MEADOW VALLEY CORP
Form 10-Q
May 15, 2002

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 March 31, 2002
Commission File No 0-25428

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

Nevada	88-0328443
(State or other Jurisdiction of incorporation or organization)	(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 April 30, 2002:

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

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REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2002

PART I. FINANCIAL INFORMATION

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months March 31
	2002
Revenue	$ 35,005,133
Cost of revenue	33,362,759
Gross profit	1,642,374
General and administrative expenses	1,528,277
Income (loss) from operations	114,097
Other income (expense):	
Interest income	25,652
Interest expense	(101,338)
Other expense	(5,920)
	(81,606)
Income (loss) before income taxes	32,491
Income tax benefit (expense)	(12,184)
Net income (loss)	$ 20,307
Basic net income (loss) per common share	$ 0.01
Diluted net income (loss) per common share	$ 0.01

Basic weighted average common shares outstanding	3,559,938
Diluted weighted average common shares outstanding	3,559,938

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MEADOW VALLEY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2002
Assets:	(Unaudited)
Current Assets:	
Cash and cash equivalents	$ 321,473
Restricted cash	2,101,459
Accounts receivable, net	22,923,434
Prepaid expenses and other	276,610
Inventory	3,274,282
Costs and estimated earnings in excess of billings on uncompleted contracts	6,061,046
Total Current Assets	34,958,304
Property and equipment, net	15,840,588
Assets held for sale	3,501,092
Deferred tax asset	1,957,923
Refundable deposits	55,110
Mineral rights and pit development, net	532,402
Claims receivable	5,968,026
Other assets	80,558
Total Assets	$ 62,894,003
Liabilities and Stockholders' Equity:	
Current Liabilities:	
Accounts payable	$ 24,380,105
Accrued liabilities	2,340,328
Notes payable	2,362,712
Obligations under capital leases	1,113,047
Income tax payable	12,184
Billings in excess of costs and estimated earnings on uncompleted contracts	6,990,256
Total Current Liabilities	37,198,632
Deferred tax liability	2,718,734
Notes payable, less current portion	9,558,636
Obligations under capital leases, less current portion	2,683,388
Total Liabilities	52,159,390
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 issued and outstanding	3,601
Additional paid-in capital	10,943,569
Capital adjustments	(799,147)
Retained earnings	586,590
Total Stockholders' Equity	10,734,613
Total Liabilities and Stockholders' Equity	$ 62,894,003

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

	Three Months March 31
	2002
Increase (Decrease) in Cash and Cash Equivalents:	
Cash flows from operating activities:	
Cash received from customers	$ 35,051,290
Cash paid to suppliers and employees	(36,446,783)
Interest received	25,652
Interest paid	(101,338)
Net cash used in operating activities	(1,471,179)
Cash flows from investing activities:	
Decrease (increase) in restricted cash	300,089
Proceeds from sale of property and equipment	89,424
Purchase of property and equipment	(33,442)
Purchase of mineral rights and pit development	-
Net cash provided by (used in) investing activities	356,071
Cash flows from financing activities:	
Proceeds received from note payable	-
Repayment of notes payable	(506,110)
Repayment of capital lease obligations	(285,815)
Net cash provided by (used in) financing activities	(791,925)
Net decrease in cash and cash equivalents	(1,907,033)
Cash and cash equivalents at beginning of period	2,228,506
Cash and cash equivalents at end of period	$ 321,473

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

	Three Months March 31
	2002
Increase (Decrease) in Cash and Cash Equivalents (Continued):	
Reconciliation of Net Income (Loss) to Net Cash Used in Operating Activities:	
Net Income (Loss)	$ 20,307
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Depreciation and amortization	685,651
Gain on sale of property and equipment	(57,484)
Allowance for doubtful accounts	30,973
Changes in Operating Assets and Liabilities:	
Accounts receivable	(1,576,503)
Prepaid expenses and other	128,170
Inventory	(194,535)
Income tax receivable	-
Costs and estimated earnings in excess of billings on uncompleted contracts	(766,992)
Refundable deposits	-
Accounts payable	(2,645,879)
Accrued liabilities	528,330
Income tax payable	12,184
Billings in excess of costs and estimated earnings on uncompleted contracts	2,364,599
Net cash used in operating activities	$ (1,471,179)

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MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business:

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 and Utah. 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.

Liquidity:

The Company incurred income (loss) from operations for the three months ended March 31, 2002 and 2001 of $20,307 and $(1,017,359) and has used cash in operating activities of $(1,471,179) and $(2,902,373) for the three months ended March 31, 2002 and 2001. In order to improve working capital, the Company executed a definite agreement on March 22, 2002 to sell certain pit assets to United Metro Materials Inc. ("United Metro"). On May 9, 2002, the Company closed the transaction with United Metro. The transaction was for a sale price of $3,000,000 subject to a $250,000 hold-back that may be paid within the next twenty-four months if sales volumes, measured in tons of materials sold, meet or exceed a stipulated minimum amount. In addition, within seven days of closing, the ending inventory of finished product will be measured and paid for and is expected to be between $1.0 and $1.5 million. After deduction of the hold-back amount and approximately $212,000 of debt paid off by United Metro, the net cash received by the Company in conjunction with this transaction, depending upon final inventory quantities, will range from $3.5 to $4.0 million. United Metro also assumed approximately $1.5 million in operating lease obligations. Accordingly, $3,501,092 of assets consisting primarily of inventory and equipment, have been classified as assets held for sale on the accompanying 2002 balance sheet. During 2002, the Company may also consider the disposal of other assets as a means to increase working capital. In addition, the Company has engaged the services of AMG Financing Capital, Inc. to find potential sources of financing to meet future financial obligations. Should the Company not be able to sell other assets or raise additional financing to generate sufficient cash flows from operations, management of the Company will need to develop alternative strategies that may ultimately impact the operations and financial condition of the Company.

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 notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 under the Securities Exchange Act of 1934 as filed with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2002 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. As of March 31, 2002, the total amount of claims that have been submitted or soon-to-be submitted was approximately $44,016,324. Of that sum, the Company's portion of the claims total was approximately $27,454,956 and the balance of $16,561,368 pertains to prime contractor or subcontractors' claims. Total claim amounts reported by the Company in its filings are approximate and are subject to revision as final documentation progresses. Accordingly, the approximate total claim amount is now $44,016,324 of which $27,454,956 pertains to the Company and the balance of $16,561,368 applies to subcontractors or the prime contractor. This revised approximation of total claim amount compares to previously reported amounts of $54,407,238, $29,396,539 and $25,010,699 respectively. Relative to the aforementioned claims, the Company has recorded $7,754,448 in claim revenue to offset costs incurred to-date on the claims. In the accompanying March 31, 2002 balance sheet, claims receivable in the amount of $5,968,026 has been recorded in connection with claims filed. In addition, the Company has also recorded approximately $1,817,831 for unpaid quantities, unpaid change orders, and pending change orders in advance of receipt. Although the Company believes these amounts represent a reasonably conservative posture, any claims proceeds and payments for previously unpaid quantities, unpaid change orders and pending change orders ultimately paid to the Company less than $9,572,279 will reduce net income. Conversely, a payment for those same items in excess of $9,572,279 will increase net income.

4. Recent Accounting Pronouncements:

In June 2001, the Financial Accounting Standard 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 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 to the 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.

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

4. Recent Accounting Pronouncements (Continued):

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.

The adoption of SFAS 141, SFAS 142 and SFAS 144 did not have a material effect on the Company's financial statements.

The Company does not anticipate the adoption of SFAS 143 to have a material effect on the Company's financial statements.

5. Notes Payable:

Summary of first quarter additions to notes payable and its balance at March 31, 2002:

Note payable, interest rate at 6.65%, with monthly payments of $25,515, due 1/18/05, collateralized by equipment	$ 788,686
Note payable, interest rate at 6.9%, with monthly payments of $10,238, due 3/1/05, collateralized by equipment	323,720
Note payable, interest rate at 7.9%, with monthly payments of $3,496, due 2/10/04, collateralized by equipment	77,891
Note payable, interest rate at 0%, with monthly payments of $1,344, due 2/7/03, collateralized by equipment	13,441
	1,203,738
Less: current portion	(419,709)
	$ 784,029

Following are maturities of the above long-term debt for each of the next 3 years:

2003	$ 419,709
2004	427,667
2005	356,362
	$ 1,203,738

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

6. Line of Credit:

In July 2000, the Company entered into a revolving loan agreement ("line of credit"). 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 was to convert to a term agreement requiring monthly principal and interest payments through December 31, 2005. The line of credit is collateralized by all of the Company's assets. Under the terms of the line of credit, the Company is required to maintain a certain level of tangible net worth. In addition, the Company is also required to maintain a ratio of total debt to tangible net worth. As of March 31, 2002, the Company was not in compliance with the tangible net worth covenant, but was in compliance with the ratio of total debt to tangible net worth. Effective March 2002, the Company amended the line of credit agreement. Under the terms of the amended agreement, the interest rate increased to Chase Manhattan Bank's prime, plus 1.5% through January 1, 2003 at which time the line of credit converts to a term agreement requiring monthly principal and interest payments through December 31, 2006. In connection with the amendment, the Company obtained a waiver from non-compliance with the tangible net worth covenant for the period from December 31, 2001 to January 1, 2003. As of March 31, 2002, the Company had withdrawn the entire $7,000,000 from the line of credit.

7. 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 three months ended March 31, 2002, the Company financed the purchase of equipment in the amount of $1,257,345.

8. Litigation and Claim Matters:

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 - The approximate total value of claims on these projects is $24,880,927 of which approximately $21,204,824 is on behalf of MVCI and the balance of $3,676,103 is on behalf of the prime contractor 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 because of 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.

(2) Clark County, Nevada - The approximate total value of claims on this project is $19,135,397 of which approximately $12,885,265 is on behalf of subcontractors. The primary issues are changed conditions, plan errors and omissions, contract modifications and associated delay costs.

8. Litigation and Claim Matters (Continued):

The above claims combined total approximately $44,016,324. Of that sum, the Company's portion of the claims total approximately $27,454,956 and the balance of $16,561,368 pertains to prime contractor or subcontractors' claims. Total claim amounts reported by the Company in its filings are approximate and are subject to revision as final documentation progresses. Accordingly, the approximate total claim amount is now $44,016,324 of which $27,454,956 pertains to the Company and the balance of $16,561,368 applies to subcontractors or the prime contractor. This revised approximation of total claim amount compares to previously reported amounts of $54,407,238, $29,396,539 and $25,010,699 respectively. Relative to the aforementioned claims, the Company has recorded approximately $7,754,448 in claim revenue to offset costs incurred to-date on the claims. In addition, the Company has also recorded approximately $1,817,831 for unpaid quantities, unpaid change orders, and pending change orders in advance of receipt. Although the Company believes these amounts represent a reasonably conservative posture, any claims proceeds and payments for previously unpaid quantities, unpaid change orders and pending change orders ultimately paid to the Company less than $9,572,279 will reduce net income. Conversely, a payment for those same items in excess of $9,572,279 will increase net income.

Lawsuits Filed Against Meadow Valley Contractors, Inc. or Meadow Valley Corporation

(1) Innovative Construction Systems, 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) Independent from, but related to the ICS issue, the Nevada State Labor Commissioner ("Commission") filed a lawsuit against MVCI to seek payment from MVCI, as the prime contractor, for wages and fringes owed but not paid by ICS, MVCI's subcontractor. The Commission seeks payment of approximately $452,921 in alleged unpaid wages and fringe benefits. Prior to the filing of the complaint by the Commission, MVCI was attempting to reach settlement as the Company believes that its liabilities are less than the $452,921 being sought by the Commission. Accordingly, the Company intends to defend itself against the excessive assessment of liability and seek to reduce the liability.

(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 cost overruns deemed to be the responsibility of AnA. AnA's suit against MVCI is for approximately $3,245,289. MVCI's countersuit against AnA is for approximately $2,000,000. AnA has also filed a complaint on two other projects completed in 1997 where they were a subcontractor to MVCI in the same jurisdiction in the amount of approximately $715,000 for changed conditions. The Company does not believe AnA's claims have merit and intends to vigorously defend against these claims.

(3) Progressive Contracting Inc. ("PCI"), District Court, Clark County, NV - PCI was a subcontractor to MVCI on a project where there is a dispute with the owner regarding delays to the project. PCI claims they were damaged by these delays in an amount in excess of $300,000. The Company believes that under the terms of the contract with PCI they are only entitled to compensation for the delays if MVCI is compensated by the owner. MVCI has submitted PCI's claims to the owner and they are included in the total claim amount.

(4) The Company is defending a claimed preference in connection 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.

8. Litigation and Claim Matters (Continued):

(5) The Company and all of its directors were served with a civil

complaint by Silver State Materials Corp. ("Silver State") and Cyrus Spurlino (collectively "Plaintiffs"). The complaint primarily alleges that the Company's October 1995 Registration Statement on Form S-1 was misleading in stating that the Company's directors were elected on a staggered basis because the Company's Bylaws, providing for such staggered term, were not so amended until April 1997, and that such amendment was not filed with the Securities and Exchange Commission. The complaint seeks (i) to terminate all of the Company's directors for cause, (ii) to elect a new Board of Directors, (iii) to cause the Company to enact amended and restated bylaws, (iv) for monetary damages in an undisclosed amount, (v) for interest, fees and costs, and (vi) for such other relief as the District Court may deem appropriate. The Company believes that the complaint is without merit and intends to vigorously defend it. On December 17, 2001, the Company and the Plaintiffs stipulated to an open extension of time for the Company to respond to the complaint as the Company and the Plaintiffs were engaged in settlement discussions that included the possible sale of the Ready Mix, Inc. ("RMI") subsidiary. NRS 78.416(2) prohibits the Company from selling more than 5 percent or more of the aggregate market value of all its assets to an interested stockholder. Due to this restriction, the Company's board of directors concluded that the transaction would not be in the best interests of the Company or its shareholders. The Plaintiffs continue to threaten litigation (as an interested stockholder), against the Company's board attempting to pressure the Company to sell RMI or its assets. As of this filing, the extension of time to respond to the complaint remains open and the Plaintiffs have not filed an amended complaint, but it appears that anything short of selling RMI and buying back the Plaintiff's stock will likely result in further legal action against the Company.

9. Subsequent Events:

In April 2002, the Company refinanced 8 mixer trucks for $266,160. The note payable obligation has an interest rate of 9%, with monthly payments of $12,069, and is due March 15, 2004

In April 2002, the Company completed the compilation of final documentation supporting the claim against the New Mexico State Highway and Transportation Department for the contract on the Alamogordo Relief Route, Phase II, NM project No. SP-4916(202). In May 2002, the Company completed the compilation of final documentation supporting the claim against the New Mexico State Highway and Transportation Department for the contract on the Alamogordo Relief Route, Phase IA, NM project No. SP-4916(200). Having now submitted final documentation to the state, claims receivable will increase in the second quarter by $1,786,422.

On May 9, 2002, the Company closed the transaction with United Metro Materials Inc. ("United Metro") to sell certain pit assets in Prescott, Arizona. The transaction was for a sale price of $3,000,000 subject to a $250,000 hold-back that may be paid within the next twenty-four months if sales volumes, measured in tons of materials sold, meet or exceed a stipulated minimum amount. In addition, within seven days of closing, the ending inventory of finished product will be measured and paid for and is expected to be between $1.0 and $1.5 million. After deduction of the hold-back amount and approximately $212,000 of debt paid off by United Metro, the net cash received by the Company in conjunction with this transaction, depending upon final inventory quantities, will range from $3.5 to $4.0 million. United Metro also assumed approximately $1.5 million in operating lease obligations.

On May 1, 2002, the Company announced that its aggregate bonding capacity had been reduced to $75 million until such time as its working capital improved. On May 14, 2002, the Company announced that its aggregate bonding capacity had been increased to approximately $100 million, based upon the merits of each individual project as determined between the Company and its bonding company.

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

10. 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 and Utah. 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 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.

	Three Months Ended March 31,			
(dollars in thousands)	2002		2001	
	Construction Services	Construction Materials	Construction Services	Mat
Gross revenue	$ 26,629	$ 9,259	$ 29,022	
Intercompany revenue	-	883	-	
Cost of revenue	25,803	8,443	28,875	
Interest income	22	4	56	
Interest expense	63	38	45	
Depreciation and amortization	424	261	443	
Income (loss) before taxes	(283)	315	(1,172)	
Income tax benefit (expense)	106	(118)	440	
Net income (loss)	(177)	197	(732)	
Total assets	48,128	14,766	45,652	

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.

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 $63.5 million at March 31, 2002, compared to approximately $84.0 million at March 31, 2001. At March 31, 2002, the Company's backlog included approximately $55 million of work that is scheduled for completion during 2002. Accordingly, revenue in the future will be significantly reduced if the Company is unable to obtain substantial new projects in 2002.

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. As of March 31, 2002, the total amount of claims that have been submitted or soon-to-be submitted was approximately $44,016,324. Of that sum, the Company's portion of the claims total was approximately $27,454,956 and the balance of $16,561,368 pertains to prime contractor or subcontractors' claims. Total claim amounts reported by the Company in its filings are approximate and are subject to revision as final documentation progresses. Accordingly, the approximate total claim amount is now $44,016,324 of which $27,454,956 pertains to the Company and the balance of $16,561,368 applies to subcontractors or the prime contractor. This revised approximation of total claim amount compares to previously reported amounts of $54,407,238, $29,396,539 and $25,010,699 respectively. Relative to the aforementioned claims, the Company has recorded approximately $7,754,448 in claim revenue to offset costs incurred to-date on the claims. In the accompanying March 31, 2002 balance sheet, claims receivable in the amount of $5,968,026 has been recorded in connection with claims filed. In addition, the Company has also recorded approximately $1,817,831 for unpaid quantities, unpaid change orders, and pending change orders in advance of receipt. Although the Company believes these amounts represent a reasonably conservative posture, any claims proceeds and payments for previously unpaid quantities, unpaid change orders and pending change orders ultimately paid to the Company less than $9,572,279 will reduce net income. Conversely, a payment for those same items in excess of $9,572,279 will increase net income.

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Results of Operations

The following table sets forth, for the three months ended March 31, 2002 and 2001, certain items derived from the Company's Condensed Consolidated

Statements of Operations expressed as a percentage of revenue.

	Three Months Ended March 31, 2002	2001
Revenue	100.0%	100.0%
Gross profit	4.7%	0.5%
General and administrative expenses	4.4%	4.9%
Interest income	0.1%	0.2%
Interest expense	-0.3%	-0.2%
Other expense	0.0%	-0.2%
Income (loss) before income taxes	0.1%	-4.6%
Income tax benefit (expense)	0.0%	1.7%
Net income (loss)	0.1%	-2.9%

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001

Revenue and Backlog. Revenue for the three months ended March 31, 2002 ("interim 2002") was $35.0 million compared to $35.4 million for the three months ended March 31, 2001 ("interim 2001"). The decrease in revenue was the result of a $2.4 million decrease in construction services, offset by a $2.0 million increase in revenue generated from construction materials production and manufacturing sold to non-affiliates. Backlog decreased 25% to $63.5 million at March 31, 2002 from $84.0 million at March 31, 2001. Revenue may be impacted in any one period by the backlog at the beginning of the period.

Gross Profit. Consolidated gross profit increased to $1.6 million for interim 2002 from $.2 million for interim 2001 and consolidated gross margin, as a percent of revenue, increased to 4.7% in interim 2002 from .5% in interim 2001. Gross profit from construction services increased to $.8 million in interim 2002 from $.1 million in interim 2001 and the gross profit margin increased to 3.1% from .5% in the respective periods. The increase in the construction services gross profit was the result of increased profit recognition related to several projects nearing completion at March 31, 2002. Gross profit margins are affected by a variety of factors including construction delays and difficulties due to weather conditions, availability of materials, the timing of work performed by other subcontractors and the physical and geological condition of the construction site. Gross profit from construction materials increased to $.8 million in interim 2002 from $.04 million in interim 2001 and the gross profit margin increased to 9.7% from .6% in the respective periods. The improved performance for the construction materials segment during interim 2002 is the result of a 32% increase in revenue from interim 2001 that results from the expansion of construction materials operations.

General and Administrative Expenses. General and administrative expenses decreased to $1.5 million for interim 2002 from $1.7 million for interim 2001. The decrease resulted primarily from a $.1 million reduction of general and administrative expenses related to various employee incentive plans and a decrease of $.1 million in legal expenses.

Interest Income and Expense. Interest income for interim 2002 decreased to $.03 million from $.06 million for interim 2001 resulting primarily from a decrease in invested cash reserves. Interest expense for interim 2002 increased to $.1 million from $.08 million for interim 2001, due primarily to the Company borrowing on the line of credit.

Net Income (Loss). Net income (loss) was $.02 million in interim 2002 as compared to a net loss of $(1.0) million for interim 2001.

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 construction materials business. Historically, the Company's primary source of cash has been from operations.

The following table sets forth for the three months ended March 31, 2002 and 2001, certain items from the condensed consolidated statements of cash flows.

	Three Months Ende March 31,	
	2002	
Cash Flows Used in Operating Activities	$ (1,471,179)	$
Cash Flows Provided by (Used in) Investing Activities	356,071	
Cash Flows Provided by (Used in) Financing Activities	(791,925)	

Recently cash has been consumed by the costs incurred on contracts for which claim compensation is being sought and the start-up costs of the construction materials expansion. Accordingly, during the year ended December 31, 2000, the Company entered into a revolving loan agreement ("line of credit"). Under the terms of the agreement, the Company may borrow up to $7,000,000 at Chase Manhattan Bank's prime, plus 0.25% through December 31, 2001 at which time the line of credit was to convert to a term agreement requiring monthly principal and interest payments through December 31, 2005. The line of credit is collateralized by all of the Company's assets. Under the terms of the line of credit, the Company is required to maintain a certain level of tangible net worth. In addition, the Company is also required to maintain a ratio of total debt to tangible net worth. As of March 31, 2002, the Company was not in compliance with the tangible net worth covenant, but was in compliance with the ratio of total debt to tangible net worth. Effective March 2002, the Company amended the line of credit agreement. Under the terms of the amended agreement, the interest rate increased to Chase Manhattan Bank's prime, plus 1.5% through January 1, 2003 at which time the line of credit converts to a term agreement requiring monthly principal and interest payments through December 31, 2006. In connection with the amendment, the Company obtained a waiver from non-compliance with the tangible net worth covenant for the period from December 31, 2001 to January 1, 2003. As of March 31, 2002, the Company had withdrawn the entire $7,000,000 from the line of credit.

Cash used in operating activities during interim 2002 amounted to $1.5 million, primarily the result of an increase in accounts receivable of $1.6 million and a decrease in accounts payable of $2.7 million, offset, in part, by an increase in net billings in excess of costs of $1.6 million, depreciation and amortization of $.7 million and an increase in accrued liabilities of $.5 million.

Cash used in operating activities during interim 2001 amounted to $2.9 million, primarily the result of a increase in accounts receivable of $3.6 million, an increase in income tax receivable of $.6 million, a decrease in net billings in excess of costs of $1.3 million, a net loss of $1.0 million, offset, in part, by an increase in accounts payable of $2.8 million and depreciation and amortization of $.6 million.

Cash provided by investing activities during interim 2002 amounted to $.4 million related primarily to a decrease in restricted cash of $.3 million and proceeds from the sale of property and equipment in the amount of $.1 million.

Cash used in investing activities during interim 2001 amounted to approximately $6,000 related primarily to the purchase of property and equipment of $.1 million, offset by proceeds from the sale of property and equipment in the amount of $.06 million and an increase of pit development of $.04 million.

Cash used in financing activities during interim 2002 amounted to $.8 million related primarily to the repayment of notes payable and capital lease obligations of $.8 million.

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Cash provided by financing activities during interim 2001 amounted to $1.4 million related primarily to the proceeds received from the line of credit of $2.0 million, offset by the repayment of notes payable and capital lease obligations of $.6 million.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standard 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 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 to the 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.

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.

The adoption of SFAS 141, SFAS 142 and SFAS 144 did not have a material effect on the Company's financial statements.

The Company does not anticipate the adoption of SFAS 143 to have a material effect 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 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 - The approximate total value of claims on these projects is $24,880,927 of which approximately $21,204,824 is on behalf of MVCI and the balance of $3,676,103 is on behalf of the prime contractor 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 because of 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.

(2) Clark County, Nevada - The approximate total value of claims on this project is $19,135,397 of which approximately $12,885,265 is on behalf of subcontractors. The primary issues are changed conditions, plan errors and omissions, contract modifications and associated delay costs.

The above claims combined total approximately $44,016,324. Of that sum, the Company's portion of the claims total approximately $27,454,956 and the balance of $16,561,368 pertains to prime contractor or subcontractors' claims. Total claim amounts reported by the Company in its filings are approximate and are subject to revision as final documentation progresses. Accordingly, the approximate total claim amount is now $44,016,324 of which $27,454,956 pertains to the Company and the balance of $16,561,368 applies to subcontractors or the prime contractor. This revised approximation of total claim amount compares to previously reported amounts of $54,407,238, $29,396,539 and $25,010,699 respectively. Relative to the aforementioned claims, the Company has recorded approximately $7,754,448 in claim revenue to offset costs incurred to-date on the claims. In addition, the Company has also recorded approximately $1,817,831 for unpaid quantities, unpaid change orders, and pending change orders in advance of receipt. Although the Company believes these amounts represent a reasonably conservative posture, any claims proceeds and payments for previously unpaid quantities, unpaid change orders and pending change orders ultimately paid to the Company less than $9,572,279 will reduce net income. Conversely, a payment for those same items in excess of $9,572,279 will increase net income.

Lawsuits Filed Against Meadow Valley Contractors, Inc. or Meadow Valley Corporation

(1) Innovative Construction Systems, 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) Independent from, but related to the ICS issue, the Nevada State Labor Commissioner ("Commission") filed a lawsuit against MVCI to seek payment from MVCI, as the prime contractor, for wages and fringes owed but not paid by ICS, MVCI's subcontractor. The Commission seeks payment of approximately $452,921 in alleged unpaid wages and fringe benefits. Prior to the filing of the complaint by the Commission, MVCI was attempting to reach settlement as the Company believes that its liabilities are less than the $452,921 being sought by the Commission. Accordingly, the Company intends to defend itself against the excessive assessment of liability and seek to reduce the liability.

(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 cost overruns deemed to be the responsibility of AnA. AnA's suit against MVCI is for approximately $3,245,289. MVCI's countersuit against AnA is for approximately $2,000,000. AnA has also filed a complaint on two other projects completed in 1997 where they were a subcontractor to MVCI in the same jurisdiction in the amount of approximately $715,000 for changed conditions. The Company does not believe AnA's claims have merit and intends to vigorously defend against these claims.

(3) Progressive Contracting Inc. ("PCI"), District Court, Clark County, NV - PCI was a subcontractor to MVCI on a project where there is a dispute with the owner regarding delays to the project. PCI claims they were damaged by these delays in an amount in excess of $300,000. The Company believes that under the terms of the contract with PCI they are only entitled to compensation for the delays if MVCI is compensated by the owner. MVCI has submitted PCI's claims to the owner and they are included in the total claim amount.

(4) The Company is defending a claimed preference in connection 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.

(5) The Company and all of its directors were served with a civil complaint by Silver State Materials Corp. ("Silver State") and Cyrus Spurlino (collectively "Plaintiffs"). The complaint primarily alleges that the Company's October 1995 Registration Statement on Form S-1 was misleading in stating that the Company's directors were elected on a staggered basis because the Company's Bylaws, providing for such staggered term, were not so amended until April 1997, and that such amendment was not filed with the Securities and Exchange Commission. The complaint seeks (i) to terminate all of the Company's directors for cause, (ii) to elect a new Board of Directors, (iii) to cause the Company to enact amended and restated bylaws, (iv) for monetary damages in an undisclosed amount, (v) for interest, fees and costs, and (vi) for such other relief as the District Court may deem appropriate. The Company believes that the complaint is without merit and intends to vigorously defend it. On December 17, 2001, the Company and the Plaintiffs stipulated to an open extension of time for the Company to respond to the complaint as the Company and the Plaintiffs were engaged in settlement discussions that included the possible sale of the Ready Mix, Inc. ("RMI") subsidiary. NRS 78.416(2) prohibits the Company from selling more than 5 percent or more of the aggregate market value of all its assets to an interested stockholder. Due to this restriction, the Company's board of directors concluded that the transaction would not be in the best interests of the Company or its shareholders. The Plaintiffs continue to threaten litigation (as an interested stockholder), against the Company's board attempting to pressure the Company to sell RMI or its assets. As of this filing, the extension of time to respond to the complaint remains

open and the Plaintiffs have not filed an amended complaint, but it appears that anything short of selling RMI and buying back the Plaintiff's stock will likely result in further legal action against the Company.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits:

10.187 Security Agreement with Key Equipment Finance, a Division of Key Corporate Capital Inc.

b. Reports on Form 8-K:

The Company filed a Form 8-K during the three months ended March 31, 2002.

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