unamortized Value of Terminated Forward Starting Interest Rate Swap	Accumulated Other Comprehensive Loss
	Six-Months Ended June 30, 2018			
Balance at beginning of period	$ (128,802)	$ (22)	$ (280)	$ (129,104)
Other comprehensive loss before reclassifications, net of tax	—	(1,063)	—	(1,063)
Amounts reclassified from accumulated other comprehensive earnings, net of tax	4,004	—	280	4,284
Other comprehensive earnings (loss), net of tax	4,004	(1,063)	280	3,221
Balance at end of period	$ (124,798)	$ (1,085)	$ —	$ (125,883)
	Six-Months Ended June 30, 2017			
Balance at beginning of period	$ (128,373)	$ (1,162)	$ (1,152)	$ (130,687)
Other comprehensive earnings before reclassifications, net of tax	—	526	—	526
Amounts reclassified from accumulated other comprehensive earnings, net of tax	3,820	—	435	4,255
Other comprehensive earnings, net of tax	3,820	526	435	4,781
Balance at end of period	$ (124,553)	$ (636)	$ (717)	$ (125,906)

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)

Consolidated Comprehensive Earnings/Loss and Accumulated Other Comprehensive Loss (continued)

Changes in net noncurrent deferred tax assets recorded in accumulated other comprehensive loss are as follows:

	(Dollars in Thousands)		
	Pension and Postretirement Benefit Plans	Unamortized Value of Terminated Forward Starting Interest Rate Swap	Net Noncurrent Deferred Tax Assets
	Three-Months Ended June 30, 2018		
Balance at beginning of period	$79,280	$ 41	$ 79,321
Tax effect of other comprehensive earnings	(661)	(41)	(702)
Balance at end of period	$78,619	$ -	$ 78,619
	Three-Months Ended June 30, 2017		
Balance at beginning of period	$80,859	$ 608	$ 81,467
Tax effect of other comprehensive earnings	(1,184)	(144)	(1,328)
Balance at end of period	$79,675	$ 464	$ 80,139
	Six-Months Ended June 30, 2018		
Balance at beginning of period	$79,938	$ 178	$ 80,116
Tax effect of other comprehensive earnings	(1,319)	(178)	(1,497)
Balance at end of period	$78,619	$ -	$ 78,619
	Six-Months Ended June 30, 2017		
Balance at beginning of period	$82,044	$ 749	$ 82,793
Tax effect of other comprehensive earnings	(2,369)	(285)	(2,654)

Balance at end of period	$79,675	$ 464	$ 80,139

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)
Consolidated Comprehensive Earnings/Loss and Accumulated Other Comprehensive Loss (continued)

Reclassifications out of accumulated other comprehensive loss are as follows:

	Three-Months Ended June 30,		Six-Months Ended June 30,		Affected line items in the consolidated statements of earnings and comprehensive earnings
	2018	2017	2018	2017	
	(Dollars in Thousands)				
Pension and postretirement benefit plans					
Amortization of:					
Prior service credit	$(400)	$(358)	(985)	(716)	
Actuarial loss	3,069	3,452	6,308	6,905	
	2,669	3,094	5,323	6,189	Other nonoperating income, net
Tax benefit	(661)	(1,184)	(1,319)	(2,369)	Income tax expense
	$2,008	$1,910	$4,004	$3,820	
Unamortized value of terminated forward starting interest rate swap					
Additional interest expense	$111	$364	$458	$720	Interest expense
Tax benefit	(41)	(144)	(178)	(285)	Income tax expense
	$70	$220	$280	$435	

Earnings per Common Share

The numerator for basic and diluted earnings per common share is net earnings attributable to Martin Marietta Materials, Inc. reduced by dividends and undistributed earnings attributable to certain of the Company's stock-based compensation. If there is a net loss, no amount of the undistributed loss is attributed to unvested participating securities. The denominator for basic earnings per common share is the weighted-average number of common shares outstanding during the period. Diluted earnings per common share are computed assuming that the weighted-average number of common shares is increased by the conversion, using the treasury stock method, of awards to be issued to employees and nonemployee members of the Company's Board of Directors under certain stock-based compensation arrangements if the conversion is dilutive. For the three- and six-months ended June 30, 2018 and 2017, the diluted per-share computations reflect the number of common shares outstanding to include the number of additional shares that would have been outstanding if the potentially dilutive common shares had been issued.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)
Earnings per Common Share

The following table reconciles the numerator and denominator for basic and diluted earnings per common share:

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2018	2017	2018	2017
	(In Thousands)			
Net earnings attributable to Martin Marietta Materials, Inc.	$185,377	$142,279	$195,400	$184,613
Less: Distributed and undistributed earnings attributable to unvested awards	317	413	378	553
Basic and diluted net earnings available to common shareholders attributable to Martin Marietta Materials, Inc.	$185,060	$141,866	$195,022	$184,060
Basic weighted-average common shares outstanding	63,021	62,858	62,989	62,961
Effect of dilutive employee and director awards	264	283	264	285
Diluted weighted-average common shares outstanding	63,285	63,141	63,253	63,246

2. Revenue Recognition
Total revenues include sales of products and services to customers, net of any discounts or allowances, and freight revenues. Product revenues are recognized when control of the promised good is transferred to the customer, typically when finished products are shipped. Intersegment and interproduct revenues are eliminated in consolidation. Service revenues are derived from the paving business and recognized using the percentage-of-completion method under the revenue-cost approach. Under the revenue-cost approach, recognized contract revenue is determined by multiplying the total estimated contract revenue by the estimated percentage of completion. Contract costs are recognized as incurred. The percentage of completion is determined on a contract-by-contract basis using project costs incurred to date as a percentage of total estimated project costs. The Company believes the revenue-cost approach is appropriate as the use of asphalt in a paving contract is relatively consistent with the performance of the paving service. Paving contracts, notably with governmental entities, may contain performance bonuses based on quality specifications. Given the uncertainty of meeting the criteria until the performance obligation is completed, performance bonuses are recognized as revenues when and if determined to be achieved. Performance bonuses are not material to the Company's consolidated results of operations for the three- and six-months ended June 30, 2018 and 2017. Freight revenues reflect delivery arranged by the Company using a third party on behalf of the customer and are recognized

consistent with the timing of the product revenues.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Revenue Recognition (continued)

Performance Obligations. Performance obligations are contractual promises to transfer or provide a distinct good or service for a stated price. The Company's product sales agreements are single-performance obligations that are satisfied at a point in time. Performance obligations within paving service agreements are satisfied over time, primarily ranging from one day to 20 months. For product revenues and freight revenues, customer payment terms are generally 30 days from invoice date. Customer payments for the paving operations are based on a contractual billing schedule and are due 30 days from invoice date.

Future revenues from unsatisfied performance obligations at June 30, 2018 and 2017 were $128,953,000 and $147,698,000, respectively, where the remaining periods to complete these obligations ranged from one month to 13 months and one month to 22 months, respectively.

Sales Taxes. The Company is deemed to be an agent when collecting sales taxes from customers. Sales taxes collected are initially recorded as liabilities until remitted to taxing authorities and are not reflected in the consolidated statements of earnings as revenues and expenses.

Revenue by Category. The following table presents the Company's total revenues by category for each reportable segment:

	Three-Months Ended June 30, 2018		
(Dollars in Thousands)	Products and Services	Freight	Total
Mid-America Group	$325,578	$25,014	$350,592
Southeast Group	109,082	3,881	112,963
West Group	625,960	39,926	665,886
Total Building Materials Business	1,060,620	68,821	1,129,441
Magnesia Specialties	68,157	4,805	72,962
Total	$1,128,777	$73,626	$1,202,403

	Three-Months Ended June 30, 2017		
(Dollars in Thousands)	Products and Services	Freight	Total
Mid-America Group	$269,914	$20,984	$290,898

Southeast Group	88,538	3,810	92,348
West Group	572,663	37,586	610,249
Total Building Materials Business	931,115	62,380	993,495
Magnesia Specialties	65,728	4,301	70,029
Total	$996,843	$66,681	$1,063,524

Service revenues, which include paving operations located in Colorado, were $69,569,000 and $69,051,000 for the three-months ended June 30, 2018 and 2017, respectively.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Revenue Recognition (continued)

	Six-Months Ended June 30, 2018		
(Dollars in Thousands)	Products and Services	Freight	Total
Mid-America Group	$493,468	$35,905	$529,373
Southeast Group	186,646	6,556	193,202
West Group	1,068,943	70,665	1,139,608
Total Building Materials Business	1,749,057	113,126	1,862,183
Magnesia Specialties	133,025	9,199	142,224
Total	$1,882,082	$122,325	$2,004,407

	Six-Months Ended June 30, 2017		
(Dollars in Thousands)	Products and Services	Freight	Total
Mid-America Group	$447,321	$32,597	$479,918
Southeast Group	175,264	7,366	182,630
West Group	1,036,545	69,685	1,106,230
Total Building Materials Business	1,659,130	109,648	1,768,778
Magnesia Specialties	130,029	8,576	138,605
Total	$1,789,159	$118,224	$1,907,383

Service revenues, which include paving operations located in Colorado, were $80,712,000 and $85,051,000 for the six-months ended June 30, 2018 and 2017, respectively.

Contract Balances. Costs in excess of billings relate to the conditional right to consideration for completed contractual performance and are contract assets on the consolidated balance sheets. Costs in excess of billings are reclassified to accounts receivable when the right to consideration becomes unconditional. Billings in excess of costs relate to customers invoiced in advance of contractual performance and are contract liabilities on the consolidated balance sheets. The following table presents information about the Company’s contract balances:

(Dollars in Thousands)	June 30, 2018	December 31, 2017	June 30, 2017

Costs in excess of billings	$ 6,581	$ 1,310	$ 10,990
Billings in excess of costs	$ 7,843	$ 7,204	$ 5,194

2. Revenue Recognition (continued)
Revenues recognized from the beginning balance of contract liabilities for the three-months ended June 30, 2018 and 2017 were $4,066,000 and $3,683,000, respectively, and for the six-months ended June 30, 2018 and 2017 were $6,162,000 and $7,465,000, respectively.

Retainage, which primarily relates to the paving services, represents amounts that have been billed to customers but payment withheld until final acceptance of the performance obligation by the customer. Included on the Company's consolidated balance sheets, retainage was $6,578,000, $9,029,000 and $4,150,000 at June 30, 2018, December 31, 2017 and June 30, 2017, respectively.

Warranties. The Company's construction contracts generally contain warranty provisions generally for a period of nine months to one year after project completion and cover materials, design or workmanship defects. Historically, the Company has not experienced material costs for warranties. The ready mixed concrete product line carries longer warranty periods, for which the Company has accrued an estimate of warranty cost based on experience with the type of work and any known risks relative to the project. In total, warranty costs were not material to the Company's consolidated results of operations for the three- and six-months ended June 30, 2018 and 2017.

Policy Elections. When the Company arranges third party freight to deliver products to customers, the Company has elected the delivery to be a fulfillment activity rather than a separate performance obligation. Further, the Company acts as a principal in the delivery arrangements and, as required by the accounting standard, the related revenues and costs are presented gross and are included in the consolidated statements of earnings.

3. Business Combination
On April 27, 2018, the Company successfully completed its previously announced acquisition of Bluegrass Materials Company (Bluegrass), the largest privately-held, pure-play aggregates company in the United States, for approximately $1,623,000,000 in cash, subject to a working capital adjustment. Bluegrass' operations include 23 active sites with more than 125 years of reserves, collectively, in Georgia, South Carolina, Tennessee, Maryland, Kentucky and Pennsylvania. These operations complement the Company's existing southeastern footprint in its Mid-America and Southeast Groups and provide a new growth platform within Maryland and Kentucky. The Company reached an agreement with the U.S. Department of Justice (DOJ), approved by the federal district court for the District of Columbia, which resolved all competition issues with respect to the acquisition. Under the terms of the agreement with the DOJ, Martin Marietta divested its heritage Forsyth aggregates quarry north of Atlanta, Georgia, and the legacy Bluegrass Beaver Creek aggregates quarry in western Maryland. In connection with the sale of its Forsyth quarry, the Company recognized a pretax gain of $14,785,000, which is included in acquisition-related expenses, net, in the consolidated statements of earnings and comprehensive earnings. There was no gain or loss on the Beaver Creek divestiture.

The Bluegrass acquisition was a stock transaction wherein the Company acquired 100% of the voting interest of the owners. The Company acquired accounts receivable; inventories; property, plant and equipment, which primarily consists of mineral reserves; intangible assets; prepaid and other assets; and assumed accounts payable; accrued liabilities and deferred tax liabilities, net. The Company did not assume any of Bluegrass' outstanding debt.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. Business Combination (continued)

The Company has determined preliminary fair values of the assets acquired and liabilities assumed. Although initial accounting for the business combination has been recorded, these amounts are subject to change during the measurement period which extends no longer than one year from consummation date based on additional reviews, such as asset verification and completion of deferred tax estimates based on the determination of the historic tax basis in assets acquired. Specific accounts subject to ongoing purchase accounting adjustments include, but are not limited to, inventory; property, plant and equipment; other assets; goodwill; accounts payable and accrued expenses; and deferred income tax liabilities. Therefore, the measurement period remains open as of June 30, 2018. The following is a summary of the estimated fair values of the assets acquired and the liabilities assumed (dollars in thousands).

Assets:	
Cash	$1,159
Receivables	30,711
Inventory	46,785
Other current assets	1,043
Property, plant and equipment	1,525,655
Intangible assets, other than goodwill	19,125
Goodwill	242,142
Total assets	1,866,620
Liabilities:	
Accounts payable and accrued expenses	18,033
Deferred income tax liabilities, net	217,229
Noncontrolling interest	9,001
Total liabilities	244,263
Total consideration	$1,622,357

Goodwill represents the excess purchase price over the fair values of assets acquired and liabilities assumed and reflects projected operating synergies from the transaction, including expected overhead savings. It has not yet been determined if any of the goodwill generated by the transaction will be deductible for income tax purposes.

Total revenues and earnings from operations attributable to acquired operations included in the consolidated earnings statements for the three- and six-months ended June 30, 2018 were $46,351,000 and $6,745,000, respectively.

Acquisition-related expenses were $26,911,000 and $27,621,000 for the three- and six-months ended June 30, 2018, respectively.

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(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. Business Combination (continued)

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for the Company and Bluegrass as though the companies were combined as of January 1, 2017. Financial information for periods prior to the April 27, 2018 acquisition date included in the pro forma earnings does not reflect any cost savings or associated costs to achieve such savings from operating efficiencies or synergies that result from the combination. Consistent with the assumed acquisition date of January 1, 2017, the pro forma financial results for the six-months ended June 30, 2017 include acquisition-related expenses of $26,100,000, the $14,785,000 gain on the required divestiture of assets and the one-time $19,893,000 increase in cost of sales for the sale of acquired inventory.

The pro forma financial statements do not purport to project the future financial position or operating results of the combined company. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal year 2017.

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2018	2017	2018	2017
(Dollars in Thousands, except per share data)				
Total revenues	$1,218,904	$1,121,258	$2,059,816	$2,005,775
Net earnings attributable to Martin Marietta	$207,886	$140,338	$216,756	$150,011
Diluted EPS	$3.28	$2.22	$3.43	$2.37

4. Goodwill and Other Intangibles

	Mid-America Group	Southeast Group	West Group	Total
	(Dollars in Thousands)			
Balance at January 1, 2018	$281,403	$50,346	$1,828,541	$2,160,290
Acquisitions	148,326	93,816	—	242,142
Divestitures	—	(927)	—	(927)
Balance at June 30, 2018	$429,729	$143,235	$1,828,541	$2,401,505

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. Goodwill and Other Intangibles (continued)

Intangible assets subject to amortization consist of the following:

	Gross Amount	Accumulated Amortization	Net Balance
(Dollars in Thousands)	June 30, 2018		
Noncompetition agreements	$6,274	$ (6,162)	$112
Customer relationships	65,348	(19,480)	45,868
Operating permits	458,952	(29,790)	429,162
Use rights and other	16,496	(10,763)	5,733
Trade names	12,800	(9,076)	3,724
Total	$559,870	$ (75,271)	$484,599

Intangible assets deemed to have an indefinite life and not being amortized consist of the following:

	Building Materials Business	Magnesia Specialties	Total
(Dollars in Thousands)	June 30, 2018		
Operating permits	$6,600	$ —	$6,600
Use rights	20,642	—	20,642
Trade names	280	2,565	2,845
Total	$27,522	$ 2,565	$30,087

Intangibles acquired during the year are as follows:

(Dollars in Thousands)	Amount	Weighted-average amortization period
Subject to amortization:		

Customer relationships	$20,620	12 years
Not subject to amortization:		
Water rights	1,100	N/A
Total	$21,720	

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. Goodwill and Other Intangibles (continued)

Total amortization expense for intangible assets for the six-months ended June 30, 2018 and 2017 was $7,108,000 and $7,167,000, respectively.

The estimated amortization expense for intangible assets for the second half of 2018 and for each of the next four years and thereafter is as follows:

(Dollars in Thousands)	
July - December 2018	$6,961
2019	13,724
2020	13,689
2021	12,998
2022	11,490
Thereafter	425,737
Total	$484,599

5. Inventories, Net

	June 30, 2018	December 31, 2017	June 30, 2017
	(Dollars in Thousands)		
Finished products	$612,161	$ 552,999	$508,144
Products in process and raw materials	62,480	62,761	59,410
Supplies and expendable parts	134,259	128,792	120,594
	808,900	744,552	688,148
Less: Allowances	(157,983)	(143,961)	(138,283)
Total	$650,917	$ 600,591	$549,865

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(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

6. Long-Term Debt

	June 30, 2018	December 31, 2017	June 30, 2017
	(Dollars in Thousands)		
6.60% Senior Notes, due 2018	$—	$ 299,871	$299,676
7% Debentures, due 2025	124,225	124,180	124,134
6.25% Senior Notes, due 2037	228,063	228,033	228,003
4.25% Senior Notes, due 2024	396,104	395,814	395,532
4.250% Senior Notes, due 2047	591,457	591,688	—
3.500% Senior Notes, due 2027	494,522	494,352	—
3.450% Senior Notes, due 2027	296,783	296,628	296,456
Floating Rate Senior Notes, due 2019, interest rate of 2.82% and 2.13% at June 30, 2018 and December 31, 2017, respectively	298,889	298,102	—
Floating Rate Notes, due 2020, interest rate of 2.98%, 2.10% and 1.82% at June 30, 2018, December 31, 2017 and June 30, 2017, respectively	298,590	298,227	297,847
Revolving Facility, due 2022, interest rate of 3.19% at June 30, 2018	170,000	—	—
Trade Receivable Facility, interest rate of 2.71% and 1.78% at June 30, 2018 and 2017, respectively	320,000	—	140,000
Other notes	289	308	333
Total debt	3,218,922	3,027,203	1,781,981
Less: Current maturities of long-term debt and short-term facilities	(320,046)	(299,909)	(140,037)
Long-term debt	$2,898,876	$ 2,727,294	$1,641,944

On April 17, 2018, the Company, through a wholly-owned special-purpose subsidiary, increased its trade receivable securitization facility (the Trade Receivable Facility) to $400,000,000. The Trade Receivable Facility, with SunTrust Bank, Regions Bank, PNC Bank, N.A., The Bank of Tokyo-Mitsubishi UFJ, LTD., New York Branch, and certain other lenders that may become a party to the facility from time to time, is backed by eligible trade receivables, as defined, and is limited to the lesser of the facility limit or the borrowing base, as defined, of $490,362,000, $338,784,000 and $422,624,000 at June 30, 2018, December 31, 2017 and June 30, 2017, respectively. These receivables are originated by the Company and then sold to the wholly-owned special-purpose subsidiary by the Company. The Company continues to be responsible for the servicing and administration of the receivables purchased by the wholly-owned special-purpose subsidiary. Borrowings under the Trade Receivable Facility bear interest at a rate equal to one-month London Inter-bank Offered Rate, or LIBOR, plus 0.725%, subject to change in the event that this rate no longer reflects the lender's cost of lending. The Trade Receivable Facility, which is scheduled to mature September 26, 2018, contains a cross-default provision to the Company's other debt agreements.

On April 16, 2018, the maturity date, the Company repaid the $300,000,000 of the 6.6% Senior Notes with cash on hand.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

6. Long-Term Debt (continued)

The Company has a $700,000,000 five-year senior unsecured revolving facility (the Revolving Facility) with JPMorgan Chase Bank, N.A., as Administrative Agent, Branch Banking and Trust Company (BB&T), Deutsche Bank Securities, Inc., SunTrust Bank and Wells Fargo Bank, N.A., as Co-Syndication Agents, and the lenders party thereto. The Revolving Facility requires the Company's ratio of consolidated debt-to-consolidated earnings before interest, taxes, depreciation and amortization (EBITDA), as defined by the Revolving Facility, for the trailing-twelve months (the Ratio) to not exceed 3.50x as of the end of any fiscal quarter, provided that the Company may exclude from the Ratio debt incurred in connection with certain acquisitions during such quarter or the three preceding quarters so long as the Ratio calculated without such exclusion does not exceed 3.75x. Additionally, if no amounts are outstanding under both the Revolving Facility and the Trade Receivable Facility, consolidated debt, including debt for which the Company is a co-borrower, may be reduced by the Company's unrestricted cash and cash equivalents in excess of $50,000,000, such reduction not to exceed $200,000,000, for purposes of the covenant calculation. The Company was in compliance with this Ratio at June 30, 2018.

Available borrowings under the Revolving Facility are reduced by any outstanding letters of credit issued by the Company under the Revolving Facility. The Company had $2,301,000 of outstanding letters of credit issued under the Revolving Facility at June 30, 2018 and December 31, 2017 and $2,507,000 at June 30, 2017.

Accumulated other comprehensive loss includes the unamortized value of terminated forward starting interest rate swap agreements. For the three- and six-months ended June 30, 2018, the Company recognized $111,000 and $458,000, respectively, as additional interest expense. For the three- and six-months ended June 30, 2017, the Company recognized $364,000 and $720,000, respectively, as additional interest expense. The amortization of the terminated value of the forward starting interest rate swap agreements was complete with the maturity of the related debt in April 2018.

7. Financial Instruments

The Company's financial instruments include cash equivalents, accounts receivable, notes receivable, bank overdrafts, accounts payable, publicly-registered long-term notes, debentures and other long-term debt.

Cash equivalents are placed primarily in money market funds, money market demand deposit accounts and Eurodollar time deposits. The Company's cash equivalents have original maturities of less than three months. Due to the short maturity of these investments, they are carried on the consolidated balance sheets at cost, which approximates fair value.

Accounts receivable are due from a large number of customers, primarily in the construction industry, and are dispersed across wide geographic and economic regions. However, accounts receivable are more heavily concentrated in certain states (namely, Texas, Colorado, North Carolina, Iowa and Georgia). The estimated fair values of accounts receivable approximate their carrying amounts due to the short-term nature of the receivables.

Notes receivable are not publicly traded. Management estimates that the fair value of notes receivable approximates the carrying amount due to the short-term nature of the receivables.

Bank overdrafts, when applicable, represent amounts to be funded to financial institutions for checks that have cleared the bank. The estimated fair value of bank overdrafts approximates its carrying value due to the short-term nature of the overdraft.

Accounts payable represent amounts owed to suppliers and vendors. The estimated fair value of accounts payable approximates its carrying amount due to the short-term nature of the payables.

7. Financial Instruments (continued)

The carrying values and fair values of the Company's long-term debt were $3,218,922,000 and $3,154,635,000, respectively, at June 30, 2018; $3,027,203,000 and $3,144,902,000, respectively, at December 31, 2017; and $1,781,981,000 and $1,885,231,000, respectively, at June 30, 2017. The estimated fair value of the publicly-registered long-term notes was estimated based on Level 1 of the fair value hierarchy using quoted market prices. The estimated fair value of other borrowings, which primarily represents variable-rate debt, was based on Level 2 of the fair value hierarchy using quoted market prices for similar debt instruments, and approximates their carrying amounts as the interest rates reset periodically.

8. Income Taxes

The Company's effective income tax rate for the six-months ended June 30, 2018 was 22.0%. The effective income tax rate reflects the effect of federal and state income taxes on earnings and the impact of differences in book and tax accounting arising from the net permanent tax benefits associated with the statutory depletion deduction for mineral reserves. For the six-months ended June 30, 2018, the effective income tax rate also reflects three discrete events: a favorable impact of $2,760,000, or 100 basis points, related to the vesting and exercise of stock-based compensation awards, an unfavorable impact of $1,664,000, or 60 basis points, related to an estimate of the transition tax on undistributed foreign earnings, a provision of the Tax Cuts and Jobs Act of 2017 (2017 Tax Act) and an unfavorable impact of $2,369,000, or 90 basis points, for nondeductible portion of transaction costs. The enactment of the 2017 Tax Act reduced the federal statutory corporate income tax rate from 35% to 21% beginning in 2018. Therefore, the effective income tax rate of 26.5% for the six-months ended June 30, 2017 is not comparable.

The Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (SAB 118) to address situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Act. As such, due to the timing of the enactment date and the Company's reporting periods, the Company recognized provisional amounts for the remeasurement of deferred tax assets and liabilities as of December 31, 2017 and transition tax on undistributed foreign earnings as of June 30, 2018, and continues to analyze and assess other provisions of the 2017 Tax Act. In accordance with SAB 118, the Company may record additional provisional amounts during the measurement period not to extend beyond one year of the enactment date and expects the accounting to be complete when the Company's 2017 U.S. corporate income tax return is filed in 2018. Any future measurement period adjustments will be recognized as income tax expense or benefit in 2018.

The Company records interest accrued in relation to unrecognized tax benefits as income tax expense. Penalties, if incurred, are recorded as operating expenses in the consolidated statements of earnings and comprehensive earnings.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

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(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

9. Pension and Postretirement Benefits

The estimated components of the recorded net periodic benefit cost (credit) for pension and postretirement benefits are as follows:

	Three-Months Ended June 30,			
	Pension		Postretirement Benefits	
	2018	2017	2018	2017
	(Dollars in Thousands)			
Service cost	$7,684	$6,548	$16	$22
Interest cost	8,252	8,673	134	198
Expected return on assets	(12,403)	(10,071)	—	—
Amortization of:				
Prior service cost (credit)	26	113	(426)	(471)
Actuarial loss (gain)	3,117	3,551	(48)	(99)
Net periodic benefit cost (credit)	$6,676	$8,814	$(324)	$(350)

	Six-Months Ended June 30,			
	Pension		Postretirement Benefits	
	2018	2017	2018	2017
	(Dollars in Thousands)			
Service cost	$15,832	$13,402	$38	$40
Interest cost	16,613	18,030	259	365
Expected return on assets	(23,032)	(20,613)	—	—
Amortization of:				
Prior service cost (credit)	52	155	(1,037)	(871)
Actuarial loss (gain)	6,413	7,087	(105)	(182)
Net periodic benefit cost (credit)	$15,878	$18,061	$(845)	$(648)

The service cost component of net periodic benefit cost (credit) is included in cost of revenues – products and services and selling, general and administrative expenses while all other components are included in other nonoperating income, net, in the consolidated statements of earnings and comprehensive earnings.

In July 2018, the Company made a $75,000,000 contribution to its qualified pension plan. For the full year 2018, the Company currently estimates that it will contribute $162,400,000 to its pension plans, of which $150,000,000 will be to the qualified pension plan and $12,400,000 will be to make required payments under the unfunded pension plans.

10. Commitments and Contingencies

Legal and Administrative Proceedings

The Company is engaged in certain legal and administrative proceedings incidental to its normal business activities. In the opinion of management and counsel, based upon currently-available facts, it is remote that the ultimate outcome of any litigation and other proceedings, including those pertaining to environmental matters, relating to the Company and its subsidiaries, will have a material adverse effect on the overall results of the Company's operations, its cash flows or its financial position.

Borrowing Arrangements with Affiliate

The Company is a co-borrower with an unconsolidated affiliate for a $15,500,000 revolving line of credit agreement with BB&T with a maturity date of March 2020. The affiliate has agreed to reimburse and indemnify the Company for any payments and expenses the Company may incur from this agreement. The Company holds a lien on the affiliate's membership interest in a joint venture as collateral for payment under the revolving line of credit.

In addition, the Company has a $6,000,000 interest-only loan, due December 31, 2019, outstanding from this unconsolidated affiliate as of June 30, 2018, December 31, 2017 and June 30, 2017. The interest rate is one-month LIBOR plus 1.75%.

11. Business Segments

The Building Materials business contains three reportable business segments: Mid-America Group, Southeast Group and West Group. The Company also has a Magnesia Specialties segment. The Company's evaluation of performance and allocation of resources are based primarily on earnings from operations. Consolidated earnings from operations include total revenues less cost of revenues; selling, general and administrative expenses; acquisition-related expenses, net; other operating income and expenses, net; and exclude interest expense; other nonoperating income and expenses, net; and taxes on income. Corporate loss from operations primarily includes depreciation on capitalized interest; unallocated expenses for corporate administrative functions; acquisition-related expenses, net; and other nonrecurring income and expenses excluded from the Company's evaluation of business segment performance and resource allocation. All debt and related interest expense is held at Corporate.

The following table displays selected financial data for the Company's reportable business segments. The acquired Bluegrass operations are located in the Mid-America Group and Southeast Group. Total revenues, as well as the consolidated statements of earnings and comprehensive earnings, exclude intersegment revenues which represent sales from one segment to another segment, which are eliminated. Prior-year information has been reclassified to conform to current year revenue presentation.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. Business Segments (continued)

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in Thousands)			
Total revenues:				
Mid-America Group	$350,592	$290,898	$529,373	$479,918
Southeast Group	112,963	92,348	193,202	182,630
West Group	665,886	610,249	1,139,608	1,106,230
Total Building Materials Business	1,129,441	993,495	1,862,183	1,768,778
Magnesia Specialties	72,962	70,029	142,224	138,605
Total	$1,202,403	$1,063,524	$2,004,407	$1,907,383
Products and services revenues:				
Mid-America Group	$325,578	$269,914	$493,468	$447,321
Southeast Group	109,082	88,538	186,646	175,264
West Group	625,960	572,663	1,068,943	1,036,545
Total Building Materials Business	1,060,620	931,115	1,749,057	1,659,130
Magnesia Specialties	68,157	65,728	133,025	130,029
Total	$1,128,777	$996,843	$1,882,082	$1,789,159
Earnings (Loss) from operations:				
Mid-America Group	$108,709	$85,363	$114,876	$98,705
Southeast Group	32,052	14,334	34,093	24,449
West Group	122,844	112,491	157,796	173,724
Total Building Materials Business	263,605	212,188	306,765	296,878
Magnesia Specialties	21,329	21,118	42,565	40,999
Corporate	(20,981)	(20,454)	(46,296)	(47,875)
Total	$263,953	$212,852	$303,034	$290,002

	June 30, 2018	December 31, 2017	June 30, 2017
Assets employed:	(Dollars in thousands)		
Mid-America Group	$2,810,643	$1,532,867	$1,509,329
Southeast Group	1,297,674	616,344	598,365

West Group	5,079,624	5,014,231	5,029,868
Total Building Materials Business	9,187,941	7,163,442	7,137,562
Magnesia Specialties	151,182	152,257	146,925
Corporate	257,629	1,676,812	231,373
Total	$9,596,752	$8,992,511	$7,515,860

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended June 30, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. Revenues and Gross Profit

The Building Materials business includes the aggregates, cement, ready mixed concrete and asphalt and paving product lines. All cement, ready mixed concrete and asphalt and paving product lines reside in the West Group. The following table, which is reconciled to consolidated amounts, provides total revenues and gross profit by product line.

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in Thousands)			
Total revenues:				
Building Materials Business:				
Products and services:				
Aggregates	$665,308	$577,913	$1,090,324	$1,028,968
Cement	113,148	98,937	202,331	192,491
Ready mixed concrete	277,202	241,871	495,738	464,249
Asphalt and paving services	83,140	82,943	99,507	104,680
Less: interproduct revenues	(78,178)	(70,549)	(138,843)	(131,258)
Products and services	1,060,620	931,115	1,749,057	1,659,130
Freight	68,821	62,380	113,126	109,648
Total Building Materials Business	1,129,441	993,495	1,862,183	1,768,778
Magnesia Specialties:				
Products and services	68,157	65,728	133,025	130,029
Freight	4,805	4,301	9,199	8,576
Total Magnesia Specialties	72,962	70,029	142,224	138,605
Total	$1,202,403	$1,063,524	$2,004,407	$1,907,383
Gross profit (loss):				
Building Materials Business:				
Products and services:				
Aggregates	$198,540	$173,012	$251,542	$251,967
Cement	41,305	29,369	65,038	60,148
Ready mixed concrete	29,952	26,840	45,593	46,630
Asphalt and paving services	18,512	20,314	10,873	15,573
Products and services	288,309	249,535	373,046	374,318
Freight	598	621	480	1,028
Total Building Materials Business	288,907	250,156	373,526	375,346

Magnesia Specialties:				
Products and services	24,870	24,798	49,933	48,153
Freight	(1,028)	(1,174)	(2,203)	(2,214)
Total Magnesia Specialties	23,842	23,624	47,730	45,939
Corporate	3,168	314	5,053	(125)
Total	$315,917	$274,094	$426,309	$421,160

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(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. Supplemental Cash Flow Information

The components of the change in other assets and liabilities, net, are as follows:

	Six-Months Ended June 30,	
	2018	2017
	(Dollars in Thousands)	
Other current and noncurrent assets	$ (18,777)	$ (32,332)
Accrued salaries, benefits and payroll taxes	1,661	(7,892)
Accrued insurance and other taxes	(3,344)	(134)
Accrued income taxes	39,122	28,047
Accrued pension, postretirement and postemployment benefits	10,685	11,521
Other current and noncurrent liabilities	(23,732)	30,740
	$ 5,615	$ 29,950

Noncash investing and financing activities are as follows:

	Six-Months Ended June 30,	
	2018	2017
	(Dollars in Thousands)	
Noncash investing and financing activities:		
Accrued liabilities for purchases of property, plant and equipment	$ 20,771	$ 34,714
Acquisition of assets through capital lease	$ 449	$ 149

Supplemental disclosures of cash flow information are as follows:

	Six-Months Ended June 30,	
	2018	2017
	(Dollars in Thousands)	

Cash paid for interest	$ 67,399	$ 38,111
Cash (refund of) paid for income taxes	$ (2,244)	$ 33,264

14. Other operating income, net

Other operating income, net, for the quarter ended June 30, 2018 includes a net gain on legal settlements of $7,677,000 and a gain on the sale of surplus land of $16,938,000.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended June 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Second Quarter Ended June 30, 2018

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

Martin Marietta Materials, Inc. (the Company or Martin Marietta) is a natural resource-based building materials company. The Company supplies aggregates (crushed stone, sand and gravel) through its network of more than 300 quarries, mines and distribution yards to its customers in 30 states, Canada, the Bahamas and the Caribbean Islands. In the western United States, Martin Marietta also provides cement and downstream products, namely, ready mixed concrete, asphalt and paving services, in vertically-integrated structured markets where the Company has a leading aggregates position. The Company's heavy-side building materials are used in infrastructure, nonresidential and residential construction projects. Aggregates are also used in agricultural, utility and environmental applications and as railroad ballast. The aggregates, cement, ready mixed concrete and asphalt and paving product lines are reported collectively as the "Building Materials" business.

The Company conducts its Building Materials business through three reportable business segments: Mid-America Group, Southeast Group and West Group.

BUILDING MATERIALS BUSINESS

Reportable Segments	Mid-America Group	Southeast Group	West Group
Operating Locations	Indiana, Iowa, northern Kansas, Kentucky, Maryland, Minnesota, Missouri, eastern Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, Virginia, Washington and West Virginia	Alabama, Florida, Georgia, Tennessee, Nova Scotia and the Bahamas	Arkansas, Colorado, southern Kansas, Louisiana, western Nebraska, Nevada, Oklahoma, Texas, Utah and Wyoming
Product Lines	Aggregates	Aggregates	Aggregates, Cement, Ready Mixed Concrete, Asphalt and Paving
Plant Types	Quarries, Mines and Distribution Facilities	Quarries, Mines and Distribution Facilities	Quarries, Mines, Plants and Distribution Facilities
	Truck and Rail	Truck, Rail and Water	Truck and Rail

Modes of
Transportation

The Company also has a Magnesia Specialties business that produces magnesia-based chemicals products used in industrial, agricultural and environmental applications and dolomitic lime sold primarily to customers in the steel and mining industry.

CRITICAL ACCOUNTING POLICIES

The Company outlined its critical accounting policies in its Annual Report on Form 10-K for the year ended December 31, 2017. There were no changes to the Company's critical accounting policies during the six-months ended June 30, 2018.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter June 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Second Quarter Ended June 30, 2018

(Continued)

RESULTS OF OPERATIONS

The Building Materials business is significantly affected by weather patterns and seasonal changes. Production and shipment levels for aggregates, cement, ready mixed concrete and asphalt and paving materials correlate with general construction activity levels, most of which occur in the spring, summer and fall. Thus, production and shipment levels vary by quarter. Operations concentrated in the northern and midwestern United States generally experience more severe winter weather conditions than operations in the southeast and southwest. Excessive rainfall, and conversely excessive drought, can also jeopardize production, shipments and profitability in all markets served by the Company. Because of the potentially significant impact of weather on the Company's operations, current period and year-to-date results are not indicative of expected performance for other interim periods or the full year.

Earnings before interest, income taxes, depreciation and amortization (EBITDA) is a widely accepted financial indicator of a company's ability to service and/or incur indebtedness. EBITDA is not defined by generally accepted accounting principles and, as such, should not be construed as an alternative to net earnings, operating earnings or operating cash flow. However, the Company's management believes that EBITDA may provide additional information with respect to the Company's performance or ability to meet its future debt service, capital expenditures or working capital requirements. Because EBITDA excludes some, but not all, items that affect net earnings and may vary among companies, EBITDA and adjusted EBITDA, as described below, presented by the Company may not be comparable to similarly titled measures of other companies.

A reconciliation of net earnings attributable to Martin Marietta Materials, Inc. to consolidated EBITDA is as follows:

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Net Earnings Attributable to Martin Marietta Materials, Inc.	$185,377	$142,279	$195,400	$184,613
Add back:				
Interest expense	32,971	24,045	68,059	44,896
Income tax expense for controlling interests	52,581	51,981	55,018	66,503
Depreciation, depletion and amortization expense	85,737	73,993	161,451	144,000
Consolidated EBITDA	$356,666	$292,298	$479,928	$440,012

Impact of Acquisition-Related Items

Adjusted consolidated earnings from operations, adjusted earnings per diluted share and adjusted EBITDA for the three- and six-months ended June 30, 2018, exclude the impact of acquisition-related expenses, net, and the impact of selling acquired inventory due to the markup to fair value as part of acquisition accounting. Acquisition-related expenses, net, consist of acquisition and integration expenses and the nonrecurring gain on the required divestiture of a legacy Martin Marietta quarry in Georgia as part of the acquisition of Bluegrass Materials. Adjusted consolidated earnings from operations, adjusted earnings per diluted share and adjusted EBITDA represent non-GAAP financial measures. Management presents these measures for investors and analysts to evaluate and forecast the Company's financial results, as acquisition-related expenses, net, and the impact of selling acquired inventory due to the markup to fair value as part of acquisition accounting are nonrecurring.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

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Second Quarter Ended June 30, 2018

(Continued)

The following reconciles consolidated earnings from operations in accordance with GAAP to adjusted consolidated earnings from operations:

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Consolidated earnings from operations in accordance with GAAP	$263,953	$212,852	$303,034	$290,002
Add back:				
Acquisition-related expenses, net	12,126	1,982	12,836	2,004
Impact of selling acquired inventory due to the markup to fair value as part of acquisition accounting	10,167	—	10,167	—
Adjusted consolidated earnings from operations	$286,246	$214,834	$326,037	$292,006

The following reconciles earnings per diluted share in accordance with GAAP to adjusted earnings per diluted share:

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2018	2017	2018	2017
Earnings per diluted share in accordance with GAAP	$2.92	$2.25	$3.08	$2.91
Add back:				
Earnings per diluted share impact of acquisition-related expenses, net	0.21	0.02	0.22	0.02
Earnings per diluted share impact of selling acquired inventory due to the markup to fair value as part of acquisition accounting	0.12	—	0.12	—
Adjusted earnings per diluted share	$3.25	$2.27	$3.42	$2.93

The following reconciles consolidated EBITDA to adjusted consolidated EBITDA:

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Consolidated EBITDA	$356,666	$292,298	$479,928	$440,012
Add back:				
Acquisition-related expenses, net	12,126	1,982	12,836	2,004
Impact of selling acquired inventory due to the markup to fair value as part of acquisition accounting	10,167	—	10,167	—
Adjusted consolidated EBITDA	$378,959	$294,280	$502,931	$442,016

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Second Quarter Ended June 30, 2018

(Continued)

Adjusted gross margin for aggregates products excludes the impact of selling acquired inventory due to the markup to fair value as part of acquisition accounting and is a non-GAAP measure. Management presents this measure for investors and analysts to evaluate and forecast the Company's financial results, as the impact of selling acquired inventory due to the markup to fair value as part of acquisition accounting is nonrecurring. The following reconciles gross margin for aggregates products to adjusted gross margin for aggregates products:

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Gross profit for aggregates products	$198,540	$173,012	$251,542	$251,967
Total products revenues for aggregates	$665,308	$577,913	$1,090,324	$1,028,968
Gross margin for aggregates products in accordance with GAAP	29.8 %	29.9 %	23.1 %	24.5 %
Gross profit for aggregates products in accordance with GAAP	$198,540	$173,012	$251,542	$251,967
Add back:				
Impact of selling acquired inventory due to the markup to fair value as part of acquisition accounting	$10,167			