MARTIN MARIETTA MATERIALS INC
Form 10-Q
October 31, 2006

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

o **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 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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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 27, 2006
Common Stock, $0.01 par value	45,144,572

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MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

Item 1. Financial Statements

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

	September 30, 2006 *(Unaudited)*	December 31, 2005 *(Audited)*	September 30, 2005 *(Unaudited)*
	(Dollars in Thousands, Except Per Share Data)		
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 22,829	$ 76,745	$ 111,583
Investments		25,000	25,000
Accounts receivable, net	293,702	225,012	288,422
Inventories, net	244,537	222,728	209,451
Current portion of notes receivable	2,299	5,081	3,787
Current deferred income tax benefits	16,022	14,989	6,088
Other current assets	28,900	32,486	21,842
Total Current Assets	608,289	602,041	666,173
Property, plant and equipment	2,695,560	2,501,774	2,452,704
Allowances for depreciation and depletion	(1,416,194)	(1,335,423)	(1,310,939)
Net property, plant and equipment	1,279,366	1,166,351	1,141,765
Goodwill	570,336	569,263	569,284
Other intangibles, net	12,624	18,744	19,541
Noncurrent notes receivable	10,713	27,883	24,565
Other noncurrent assets	51,368	49,034	53,755
Total Assets	$ 2,532,696	$ 2,433,316	$ 2,475,083
LIABILITIES AND SHAREHOLDERS EQUITY			
Current Liabilities:			
Bank overdraft	$ 9,720	$ 7,290	$ 13,724
Accounts payable	89,650	93,445	94,754
Accrued salaries, benefits and payroll taxes	24,675	24,199	24,246
Pension and postretirement benefits	6,260	4,200	4,471
Accrued insurance and other taxes	46,436	39,582	45,092
Income taxes	10,253	1,336	18,611
Current maturities of long-term debt and commercial paper	137,606	863	880
Other current liabilities	35,095	29,207	33,540
Total Current Liabilities	359,695	200,122	235,318

Long-term debt	579,824	709,159	709,780
Pension, postretirement and postemployment benefits	97,222	98,714	88,273
Noncurrent deferred income taxes	144,540	149,972	135,117
Other noncurrent liabilities	89,345	101,664	105,046
Total Liabilities	1,270,626	1,259,631	1,273,534
Shareholders Equity:			
Common stock, par value $0.01 per share	450	457	463
Preferred stock, par value $0.01 per share			
Additional paid-in capital	186,611	240,541	299,193
Accumulated other comprehensive loss	(17,187)	(15,325)	(8,970)
Retained earnings	1,092,196	948,012	910,863
Total Shareholders Equity	1,262,070	1,173,685	1,201,549
Total Liabilities and Shareholders Equity	$ 2,532,696	$ 2,433,316	$ 2,475,083

See accompanying condensed notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In Thousands, Except Per Share Data) *(Unaudited)*			
Net Sales	$ 529,643	$ 496,992	$ 1,472,270	$ 1,311,271
Freight and delivery revenues	74,464	66,922	204,387	184,916
Total revenues	604,107	563,914	1,676,657	1,496,187
Cost of sales	381,630	362,103	1,087,013	997,097
Freight and delivery costs	74,464	66,922	204,387	184,916
Total cost of revenues	456,094	429,025	1,291,400	1,182,013
Gross Profit	148,013	134,889	385,257	314,174
Selling, general & administrative expenses	35,254	33,526	108,563	97,155
Research and development	175	189	479	530
Other operating (income) and expenses, net	(2,131)	(6,644)	(9,421)	(10,627)
Earnings from Operations	114,715	107,818	285,636	227,116
Interest expense	10,070	10,772	29,754	32,224
Other nonoperating (income) and expenses, net	239	189	(2,161)	(1,082)
Earnings from continuing operations before income tax expense	104,406	96,857	258,043	195,974
Income tax expense	28,699	20,810	76,665	48,543
Earnings from continuing operations	75,707	76,047	181,378	147,431
Gain (Loss) on discontinued operations, net of related tax expense (benefit) of $344, $582, $1,024 and $(670) respectively	453	313	1,578	(2,522)
Net Earnings	$ 76,160	$ 76,360	$ 182,956	$ 144,909
Net Earnings (Loss) Per Common Share:				
Basic from continuing operations	$ 1.67	$ 1.64	$ 3.98	$ 3.16
Discontinued operations	0.01	0.01	0.04	(0.05)
	$ 1.68	$ 1.65	$ 4.02	$ 3.11

Diluted from continuing operations	$	1.64	$	1.61	$	3.90	$	3.11
Discontinued operations		0.01		0.01		0.03		(0.05)
	$	1.65	$	1.62	$	3.93	$	3.06
Cash Dividends Per Common Share	$	0.275	$	0.23	$	0.735	$	0.63
Reconciliation of denominators for basic and diluted earnings per share computations:								
Basic weighted average number of common shares		45,275		46,349		45,561		46,658
Effect of dilutive employee and director awards		846		824		947		701
Diluted weighted average number of common shares and assumed conversions		46,121		47,173		46,508		47,359

See accompanying condensed notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2006	2005
	(Dollars in Thousands) (Unaudited)	
Net earnings	$ 182,956	$ 144,909
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation, depletion and amortization	102,694	103,390
Stock-based compensation expense	9,679	2,488
Gains on divestitures and sales of assets	(6,805)	(6,234)
Deferred income taxes	(3,248)	(4,400)
Excess tax benefits from stock-based compensation transactions	(11,343)	8,084
Other items, net	(3,347)	(3,567)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable, net	(68,663)	(68,834)
Inventories, net	(21,931)	2,035
Accounts payable	(3,796)	4,930
Other assets and liabilities, net	33,526	25,227
Net cash provided by operating activities	209,722	208,028
Investing activities:		
Additions to property, plant and equipment	(212,587)	(156,110)
Acquisitions, net	(2,992)	(4,277)
Proceeds from divestitures and sales of assets	26,916	32,818
Purchases of investments		(25,000)
Proceeds from sale of investments	25,000	
Railcar construction advances	(32,077)	
Repayments of railcar construction advances	32,077	
Other investing activities, net		(400)
Net cash used for investing activities	(163,663)	(152,969)
Financing activities:		
Repayments of long-term debt	(440)	(498)
Termination of interest rate swaps		(467)
Borrowings on line of credit and commercial paper	12,190	
Change in bank overdraft	2,430	4,197
Payments on capital lease obligations	(112)	(59)
Dividends paid	(33,843)	(29,345)
Repurchases of common stock	(112,594)	(102,069)

Issuances of common stock	21,051	23,145
Excess tax benefits from stock-based compensation transactions	11,343	
Net cash used for financing activities	(99,975)	(105,096)
Net decrease in cash and cash equivalents	(53,916)	(50,037)
Cash and cash equivalents, beginning of period	76,745	161,620
Cash and cash equivalents, end of period	$ 22,829	$ 111,583
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 28,015	$ 27,755
Cash payments for income taxes	$ 50,238	$ 36,169

See accompanying condensed notes to consolidated financial statements.

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MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(Unaudited)

(in thousands)	Shares of Common Stock	Common Stock	Additional Paid-in-Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders Equity
Balance at December 31, 2005	45,727	$ 457	$ 240,541	$ (15,325)	$ 948,012	$ 1,173,685
Writeoff of capitalized stripping costs, net					(4,929)	(4,929)
Reclassification of stock-based compensation liabilities to shareholders equity for FAS 123(R) adoption			12,339			12,339
Net earnings					182,956	182,956
Change in fair value of forward starting interest rate swap agreements				(1,862)		(1,862)
Comprehensive earnings						181,094
Dividends declared					(33,843)	(33,843)
Issuances of common stock for stock award plans	658	6	36,633			36,639
Repurchases of common stock	(1,274)	(13)	(112,581)			(112,594)
Stock-based compensation expense			9,679			9,679
Balance at September 30, 2006	45,111	$ 450	$ 186,611	$ (17,187)	$ 1,092,196	$ 1,262,070

See accompanying condensed notes to consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES
FORM 10-Q
For the Quarter Ended September 30, 2006
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Significant Accounting Policies**

Basis of Presentation

The accompanying unaudited 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, 2005, filed with the Securities and Exchange Commission on February 27, 2006. 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, 2006 are not indicative of the results to be expected for the full year.

Reclassifications

Certain 2005 amounts have been reclassified to conform to the 2006 presentation. The reclassifications had no impact on previously reported net earnings or financial position.

Sales Taxes

Sales taxes collected from customers are recorded as liabilities until remitted to taxing authorities and therefore are not reflected in the consolidated statements of earnings.

Stripping Costs

Effective January 1, 2006, the Corporation adopted Emerging Issues Task Force Issue 04-06, *Accounting for Stripping Costs in the Mining Industry* (EITF 04-06). EITF 04-06 clarifies that post-production stripping costs, which represent costs of removing overburden and waste materials to access mineral deposits, should be considered costs of the extracted minerals under a full absorption costing system and recorded as a component of inventory to be recognized in costs of sales in the same period as the revenue from the sale of the inventory. Prior to the adoption of EITF 04-06, the Corporation capitalized certain post-production stripping costs and amortized these costs over the lesser of half of the life of the uncovered reserves or 5 years.

In connection with the adoption of EITF 04-06, the Corporation wrote off $8,148,000 of capitalized post-production stripping costs previously reported as other noncurrent assets and a related deferred tax liability of $3,219,000, thereby reducing retained earnings by $4,929,000 at January 1, 2006.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

1. Significant Accounting Policies (continued)

Stock-Based Compensation

The Corporation has stock-based compensation plans for employees and directors as more fully described in Note 9. Effective January 1, 2006, the Corporation adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (FAS 123 (R)) to account for these plans. FAS 123 (R) requires all forms of share-based payments to employees, including stock options, to be recognized as compensation expense. The compensation expense is the fair value of the awards at the measurement date. Further, FAS 123 (R) requires compensation cost to be recognized over the requisite service period for all awards granted subsequent to adoption. As required by FAS 123 (R), the Corporation will continue to recognize compensation cost over the explicit vesting period for all unvested awards as of January 1, 2006, with acceleration for any remaining unrecognized compensation cost if an employee retires prior to the end of the vesting period.

The Corporation adopted the provisions of FAS 123(R) using the modified prospective transition method, which recognizes stock option awards as compensation expense for unvested awards as of January 1, 2006 and awards granted or modified subsequent to that date. In accordance with the modified prospective transition method, the Corporation s consolidated statements of earnings for the three and nine months ended September 30, 2005 and its consolidated statement of cash flows for the nine months ended September 30, 2005 have not been restated and do not include the impact of FAS 123(R).

Under FAS 123(R), an entity may elect either the accelerated expense recognition method or a straight-line recognition method for awards subject to graded vesting based on a service condition. The Corporation elected to use the accelerated expense recognition method for stock options issued to employees. The accelerated recognition method requires stock options that vest ratably to be divided into tranches. The expense for each tranche is allocated to its particular vesting period.

The adoption of FAS 123(R) did not change the Corporation s accounting for stock-based compensation related to restricted stock awards, incentive compensation awards and nonemployee directors awards. The Corporation continues to expense the fair value of these awards based on the closing price of the Corporation s common stock on the awards respective measurement dates.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

1. Significant Accounting Policies (continued)

Stock-Based Compensation (continued)

The adoption of FAS 123(R) resulted in the recognition of compensation expense for stock options granted by the Corporation during the year. No stock options were granted during the quarter ended September 30, 2006. During the nine months ended September 30, 2006, the Corporation recognized $2,249,000 of compensation expense for the May 2006 grant of 168,393 stock options (141,393 to employees and 27,000 to directors). Of this amount, $885,000 relates to directors options that were expensed at the grant date as the options vested immediately. The remaining options are being expensed over their requisite service periods. With the current forfeiture rate assumptions, total stock-based compensation expense to be recognized for the May 2006 option grant is $5,397,000, of which $3,148,000 has yet to be recognized as of September 30, 2006.

The impact of expensing stock options granted in 2006 and the unvested portion of outstanding employee stock options at January 1, 2006 affected the Corporation s results of operations as follows:

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Decreased earnings from continuing operations before income tax expense by:	$ 1,440,000	$ 4,629,000
Decreased earnings from continuing operations and net earnings by:	$ 871,000	$ 2,799,000
Decreased basic earnings per share by:	$ 0.02	$ 0.06
Decreased diluted earnings per share by:	$ 0.02	$ 0.06

Furthermore, FAS 123(R) requires tax benefits attributable to stock-based compensation transactions to be classified as financing cash flows. Prior to the adoption of FAS 123(R), the Corporation presented excess tax benefits from stock-based compensation transaction as an operating cash flow on its consolidated statements of cash flows. The $11,343,000 excess tax benefit classified as a financing cash flow for the nine months ended September 30, 2006 would have been classified as an operating cash inflow had the Corporation not adopted FAS 123(R).

In connection with the adoption of FAS 123(R), the Corporation reclassified $12,339,000 of stock-based compensation liabilities to additional paid-in-capital, thereby increasing shareholders equity at January 1, 2006.

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(Continued)

1. Significant Accounting Policies (continued)

Stock-Based Compensation (continued)

Prior to January 1, 2006, the Corporation accounted for its stock-based compensation plans under the intrinsic value method prescribed by APB Opinion 25, *Accounting for Stock Issued to Employees*, and related Interpretations. As the Corporation granted stock options with an exercise price equal to the market value of the stock on the date of grant, no stock-based compensation cost for stock options granted was recognized in net earnings as reported in the consolidated statements of earnings prior to adopting FAS 123(R). The following table illustrates the effect on net earnings and earnings per share if the Corporation had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (FAS 123) (dollars in thousands, except per share amounts):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net earnings, as reported	$ 76,360	$ 144,909
Add: Stock-based compensation expense included in reported net earnings, net of related tax effects	569	1,425
Deduct: Stock-based compensation expense determined under fair value for all awards, net of related tax effects	(1,347)	(4,288)
Pro forma net earnings	$ 75,582	$ 142,046
Earnings per share:		
Basic-as reported	$ 1.65	$ 3.11
Basic-pro forma	$ 1.63	$ 3.04
Diluted-as reported	$ 1.62	$ 3.06
Diluted-pro forma	$ 1.60	$ 3.00

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(Continued)

1. Significant Accounting Policies (continued)

Stock-Based Compensation (continued)

The Corporation used a lattice valuation model to determine the fair value of stock option awards granted in 2006 and 2005. The lattice valuation model takes into account employees exercise patterns based on changes in the Corporation s stock price and other variables and is considered to result in a more accurate valuation of employee stock options than the Black-Scholes valuation model. The period of time for which options are expected to be outstanding, or expected term of the option, is a derived output of the lattice valuation model. The Corporation considers the following factors when estimating the expected term of options: vesting period of the award, expected volatility of the underlying stock, employees ages and external data. Other key assumptions used in determining the fair value of the stock options awarded in 2006 and 2005 were:

	2006	2005
Risk-free interest rate	4.90%	3.80%
Dividend yield	1.10%	1.60%
Volatility factor	31.20%	30.80%
Expected term	6.9 years	6.3 years

Based on these assumptions, the weighted-average fair value of each stock option granted was $33.21 for 2006 and $18.72 for 2005.

The risk-free interest rate reflects the interest rate on zero-coupon U.S. government bonds available at the time each option was granted having a remaining life approximately equal to the option s expected life. The dividend yield represents the dividend rate expected to be paid over the option s expected life and is based on the Corporation s historical dividend payments and targeted dividend pattern. The Corporation s volatility factor measures the amount by which its stock price is expected to fluctuate during the expected life of the option and is based on historical stock price changes and other factors. Additionally, FAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Corporation estimated forfeitures and will ultimately recognize compensation cost only for those stock-based awards that vest.

Comprehensive Earnings

Comprehensive earnings for the Corporation consist of net earnings and, for the three and nine months ended September 30, 2006, a $1,862,000 loss for the change in fair value of forward starting interest rate swaps. For the three and nine months ended September 30, 2006, comprehensive earnings were $74,298,000 and $181,094,000, respectively.

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2. Business Combinations and Divestitures

In 2006 and 2005, the Corporation disposed of certain underperforming operations in its Aggregates operating segment. These divestitures represent discontinued operations, and, therefore, the results of their operations through the dates of disposal and any gain or loss on disposals are included in discontinued operations on the consolidated statements of earnings.

The discontinued operations included the following net sales, pretax gain or loss on operations, pretax gain or loss on disposals, income tax expense or benefit and overall net earnings or loss (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net sales	$ 95	$ 2,494	$ 387	$ 9,936
Pretax gain (loss) on operations	$ 50	$ 895	$ (368)	$ (2,268)
Pretax gain (loss) on disposals	747		2,970	(924)
Pretax gain (loss)	797	895	2,602	(3,192)
Income tax expense (benefit)	344	582	1,024	(670)
Net earnings (loss)	$ 453	$ 313	$ 1,578	$ (2,522)

3. Inventories

	September 30, 2006	December 31, 2005	September 30, 2005
		(Dollars in Thousands)	
Finished products	$ 198,541	$ 185,681	$ 174,645
Products in process and raw materials	17,975	17,990	17,443
Supplies and expendable parts	40,202	31,158	28,430
	256,718	234,829	220,518
Less allowances	(12,181)	(12,101)	(11,067)
Total	$ 244,537	$ 222,728	$ 209,451

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(Continued)

4. Goodwill

The following table shows changes in goodwill, all of which relate to the Aggregates segment (dollars in thousands):

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Balance at beginning of period	$ 570,336	$ 569,263
Adjustments to purchase price allocations		1,998
Amounts allocated to divestitures		(925)
Balance at end of period	$ 570,336	$ 570,336

5. Long-Term Debt

	September 30, 2006	December 31, 2005	September 30, 2005
		(Dollars in Thousands)	
6.875% Notes, due 2011	$ 249,821	$ 249,800	$ 249,793
5.875% Notes, due 2008	204,746	206,277	206,775
6.9% Notes, due 2007	124,994	124,988	124,987
7% Debentures, due 2025	124,308	124,295	124,291
Commercial paper and line of credit, interest rates ranging from 4.40 % to 5.45%	12,190		
Acquisition notes, interest rates ranging from 2.11% to 8.00%	731	3,657	3,773
Other notes	640	1,005	1,041
	717,430	710,022	710,660
Less current maturities	(137,606)	(863)	(880)
Total	$ 579,824	$ 709,159	$ 709,780

The carrying values of the notes due in 2008 included $5,022,000, $6,640,000 and $7,167,000 at September 30, 2006, December 31, 2005 and September 30, 2005, respectively, for the unamortized value of terminated interest rate swaps.

In June 2006, the Corporation extended the expiration date of its $250,000,000 five-year revolving credit agreement (the Credit Agreement) by one year to June 30, 2011. No borrowings were outstanding under the Credit Agreement at September 30, 2006, December 31, 2005 or September 30, 2005. However, the Credit Agreement supports a $250,000,000 commercial paper program, of which borrowings of $11,000,000 were outstanding at September 30,

2006. No borrowings were outstanding under the commercial paper program at December 31, 2005 or September 30, 2005.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES
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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

5. Long-Term Debt (continued)

In September 2006, the Corporation entered into two forward starting interest rate swap agreements (the Swap Agreements) with a total notional amount of $150,000,000. Each of the two Swap Agreements covers $75,000,000 of principal. The Swap Agreements locked in at 5.42% the interest rate relative to LIBOR related to $150,000,000 of the Corporation s anticipated refinancing of its $200,000,000 5.875% Notes due in 2008. Each of the Swap Agreements provides for a single payment at its mandatory termination date, December 1, 2008. If the LIBOR swap rate increases above 5.42% on the mandatory termination date, the Corporation will receive a payment from each of the counterparties based on the notional amount of each agreement over an assumed 10-year period. If the LIBOR swap rate falls below 5.42% on the mandatory termination date, the Corporation will be obligated to make a payment to each of the counterparties on the same basis. In accordance with Statement of Financial Accounting Standards No. 133 *Accounting for Derivative Instruments and Hedging Activities* (FAS 133), the fair values of the Swap Agreements are recorded as an asset or liability in the consolidated balance sheet. The change in fair value is recorded directly in shareholders equity as other comprehensive earnings/loss. At September 30, 2006, the fair value of the Swap Agreements was a liability of $1,862,000 and was included in other noncurrent liabilities in the Corporation s consolidated balance sheet with a corresponding loss of $1,862,000 recorded in other comprehensive earnings/loss.

At September 30, 2006, $1,190,000 was outstanding under a $10,000,000 line of credit. No borrowings were outstanding under the line of credit at December 31, 2005 or September 30, 2005.

6. Income Taxes

	Nine Months Ended September 30,	
	2006	2005
Estimated effective income tax rate:		
Continuing operations	29.7%	24.8%
Discontinued operations	39.4%	21.0%
Overall	29.8%	24.8%

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 net permanent benefits associated with the depletion allowances for mineral reserves, the domestic production deduction, foreign operating earnings and the tax effect of nondeductibility of goodwill related to asset sales. The effective income tax rates for discontinued operations reflect the tax effects of individual operations transactions and are not indicative of the Corporation s overall effective tax rate.

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6. Income Taxes (continued)

The change in the year-to-date estimated effective income tax rate during the third quarter of 2006, when compared with the year-to-date effective tax rate as of June 30, 2006, increased net earnings for the quarter ended September 30, 2006 by $2,679,000, or $0.06 per diluted share. The change was due to discrete tax events primarily consisting of the reversal of tax contingencies related to the expiration of the statute of limitations for the 2002 tax year, providing reserves for tax contingencies and the evaluation of deferred taxes.

The change in the year-to-date estimated effective income tax rate during the third quarter of 2005, as compared with the year-to-date effective tax rate as of June 30, 2005, increased net earnings for the nine months ended September 30, 2005 by $6,000,000. Included in this change is $6,700,000, or $0.14 per diluted share, of discrete tax events primarily consisting of the reversal of $5,900,000 of reserves for tax contingencies related to the expiration of the statute of limitations for the 2001 tax year.

The overall effective income tax rate for the nine months ended September 30, 2005 reflects the benefit of a decrease in tax reserves related to certain international tax issues currently under examination that increased net earnings by $1,000,000, or $0.02 per diluted share. Additionally, the State of Ohio enacted tax reform legislation that reduced income tax expense and increased net earnings by $1,200,000, or $0.02 per diluted share, during the nine months ended September 30, 2005.

7. Pension and Postretirement Benefits

The following presents the estimated components of the recorded net periodic benefit cost for pension and postretirement benefits for the quarter ended September 30 (dollars in thousands):

	Pension		Postretirement Benefits	
	2006	2005	2006	2005
Service cost	$ 3,050	$ 2,698	$ 138	$ 141
Interest cost	4,523	4,115	670	743
Expected return on assets	(4,901)	(4,422)		
Amortization of:				
Prior service cost	185	165	(324)	(323)
Actuarial loss (gain)	714	524	(60)	(37)
Total net periodic benefit cost	$ 3,571	$ 3,080	$ 424	$ 524

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7. Pension and Postretirement Benefits (continued)

The following presents the estimated components of the recorded net periodic benefit cost for pension and postretirement benefits for the nine months ended September 30 (dollars in thousands):

	Pension		Postretirement Benefits	
	2006	2005	2006	2005
Service cost	$ 9,154	$ 8,155	$ 414	$ 425
Interest cost	13,577	12,435	2,009	2,234
Expected return on assets	(14,711)	(13,364)		
Amortization of:				
Prior service cost	556	499	(971)	(971)
Actuarial loss (gain)	2,144	1,583	(179)	(110)
Total net periodic benefit cost	$ 10,720	$ 9,308	$ 1,273	$ 1,578

The Corporation made a $12,000,000 voluntary contribution to its pension plan in the third quarter of 2006. The contribution was deductible for tax purposes for the 2005 tax year. No additional contributions are expected during the remainder of the year.

8. Contingencies

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.

9. Stock-Based Compensation

The shareholders approved, on May 23, 2006, the Martin Marietta Materials, Inc. Stock-Based Award Plan, as amended from time to time (along with the Amended Omnibus Securities Award Plan, originally approved in 1994, the Plans). The Corporation has been authorized by the Board of Directors to repurchase shares of the Corporation s common stock for issuance under the Plans.

Under the Plans, the Corporation grants options to employees to purchase its common stock at a price equal to the market value at the date of grant. The Corporation granted 141,393 employee stock options during the nine months ended September 30, 2006. Options granted in 2006 and 2005 become exercisable in four annual installments beginning one year after date of grant and expire eight years from such date. Options granted in years prior to 2005 become exercisable in three equal annual installments beginning one year after date of grant and expire ten years from such date.

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9. Stock-Based Compensation (continued)

Pursuant to the Plans, each nonemployee director currently receives 3,000 non-qualified stock options annually. During the nine months ended September 30, 2006, the Corporation granted 27,000 options to nonemployee directors. These options have an exercise price equal to the market value at the date of grant, vest immediately and expire ten years from the grant date.

The following table includes summary information for stock options for employees and nonemployee directors for the nine months ended September 30, 2006:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	2,478,220	$ 43.97		
Granted	168,393	$ 89.02		
Exercised	(778,784)	$ 42.48		$39,583,000
Terminated	(16,593)	$ 58.38		
Outstanding at September 30, 2006	1,851,236	$ 48.57	5.7	$66,730,000
Exercisable at September 30, 2006	1,463,460	$ 44.67	5.2	$58,470,000

For the nine months ended September 30, 2005, the intrinsic value of options exercised was $21,448,000. The intrinsic values of options exercised during the nine months ended September 30, 2006 and 2005 were based on the closing prices of the Corporation s common stock on the dates of exercise. The aggregate intrinsic value for options outstanding and exercisable at September 30, 2006 was based on the closing price of the Corporation s common stock at September 30, 2006, which was $84.62.

Additionally, an incentive stock plan has been adopted under the Plans whereby certain participants may elect to use up to 50% of their annual incentive compensation to acquire units representing shares of the Corporation s common stock at a 20% discount to the market value on the date of the incentive compensation award. Certain executive officers are required to participate in the incentive stock plan at certain minimum levels. Participants earn the right to receive their respective shares at the discounted value generally at the end of a 35-month period of additional employment from the date of award or at retirement beginning at age 62. All rights of ownership of the common stock convey to the participants upon the issuance of their respective shares at the end of the ownership-vesting period, with the exception of dividend equivalents that are paid on the units during the vesting period.

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9. Stock-Based Compensation (continued)

The Corporation grants restricted stock awards under the Plans to a group of executive officers and key personnel. Certain restricted stock awards are based on specific common stock performance criteria over a specified period of time. In addition, certain awards were granted to individuals to encourage retention and motivate key employees. These awards generally vest if the employee is continuously employed over a specified period of time and require no payment from the employee.

The following table summarizes information for incentive compensation awards and restricted stock awards for the nine months ended September 30, 2006:

	Incentive Compensation Awards		**Restricted Stock Awards**	
	Number of Awards	Weighted-Average Grant-Date Fair Value	Number of Awards	Weighted-Average Grant-Date Fair Value
Balance at December 31, 2005	69,855		276,712	
Awarded	27,302	$91.05	119,306	$88.85
Distributed	(2,611)		(695)	
Forfeited	(4,064)		(9,736)	
Balance at September 30, 2006	90,482		385,587	
Aggregate intrinsic value	$3,140,000		$32,628,000	

The weighted-average grant-date fair value for incentive compensation awards and restricted awards granted during the nine months ended September 30, 2005 was $55.15 and $60.63, respectively.

The aggregate intrinsic values for incentive compensation awards and restricted stock awards at September 30, 2006 were based on the closing price of the Corporation s common stock at September 30, 2006, which was $84.62.

At September 30, 2006, approximately 1,294,000 shares were available for grant under the Plans.

In 1996, the Corporation adopted the Shareholder Value Achievement Plan to award shares of the Corporation s common stock to key senior employees based on certain common stock performance criteria over a long-term period. Under the terms of this plan, 250,000 shares of common stock were reserved for issuance. Through September 30, 2006, 42,025 shares have been issued under this plan. No awards have been granted under this plan after 2000.

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9. Stock-Based Compensation (continued)

Also, the Corporation adopted and the shareholders approved the Common Stock Purchase Plan for Directors in 1996, which provides nonemployee directors the election to receive all or a portion of their total fees in the form of the Corporation s common stock. The Corporation has reserved 300,000 shares of common stock for issuance in connection with this plan. Currently, directors are required to defer at least 50% of their retainer in the form of the Corporation s common stock at a 20% discount to market value. Directors elected to defer portions of their fees representing 6,858 shares of the Corporation s common stock under this plan during the nine months ended September 30, 2006.

The following table summarizes stock-based compensation expense for the three and nine months ended September 30, 2006 and 2005, unrecognized compensation cost for nonvested awards at September 30, 2006 and the weighted-average period over which unrecognized compensation cost is expected to be recognized:

	Stock Options	Restricted Stock Awards	Incentive Compensation Awards	Directors Awards	Total
Stock-based compensation expense recognized for three months ended September 30:					
2006	$1,440,000	$ 1,919,000	$ 99,000	$156,000	$ 3,614,000
2005	$	$ 733,000	$ 78,000	$150,000	$ 961,000
Stock-based compensation expense recognized for nine months ended September 30:					
2006	$4,629,000	$ 4,181,000	$354,000	$515,000	$ 9,679,000
2005	$	$ 1,773,000	$235,000	$480,000	$ 2,488,000
Unrecognized compensation cost at September 30, 2006:	$4,607,000	$12,965,000	$444,000	$236,000	$18,252,000
Weighted-average period over which unrecognized compensation cost to be recognized:	1.8 years	2.5 years	1.3 years	0.6 years	

For the nine months ended September 30, 2006, the Corporation recognized a tax benefit related to stock-based compensation of $3,791,000.

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9. Stock-Based Compensation (continued)

The following presents expected stock-based compensation expense in future periods for outstanding awards as of September 30, 2006:

Remainder of 2006	$ 3,549,000
2007	7,273,000
2008	4,302,000
2009	2,328,000
2010	691,000
2011	109,000
Total	$ 18,252,000

Stock-based compensation expense is included in selling, general and administrative expenses on the Corporation s consolidated statements of earnings.

10. Business Segments

The Corporation conducts its operations through two reportable business segments: Aggregates and Specialty Products. The following tables display selected financial data for the Corporation s reportable business segments (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Total revenues:				
Aggregates	$ 564,077	$ 528,917	$ 1,550,861	$ 1,392,956
Specialty Products	40,030	34,997	125,796	103,231
Total	$ 604,107	$ 563,914	$ 1,676,657	$ 1,496,187
Net sales:				
Aggregates	$ 493,768	$ 465,796	$ 1,358,558	$ 1,218,860
Specialty Products	35,875	31,196	113,712	92,411
Total	$ 529,643	$ 496,992	$ 1,472,270	$ 1,311,271
Earnings from operations:				
Aggregates	$ 109,619	$ 105,332	$ 266,551	$ 220,422
Specialty Products	5,096	2,486	19,085	6,694

Total	$ 114,715	$ 107,818	$ 285,636	$ 227,116

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11. Accounting Changes

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Benefits, an amendment of FAS 87, 88, 106 and 132(R)* (FAS 158). FAS 158 requires an employer that sponsors one or more defined benefit pension or other postretirement plans to recognize an asset or liability for the overfunded or underfunded status of the plan. Additionally, employers would be required to record all unrecognized prior service costs and credits, unrecognized actuarial gains and losses and any unrecognized transition obligations or assets in accumulated other comprehensive income. Such amounts would be reclassified into earnings as components of net period benefit cost/income pursuant to the current recognition and amortization provisions of Statements of Financial Accounting Standards No. 87, *Employers Accounting for Pension*s (FAS 87) and No. 106, *Employers Accounting for Postretirement Benefits Other than Pensions* (FAS 106). Finally, FAS 158 requires an employer to measure plan assets and benefit obligations as of the date of the employer s statement of financial position. Except for the measurement date requirement, FA