

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

MEADOW VALLEY CORP
Form 10-Q
November 13, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001
Commission File No 0-25428

MEADOW VALLEY CORPORATION
(Exact name of registrant as specified in its charter)

Nevada
(State or other Jurisdiction of
incorporation or organization)

88-0328443
(I.R.S. Employer Identification Number)

4411 South 40th Street, Suite D-11
Phoenix, Arizona 85040
(602) 437-5400

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 and 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 filings requirements for the past 90 days. Yes [X] No []

Number of shares outstanding of each of the registrant's classes of common stock as of October 31, 2001:

Common Stock, \$.001 par value
3,559,938 shares

MEADOW VALLEY CORPORATION
INDEX
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2001

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Statements of Operations (Unaudited) - Nine Months Ended
September 30, 2001 and September 30, 2000

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

Condensed Consolidated Statements of Operations (Unaudited) - Three Months Ended September 30, 2001 and September 30, 2000

Condensed Consolidated Balance Sheets - As of September 30, 2001 (Unaudited) and December 31, 2000

Condensed Consolidated Statements of Cash Flows (Unaudited) - Nine Months Ended September 30, 2001 and September 30, 2000

Notes to Condensed Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 1

Item 3. Quantitative and Qualitative Disclosure About Market Risk 1

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 1

Item 6. Exhibits and Reports on Form 8-K 1

2

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MEADOW VALLEY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Nine Months September
	----- 2001 -----
Revenue	\$ 133,449,734
Cost of revenue	128,902,986

Gross Profit	4,546,748
General and administrative expenses	4,973,476

Income (loss) from operations	(426,728)

Other income (expense):	
Interest income	175,455
Interest expense	(353,676)
Other income	358,223

	180,002

Income (loss) before income taxes	(246,726)
Income tax benefit (expense)	92,522

Net income (loss)	\$ (154,204)
	=====

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

Basic net income (loss) per common share	\$ (0.04)
Diluted net income (loss) per common share	\$ (0.04)
Basic weighted average common shares outstanding	3,559,938
Diluted weighted average common shares outstanding	3,559,938

3

MEADOW VALLEY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months September	
	----- 2001 -----	
Revenue	\$ 52,619,530	\$
Cost of revenue	50,413,756	
Gross Profit	2,205,774	
General and administrative expenses	1,501,449	
Income (loss) from operations	704,325	
Other income (expense):		
Interest income	48,912	
Interest expense	(128,969)	
Other income (expense)	(103,543)	
	(183,600)	
Income before income taxes	520,725	
Income tax expense	(195,272)	
Net income	\$ 325,453	\$
Basic net income per common share	\$ 0.09	\$
Diluted net income per common share	\$ 0.09	\$
Basic weighted average common shares outstanding	3,559,938	
Diluted weighted average common shares outstanding	3,559,938	

4

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

MEADOW VALLEY CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2001	
Assets:	----- (Unaudited)	
Current Assets:		
Cash and cash equivalents	\$ 1,092,002	\$
Restricted cash	2,353,998	
Accounts receivable, net	26,765,779	
Prepaid expenses and other	485,349	
Inventory	5,857,434	
Income tax receivable	268,077	
Costs and estimated earnings in excess of billings on uncompleted contracts	11,623,682	
Total Current Assets	----- 48,446,321	
Property and equipment, net	18,177,605	
Deferred tax asset	873,441	
Refundable deposits	134,834	
Goodwill, net	1,440,711	
Mineral rights	184,438	
Total Assets	----- \$ 69,257,350	\$
=====		
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	\$ 29,068,727	\$
Accrued liabilities	2,187,352	
Notes payable	3,082,698	
Obligations under capital leases	1,029,997	
Billings in excess of costs and estimated earnings on uncompleted contracts	5,193,360	
Total Current Liabilities	----- 40,562,134	
Deferred tax liability	2,272,700	
Notes payable, less current portion	10,273,065	
Obligations under capital leases, less current portion	3,065,418	
Total Liabilities	----- 56,173,317	

Commitments and contingencies		
Stockholders' Equity:		
Preferred stock-\$.001 par value; 1,000,000 shares authorized, none issued and outstanding	-	
Common stock-\$.001 par value; 15,000,000 shares authorized, 3,559,938 and 3,559,938 issued and outstanding	3,601	
Additional paid-in capital	10,943,569	
Capital adjustments	(799,147)	
Retained earnings	2,936,010	
Total Stockholders' Equity	----- 13,084,033	

Total Liabilities and Stockholders' Equity	\$ 69,257,350	\$
=====		

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

*Derived from audited financial statements

5

MEADOW VALLEY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months September	
	2001	
Increase (Decrease) in Cash and Cash Equivalents:		
Cash flows from operating activities:		
Cash received from customers	\$ 118,681,534	\$
Cash paid to suppliers and employees	(120,856,918)	
Interest received	175,455	
Interest paid	(353,676)	
Income taxes refunded (paid)	598,445	
Net cash used in operating activities	(1,755,160)	
Cash flows from investing activities:		
Increase in restricted cash	(570,993)	
Proceeds from sale of property and equipment	84,887	
Purchase of property and equipment	(420,989)	
Net cash used in investing activities	(907,095)	
Cash flows from financing activities:		
Proceeds received from note payable	4,182,533	
Repayment of notes payable	(1,426,370)	
Repayment of capital lease obligations	(824,504)	
Net cash provided by (used in) financing activities	1,931,659	
Net decrease in cash and cash equivalents	(730,596)	
Cash and cash equivalents at beginning of period	1,822,598	
Cash and cash equivalents at end of period	\$ 1,092,002	\$

6

MEADOW VALLEY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

	Nine Months September	
	----- 2001 -----	
Increase (Decrease) in Cash and Cash Equivalents (Continued):		
Reconciliation of Net Income (Loss) to Net Cash Used in		
Operating Activities:		
Net Income (Loss)	\$ (154,204)	\$
Adjustments to reconcile net income (loss) to net cash used in		
operating activities:		
Depreciation and amortization	1,968,472	
Gain on sale of property and equipment	(1,081)	
Changes in Operating Assets and Liabilities:		
Accounts receivable, net	(12,468,215)	
Prepaid expenses and other	264,359	
Inventory	(615,286)	
Income tax receivable	505,923	
Costs and estimated earnings in excess of billings on		
uncompleted contracts	(1,795,673)	
Refundable deposits	41,731	
Accounts payable	11,462,614	
Accrued liabilities	(102,346)	
Billings in excess of costs and estimated earnings on		
uncompleted contracts	(861,454)	
	-----	-----
Net cash used in operating activities	\$ (1,755,160)	\$
	=====	=====

7

MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Corporation:

Meadow Valley Corporation (the "Company") was organized under the laws of the State of Nevada on September 15, 1994. The principal business purpose of the Company is to operate as the holding Company of Meadow Valley Contractors, Inc. ("MVCI") and Ready Mix, Inc. ("RMI"). MVCI is a general contractor, primarily engaged in the construction of structural concrete highway bridges and overpasses, and the paving of highways and airport runways in the states of Nevada, Arizona, Utah and New Mexico. RMI manufactures and distributes ready mix concrete in the Las Vegas, NV and Phoenix, AZ metropolitan areas. Formed by the Company, RMI commenced operations in 1997.

2. Presentation of Interim Information:

The amounts included in this report are unaudited; however, in the opinion of management, all adjustments necessary for a fair statement of results for the stated periods have been included. These adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as permitted by SEC rules and regulations. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited financial statements and

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 under the Securities Exchange Act of 1934 as filed with the Securities and Exchange Commission. The results of operations for the nine months ended September 30, 2001 are not necessarily indicative of operating results for the entire year.

3. Revenue and Cost Recognition:

Revenues and costs from fixed-price and modified fixed-price construction contracts are recognized for each contract on the percentage-of-completion method, measured by the percentage of costs incurred to date to the estimated total direct costs. Direct costs include, among other things, direct labor, field labor, equipment rent, subcontracting, direct materials, and direct overhead. General and administrative expenses are accounted for as period costs and are, therefore, not included in the calculation of the estimates to complete construction contracts in progress. Project losses are provided in the period in which such losses are determined, without reference to the percentage-of-completion. As contracts can extend over one or more accounting periods, revisions in costs and earnings estimated during the course of the work are reflected during the accounting period in which the facts that required such revision become known.

Claims for additional contract revenue are recognized only to the extent that contract costs relating to the claim have been incurred and evidence provides a legal basis for the claim. During the nine months ended September 30, 2001, revenue from anticipated claim proceeds increased by approximately \$1,147,687. At September 30, 2001, claim revenue in the amount of approximately \$6,968,591 has been recorded while the estimated total claims that have been filed or will be filed were approximately \$52,781,913. Of the \$52,781,913 in claims, approximately \$24,443,296 represents costs incurred by other prime contractors or MVCI subcontractors for which claims are filed by MVCI on their behalf leaving the balance of approximately \$28,338,617 as MVCI costs. The Company must obtain at least \$6,968,591 in proceeds from its \$28,338,617 portion of the total claims or there would be a reduction in earnings.

8

MEADOW VALLEY CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Recent Accounting Pronouncements:

In June 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, Business Combinations (SFAS 141), and No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

The Company's previous business combinations were accounted for using the purchase method. As of September 30, 2001, the net carrying amount of goodwill is \$1,440,711. Amortization expense during the nine-month period ended September 30, 2001 was \$60,022. Currently, the Company is assessing but has not yet determined how the adoption of SFAS 141 and SFAS 142 will impact its financial position and results of operations.

SFAS 143, Accounting for Asset Retirement Obligations, was issued in June 2001 and is effective for fiscal years beginning after June 15, 2002. SFAS 143 requires that any legal obligation related to the retirement of long-lived assets be quantified and recorded as a liability with the associated asset retirement cost capitalized on the balance sheet in the period it is incurred when a reasonable estimate of the fair value of the liability can be made.

SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, was issued in August 2001 and is effective for fiscal years beginning after December 15, 2001. SFAS 144 provides a single, comprehensive accounting model for impairment and disposal of long-lived assets and discontinued operations.

SFAS 143 and SFAS 144 will be adopted on their effective dates, and adoption is not expected to result in any material effects on the Company's financial statements.

9

MEADOW VALLEY CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Notes Payable:

Summary of third quarter additions to notes payable and its balance at September 30, 2001:

Note payable, interest rate at 8.5%, with monthly payments of \$23,603, due 2/27/06, collateralized by equipment	\$ 1,039,953
Note payable, interest rate at 0%, with monthly payments of \$5,012, due 9/28/04, collateralized by equipment	180,430
	1,220,383
Less: current portion	(262,762)
	\$ 957,621

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

Following are maturities of the above long-term debt for each of the next 5 years:

2002	\$	262,762
2003		280,671
2004		280,164
2005		261,236
Subsequent to 2005		115,550

		\$ 1,200,383
		=====

6. Line of Credit:

In July 2000, the Company entered into a revolving loan agreement ("line of credit"). In July 2001, the Company amended the line of credit agreement. Under the terms of the agreement, the Company may borrow up to \$7,000,000 at Chase Manhattan Bank's prime, plus .25% through December 31, 2001 at which time the line of credit converts to a term agreement requiring monthly principal and interest payments through December 31, 2005. At September 30, 2001, the interest rate on the line of credit was at 6.25%. The line of credit is collateralized by all of MVCI's and RMI's assets and guaranteed by the Company. Under the terms of the line of credit, the Company is required to maintain certain levels of tangible net worth. As of September 30, 2001, the Company was in compliance with all such covenants and had withdrawn \$7,000,000 from the line of credit.

10

MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Commitments:

During the quarter ended September 30, 2001, the Company purchased equipment under a capital lease agreement expiring in the year 2004. The assets and liabilities under a capital lease are initially recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Each asset is depreciated over its expected useful life.

Minimum future lease payments under the above mentioned capital lease as of September 30, 2001 for each of the next four years and in aggregate are:

2002	\$	11,541
2003		11,541
2004		17,975

Total minimum lease payments		41,057
Less: amount representing interest		(6,095)

Present value of net minimum lease payment	\$	34,962
		=====

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

8. Contingencies:

Johnson Danley Construction Company ("JD") was the prime contractor on one of the contracts with the New Mexico State Highway and Transportation Department ("NMSHTD"). In May 2001, JD filed for protection under the bankruptcy laws and as a direct result was found in default on the NMSHTD contract. At the time the contract was bid and awarded, MVCI had assisted JD in obtaining surety credit to provide the payment and performance bonds required under the contract. In doing so, MVCI indemnified the surety company in the event JD failed to satisfactorily perform on the contract. Therefore MVCI has the obligation to complete the contract for the surety company. By virtue of JD's default and MVCI's role as the completing contractor, all rights to claims proceeds formerly belonging to JD are now the property of MVCI to the extent that MVCI incurs costs to perform work that would have otherwise belonged to JD. Accordingly, it is conceivable that cost overruns incurred by MVCI in completing JD's work may be offset, in whole or in part, by contract proceeds, whether those proceeds come from regular contractual payments or from payments on claims. At the time of JD's default, there remained approximately \$2.5 million of JD work to be performed on the contract. Through the period ending September 30, 2001, MVCI completed approximately 99% of that amount and incurred costs in excess of revenue of approximately \$1.3 million. The Company believes that there exist claims of sufficient merit and magnitude to recoup these cost overruns from future claim proceeds and, accordingly, has booked an amount of claim proceeds to offset those costs to date. The final costs to complete JD's work and resolve claims filed by JD's unpaid vendors, suppliers and subcontractors against the payment bond remain, as yet, not entirely determinable due to the insufficient and vague information being provided to MVCI by the payment bond claimants. As a result, the Company cannot predict with reasonable accuracy what the final costs will be and therefore has not yet booked possible losses or additional claim revenue until such time as they are ascertainable. The Company believes that this information will be known within the next quarter.

9. Statement of Cash Flows:

Non-Cash Investing and Financing Activities:

The Company recognized investing and financing activities that affected assets, liabilities, and equity, but did not result in cash receipts or payments. These non-cash activities are as follows:

During the nine months ended September 30, 2001, the Company financed the purchase of equipment in the amount of \$1,595,051.

11

MEADOW VALLEY CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Subsequent Events:

In October 2001, the Company financed the purchase of equipment in the amount of \$180,262. The capital lease obligation has an interest rate of 5.8%, with monthly payments of \$4,217, and is due October 2005.

11. Segment Information:

The Company manages and operates two segments, construction services and construction materials. The construction services segment provides construction services to a broad range of public and some private customers primarily in the western states of Arizona, Nevada, Utah and New Mexico. Through this segment, the Company performs heavy civil construction such as the construction of bridges and overpasses, channels, roadways, highways and airport runways. The construction materials segment manufactures and distributes ready

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

mix concrete and sand and gravel products in the Las Vegas, NV and Phoenix, AZ markets. Material customers include concrete subcontractors, prime contractors, homebuilders, commercial and industrial property developers, pool builders and homeowners. The construction materials segment operates out of two locations in the Las Vegas, NV vicinity, one location in the Moapa, NV vicinity and two locations in the Phoenix, AZ vicinity.

(dollars in thousands)	Nine Months Ended September 30,			
	2001		2000	
	Construction		Construction	
	Services	Materials	Services	Ma
Gross revenue	\$ 111,128	\$ 23,793	\$ 115,284	\$
Intercompany revenue	-	1,471	-	
Cost of revenue	107,607	22,767	111,178	
Interest income	160	15	441	
Interest expense	(214)	(140)	(153)	
Depreciation and amortization	1,364	605	1,389	
Income (loss) before taxes	239	(485)	836	
Income tax benefit (expense)	(90)	182	(334)	
Net income (loss)	149	(303)	502	
Total assets	55,360	13,897	49,221	

There are no differences in accounting principals between the segments. All centrally incurred costs are allocated to the construction services segment. Intercompany revenue is eliminated at cost to arrive at consolidated revenue and cost of revenue.

12

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

General

The following is management's discussion and analysis of certain significant factors affecting the Company's financial position and operating results during the periods included in the accompanying condensed consolidated financial statements.

Except for the historical information contained herein, the matters set forth in this report are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. The Company disclaims any intent or obligation to update these forward-looking statements.

The Company's backlog (anticipated revenue from the uncompleted portions of awarded projects) was approximately \$76.4 million at September 30, 2001, compared to approximately \$72.9 million at September 30, 2000. At September 30, 2001, the Company's backlog included approximately \$28.2 million of work that is scheduled for completion during 2001. Accordingly, revenue in the future will be significantly reduced if the Company is unable to obtain substantial new projects in 2001. During the third quarter ended September 30, 2001, the Company

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

obtained new projects totaling approximately \$19.9 million.

Revenue on uncompleted fixed price contracts is recorded under the percentage-of-completion method of accounting. The Company begins to recognize revenue on its contracts when it first accrues direct costs. Contracts often involve work periods in excess of one year and revisions in cost and profit estimates during construction are reflected in the accounting period in which the facts that require the revisions become known. Losses on contracts, if any, are provided in total when determined, regardless of the percent complete. Claims for additional contract revenue are recognized only to the extent that contract costs relating to the claim have been incurred and evidence provides a legal basis for the claim. At September 30, 2001, claim revenue in the amount of approximately \$7.0 million has been recorded while the estimated total claims that have been filed or will be filed were approximately \$52.8 million. Of the \$52.8 million in claims, approximately \$24.5 million represents costs incurred by other prime contractors or MSCI subcontractors for which claims are filed by MSCI on their behalf leaving the balance of approximately \$28.3 million as MSCI costs. The Company must obtain at least \$7.0 million in proceeds from its \$28.3 million portion of the total claims or there would be a reduction in earnings.

Results of Operations

The following table sets forth, for the nine and the three months ended September 30, 2001 and 2000, certain items derived from the Company's Condensed Consolidated Statements of Operations expressed as a percentage of revenue.

	Nine Months Ended September 30,		Three Months Ended September 30,
	2001	2000	2001
Revenue	100.0%	100.0%	100.0%
Gross Profit	3.4%	3.8%	4.2%
General and administrative expenses	3.7%	3.8%	2.9%
Interest income	0.1%	0.4%	0.1%
Interest expense	-0.3%	-0.1%	-0.2%
Other income	0.3%	0.0%	-0.2%
Income (loss) before income taxes	-0.2%	0.3%	1.0%
Income tax benefit (expense)	0.1%	-0.1%	-0.4%
Net income (loss)	-0.1%	0.2%	0.6%

13

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Revenue and Backlog. Revenue for the nine months ended September 30, 2001 ("interim 2001") was \$133.4 million compared to \$128.4 million for the nine months ended September 30, 2000 ("interim 2000"). The increase in revenue was the result of a \$9.2 million increase in revenue generated from construction materials production and manufacturing sold to non-affiliates offset by a \$4.2 million decrease in construction services. Backlog increased 5% to approximately \$76.4 million at September 30, 2001 from \$72.9 million at September 30, 2000. Revenue may be impacted in any one period by the backlog at the beginning of the period.

Gross Profit. Consolidated gross profit decreased from \$4.9 million for

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

interim 2000 to \$4.5 million for interim 2001. The decrease in the construction services gross profit was the result of costs related to claims and cost overruns on certain projects offset, in part, by increased profit recognition related to several projects nearing completion at September 30, 2001 and by recording, in advance of receipt, conservative estimates of revenue from claims. Gross profit is affected by a variety of factors including construction delays and difficulties due to weather conditions, availability of materials, and the timing of work performed by other subcontractors and the physical and geological condition of the construction site. The decrease in the construction services gross profit was offset by an increase in the construction materials gross profit. Gross profit from construction materials increased from \$.8 million for interim 2000 to \$1.0 million for interim 2001. While gross profit from construction materials increased, the gross margin, as a percent of gross revenue declined in interim 2001 to 4.3% from 6.0% in interim 2000. In comparing the gross profit margin during the interim period for 2000 and 2001, the first half of 2000 incurred few start up costs associated with last year's expansion of the construction materials segment, while the first half of 2001 reflect the improving, but not yet profitable, results of the expansion.

General and Administrative Expenses. General and administrative expenses increased to \$5.0 million for interim 2001 from \$4.8 million for interim 2000. The increase resulted primarily from a \$.3 million in general and administrative expenses attributed to expanding construction material operations, an increase of \$.1 million in bad debt expense, an increase of \$.1 million in employee benefits offset, in part, by a \$.3 million reduction of general and administrative expenses related to various employee incentive plans.

Interest Income and Expense. Interest income for interim 2001 decreased to \$.2 million from \$.5 million for interim 2000 resulting primarily from a decrease in invested cash reserves. Interest expense increased for interim 2001 to \$.4 million from \$.2 million for interim 2000, due primarily to the Company borrowing on the line of credit.

Net Income (Loss) After Income Taxes. Net income (loss) after income taxes was \$(.2) million in interim 2001 as compared to \$.3 million for interim 2000.

Three Months Ended September 30, 2001 Compared to Three Months Ended September 30, 2000

Revenue and Backlog. Revenue for the three months ended September 30, 2001 ("interim 2001") was \$52.6 million compared to \$44.4 million for the three months ended September 30, 2000 ("interim 2000"). The increase in revenue was the result of a \$3.1 million increase in revenue generated from construction materials production and manufacturing sold to non-affiliates and a \$5.1 million increase in construction services. Backlog increased 5% to approximately \$76.4 million at September 30, 2001 from \$72.9 million at September 30, 2000. Revenue may be impacted in any one period by the backlog at the beginning of the period.

Gross Profit. Consolidated gross profit increased to \$2.2 million for interim 2001 from \$1.7 million for interim 2000 and consolidated gross margin, as a percent of revenue, increased to 4.2% in interim 2001 from 3.9% in interim 2000. Gross profit from construction services dropped slightly to \$1.8 million in interim 2001 from \$1.9 million in interim 2000 and the gross profit margin dropped to 4.0% from 4.7% in the respective periods. The decrease in the construction services gross profit was the result of costs related to claims and cost overruns on certain projects offset, in part, by increased profit recognition related to several projects nearing completion at September 30, 2001 and by recording, in advance of receipt, conservative estimates of revenue from claims. The increase in consolidated gross profit, then, was the result of improved profitability from the construction materials segment where gross profit improved to \$.5 million in interim 2001 from a \$.1 million loss in interim 2000. The gross margin, as a percent of gross revenue, on construction

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

materials improved to 5.6% for interim 2001 from

14

(2.7%) in interim 2000. The improved performance for the construction materials segment during interim 2001 is the result of a 63% increase in revenue from interim 2000 that results from the expansion of construction materials operations implemented last year.

General and Administrative Expenses. General and administrative expenses decreased to \$1.5 million for interim 2001 from \$1.8 million for interim 2000. The decrease resulted primarily from a \$.1 million reduction of general and administrative expenses related to various employee incentive plans and an decrease in of \$.1 million in legal expenses. The reduction of legal expenses was a result of the Company allocating legal expenses to direct job cost in the income statement.

Interest Income and Expense. Interest income for interim 2001 decreased to \$.05 million from \$.2 million for interim 2000 resulting primarily from a decrease in invested cash reserves. Interest expense increased for interim 2001 to \$.13 million from \$.1 million for interim 2000, due primarily to the Company borrowing on the line of credit.

Net Income After Income Taxes. Net income after income taxes was \$.3 million in interim 2001 as compared to \$.02 million for interim 2000.

Liquidity and Capital Resources

The Company's primary need for capital has been to finance growth in its core business as a heavy construction contractor and its expansion into the other construction and construction related businesses previously discussed. Historically, the Company's primary source of cash has been from operations. The Company's expansion into construction materials has required capital to finance expanded receivables, increased inventories and capital expenditures as well as to address fluctuations in the work-in-progress billing cycle.

The following table sets forth for the nine months ended September 30, 2001 and 2000, certain items from the condensed consolidated statements of cash flows.

	Nine Months Ended September 30,	
	2001	2000
Cash Flows Used in Operating Activities	\$(1,755,160)	\$(3,094,122)
Cash Flows Used in Investing Activities	(907,095)	(1,349,661)
Cash Flows Provided by (Used in) Financing Activities	1,931,659	(475,700)

Although the Company may experience increased profitability as the Company expands its operations, particularly its aggregate, ready mix concrete and asphalt production, cash may be used to finance receivables, build inventories and for customer cash retention required under contracts subject to completion. It is not unusual for cash flows from construction projects nearing the final stages of completion to have negative cash flows. Claim-related costs expended on projects and the start-up costs of the business expansion have resulted in a significant decline in the Company's cash reserves. Accordingly, during the year ended December 31, 2000, the Company entered into a revolving loan agreement ("line of credit"). In July 2001, the Company amended the line of credit agreement. Under the terms of the agreement, the Company may borrow \$7,000,000 at Chase Manhattan Bank's prime, plus .25% through December 31, 2001. At

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

September 30, 2001, the interest rate on the line of credit was at 6.25%. The line of credit is collateralized by all of MSCI's and RMI's assets. Under the line of credit, the Company is required to maintain a certain level of tangible net worth. At September 30, 2001, the Company is in compliance with all covenants under the line of credit. The line of credit expires December 31, 2001 at which time the line of credit converts to a term agreement requiring monthly principal and interest payments through December 31, 2005. The Company believes, but cannot assure, that the line of credit, together with the Company's historical ability to acquire new work may be sufficient to meet the Company's cash requirements for the next twelve months. As of September 30, 2001, the Company had withdrawn \$7,000,000 from the line of credit.

Cash used in operating activities during interim 2001 amounted to \$1.8 million, primarily the result of an increase in accounts receivable, net of \$12.5 million, an increase in net costs in excess of billings of \$2.6 million, an

15

increase in inventory of \$.6 million, a net loss of \$.1 million, offset, in part, by an increase in accounts payable of \$11.5 million, a decrease in income tax receivable of \$.5 million and depreciation and amortization of \$2.0 million.

Cash used in operating activities during interim 2000 amounted to \$3.1 million, primarily the result of a decrease in accounts payable of \$1.9 million, a decrease in accrued liabilities of \$.1 million, an increase in inventory of \$1.2 million, an increase in accounts receivable, net of \$4.7 million offset, in part, by net income of \$.3 million, depreciation and amortization of \$1.8 million and an increase in net billings in excess of costs of \$3 million.

Cash used in investing activities during interim 2001 amounted to \$.9 million related primarily to the purchase of property and equipment of \$.4 million and an increase in restricted cash of \$.6 million, offset by proceeds from the sale of property and equipment in the amount of \$.1 million.

Cash used in investing activities during interim 2000 amounted to \$1.3 million related primarily to the purchase of property and equipment of \$1.5 million and an increase in restricted cash of \$.1 million, offset by proceeds from the sale of property and equipment in the amount of \$.3 million.

Cash provided by financing activities during interim 2001 amounted to \$1.9 million related primarily to the proceeds received from a note payable of \$4.2 million, offset by the repayment of notes payable and capital lease obligations of \$2.3 million.

Cash used in financing activities during interim 2000 amounted to \$.5 million related primarily to the repayment of notes payable and capital lease obligations of \$5.0 million, offset by the proceeds received from a note payable of \$4.5 million.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, Business Combinations (SFAS 141), and No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

requires, upon adoption of SFAS 142, the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

The Company's previous business combinations were accounted for using the purchase method. As of September 30, 2001, the net carrying amount of goodwill is \$1,440,711. Amortization expense during the nine-month period ended September 30, 2001 was \$60,022. Currently, the Company is assessing but has not yet determined how the adoption of SFAS 141 and SFAS 142 will impact its financial position and results of operations.

SFAS 143, Accounting for Asset Retirement Obligations, was issued in June 2001 and is effective for fiscal years beginning after June 15, 2002. SFAS 143 requires that any legal obligation related to the retirement of long-lived assets be quantified and recorded as a liability with the associated asset retirement cost capitalized on the balance sheet in the period it is incurred when a reasonable estimate of the fair value of the liability can be made.

16

SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, was issued in August 2001 and is effective for fiscal years beginning after December 15, 2001. SFAS 144 provides a single, comprehensive accounting model for impairment and disposal of long-lived assets and discontinued operations.

SFAS 143 and SFAS 144 will be adopted on their effective dates, and adoption is not expected to result in any material effects on the Company's financial statements.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Market risk generally represents the risk that losses may occur in the values of financial instruments as a result of movements in interest rates, foreign currency exchange rates and commodity prices. The Company does not have foreign currency exchange rate and commodity price market risk.

Interest Rate Risk - From time to time the Company temporarily invests its cash and restricted cash in interest-bearing securities issued by high-quality issuers. The Company's management monitors risk exposure to monies invested in securities of any one financial institution. Due to the short time the investments are outstanding and their general liquidity, these instruments are classified as cash equivalent in the consolidated balance sheet and do not represent a material interest rate risk to the Company. The Company's primary market risk to exposure for changes in interest rates relates to the Company's long-term debt obligations. The Company manages its exposure to changing

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

interest rates principally through the use of a combination of fixed and floating rate debt.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a party to legal proceedings in the ordinary course of its business. With the exception of those matters detailed below, the Company believes that the nature of these proceedings (which generally relate to disputes between the Company and its subcontractors, material suppliers or customers regarding payment for work performed or materials supplied) are typical for a construction firm of its size and scope, and no other pending proceedings are material to its financial condition.

The following proceedings represent matters that may become material and have already been or may soon be referred to legal counsel for further action:

Requests for Equitable Adjustment to Construction Contracts. The Company has or -----
will make claims as described below on the following contracts:

1. Five contracts with the New Mexico State Highway and Transportation Department ("NMSHTD") - The approximate value of claims on these projects is \$33,646,516 of which approximately \$22,088,485 is on behalf of MVCI and the balance of \$11,558,031 is on behalf of the prime contractors or subcontractors. The primary issues are changed conditions, plan errors and omissions, contract modifications and associated delay costs. In addition, the projects were not completed within the adjusted contract time largely because of the events giving rise to the claims. The prosecution of the claims will include the appropriate extensions of contract time to offset any potential liquidated damages that may be assessed on the contracts.

Johnson Danley Construction Company ("JD") was the prime contractor on one of the aforementioned contracts with NMSHTD. In May 2001, JD filed for protection under the bankruptcy laws and as a direct result was found in default on the NMSHTD contract. At the time the contract was bid and awarded, MVCI had assisted JD in obtaining surety credit to provide the payment and performance bonds required under the contract. In doing so, MVCI indemnified the surety company in the event JD failed to satisfactorily perform on the contract. Therefore MVCI has the obligation to complete the contract for the surety company. By virtue of JD's default and MVCI's role as the completing contractor, all rights to claims proceeds formerly belonging to JD are now the property of MVCI to the extent that MVCI incurs

17

costs to perform work that would have otherwise belonged to JD. Accordingly, it is conceivable that cost overruns incurred by MVCI in completing JD's work may be offset, in whole or in part, by contract proceeds, whether those proceeds come from regular contractual payments or from payments on claims. At the time of JD's default, there remained approximately \$2.5 million of JD work to be performed on the contract. Through the period ending September 30, 2001, MVCI completed approximately 99% of that amount and incurred costs in excess of revenue of approximately \$1.3 million. The Company believes that there exist claims of sufficient merit and magnitude to recoup these cost overruns from future claim proceeds and, accordingly, has booked an amount of claim proceeds to offset those costs to date. The

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

final costs to complete JD's work and resolve claims filed by JD's unpaid vendors, suppliers and subcontractors against the payment bond remain, as yet, not entirely determinable due to the insufficient and vague information being provided to MVCI by the payment bond claimants. As a result, the Company cannot predict with reasonable accuracy what the final costs will be and therefore has not yet booked possible losses or additional claim revenue until such time as they are ascertainable. The Company believes that this information will be known within the next quarter.

2. Clark County, Nevada - The approximate total value of claims on this project is \$19,135,397 of which approximately \$6,250,132 is on behalf of MVCI. The primary issues are changed conditions, plan errors and omissions, contract modifications and associated delay costs.

The above claims combined total approximately \$52,781,913. Of that total, MVCI's portion of the claims total approximately \$28,338,617 and the balance of approximately \$24,443,296 pertains to prime contractor or subcontractors' claims. Relative to the aforementioned claims, the Company has recorded approximately \$6,968,591 in claim revenue to offset portions of the costs incurred to-date on the claims. Although the Company believes this presents a reasonably conservative posture, any claims proceeds ultimately awarded to the Company less than \$6,968,591 will result in a reduction of income. Conversely, any amount of claims proceeds in excess of \$6,968,591 will be an increase in income.

Lawsuits Filed Against Meadow Valley Contractors, Inc.

1. Innovative Construction Services, Inc. ("ICS"), District Court, Clark County, NV - ICS was a subcontractor to MVCI on several projects. ICS failed to make payments of payroll, pension fund contributions and other taxes for which the Internal Revenue Service garnished any future payments due ICS on MVCI projects. As a result, ICS failed to supply labor to perform its work and defaulted on its subcontracts. MVCI terminated the ICS subcontracts and performed the work with MVCI personnel. ICS alleges it was wrongfully terminated and is asserting numerous claims for damages. ICS claims against MVCI total approximately \$15,000,000. The Company does not believe ICS' claims have merit and intends to vigorously defend against these claims and will eventually seek to recover the damages ICS has caused the Company through its failure to perform.
2. AnA Enterprises, LLC ("AnA"), District Court, Clark County, NV - AnA supplied equipment to MVCI on a project under terms of a variety of agreements. AnA is suing MVCI for non-payment. MVCI has counter-sued for costs overruns deemed to be the responsibility of AnA. AnA's suit against MVCI is approximately \$4,000,000. MVCI's countersuit against AnA is for approximately \$2,600,000. The Company does not believe AnA's claims have merit and intends to vigorously defend against these claims.
3. The Company is defending a claimed preference in connections with a payment made to it by an insurance company in the approximate amount of \$100,000. The Company believes that the payment is not a preference, and is vigorously defending the action.

Edgar Filing: MEADOW VALLEY CORP - Form 10-Q

a. Exhibits:

- 10.152 Security Agreement with FCC Equipment Financing, Inc.
- 10.153 Lease Agreement with CitiCapital
- 10.154 Amended and Restated Revolving Loan Agreement with The CIT Group/Equipment Financing, Inc.
- 10.155 Revolving Loan Agreement with The CIT Group/Equipment Financing, Inc.
- 10.156 Lease Agreement with Thomas Mining, LLC
- 10.157 Employment Agreement with Mr. Kiesel
- 10.158 Security Agreement with Volvo Commercial Finance LLC The Americas

b. Reports on Form 8-K:

The Company did not file any reports on Form 8-K during the three months ended September 30, 2001.

19

SIGNATURE

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

MEADOW VALLEY CORPORATION
(Registrant)

By /s/ Bradley E. Larson

Bradley E. Larson
President and Chief Executive Officer

By /s/ Nicole R. Smith

Nicole R. Smith
Principal Accounting Officer

20