

MEADOW VALLEY CORP

Form 10-Q

November 14, 2008

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**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, 2008

OR

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

For the transition period from _____ to _____

Commission File Number: 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 No.)

**4602 E. Thomas Road
Phoenix, Arizona 85018
(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 Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
 (Do not check if a smaller reporting company)

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

Number of shares outstanding of the registrant's common stock as of November 6, 2008:

5,180,654 shares of Common Stock, \$.001 par value per share

MEADOW VALLEY CORPORATION
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REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2008

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CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2008 (Unaudited)	December 31, 2007
Assets:		
Current assets:		
Cash and cash equivalents	\$ 42,916,728	\$ 28,146,028
Restricted cash	246	327,886
Accounts receivable, net	30,102,446	28,565,983
Prepaid expenses and other	1,293,182	2,973,664
Inventory, net	1,745,632	1,232,478
Costs and estimated earnings in excess of billings on uncompleted contracts	255,085	567,013
Note receivable	114,181	110,824
Deferred tax asset	658,334	580,103
Total current assets	77,085,834	62,503,979
Property and equipment, net	33,818,075	36,173,373
Refundable deposits	158,604	186,508
Note receivable, less current portion	338,476	424,536
Claims receivable	1,729,676	2,463,880
Total assets	\$ 113,130,665	\$ 101,752,276
Liabilities and Stockholders Equity:		
Current liabilities:		
Accounts payable	\$ 18,728,537	\$ 15,288,168
Accrued liabilities	6,727,475	6,907,633
Notes payable	5,051,256	4,216,498
Obligations under capital leases		102,100
Income tax payable	829,935	1,770,786
Billings in excess of costs and estimated earnings on uncompleted contracts	17,241,132	11,248,107
Total current liabilities	48,578,335	39,533,292
Notes payable, less current portion	9,955,390	12,269,017
Deferred tax liability	2,610,836	2,610,836
Total liabilities	61,144,561	54,413,145
Commitments and contingencies		
Minority interest in consolidated subsidiary	12,285,649	12,812,403
Stockholders equity:		
Preferred stock \$.001 par value; 1,000,000 shares authorized, none issued and outstanding	5,180	5,148

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Common stock \$.001 par value; 15,000,000 shares authorized, 5,180,654 and 5,148,404 issued and outstanding		
Additional paid-in capital	20,828,846	20,322,115
Capital adjustments	(799,147)	(799,147)
Retained earnings	19,665,576	14,998,612
Total stockholders equity	39,700,455	34,526,728
Total liabilities and stockholders equity	\$ 113,130,665	\$ 101,752,276

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	Nine months ended September 30,		Three months ended September 30,	
	2008	2007	2008	2007
Revenue:				
Construction services	\$ 128,669,078	\$ 94,925,171	\$ 44,528,164	\$ 35,863,460
Construction materials	48,683,689	60,520,249	16,088,023	18,705,892
Construction materials testing	859,371	745,597	213,990	321,989
Total revenue	178,212,138	156,191,017	60,830,177	54,891,341
Cost of revenue:				
Construction services	113,020,399	87,271,446	36,759,766	32,606,003
Construction materials	48,380,164	54,947,266	16,065,321	17,591,342
Construction materials testing	724,636	843,492	266,273	316,453
Total cost of revenue	162,125,199	143,062,204	53,091,360	50,513,798
Gross profit	16,086,939	13,128,813	7,738,817	4,377,543
General and administrative expenses	10,060,044	9,282,720	4,594,949	3,060,221
Income from operations	6,026,895	3,846,093	3,143,868	1,317,322
Other income (expense):				
Interest income	608,692	1,164,024	172,560	395,861
Interest expense	(101,231)	(196,421)	(33,727)	(50,156)
Other income (expense)	(65,278)	297,501	12,702	131,651
	442,183	1,265,104	151,535	477,356
Income before income taxes and minority interest in consolidated subsidiary	6,469,078	5,111,197	3,295,403	1,794,678
Income tax expense	(2,328,868)	(1,893,532)	(1,185,265)	(663,855)
Income before minority interest in consolidated subsidiary	4,140,210	3,217,665	2,110,138	1,130,823
Minority interest in consolidated subsidiary	526,754	(724,327)	185,435	(23,851)
Net income	\$ 4,666,964	\$ 2,493,338	\$ 2,295,573	\$ 1,106,972
Basic net income per common share	\$ 0.90	\$ 0.49	\$ 0.44	\$ 0.22
Diluted net income per common share	\$ 0.88	\$ 0.47	\$ 0.43	\$ 0.21
	5,168,723	5,126,690	5,179,589	5,130,980

Basic weighted average common shares
outstanding

Diluted weighted average common shares
outstanding

5,312,188

5,306,868

5,319,710

5,310,448

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MEADOW VALLEY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the nine months ended September 30, 2008
(Unaudited)

	Common Stock		Additional Paid-in Capital	Capital Adjustment	Retained Earnings
	Number of Shares Outstanding	Amount			
Balance at January 1, 2008	5,148,404	\$ 5,148	\$ 20,322,115	\$ (799,147)	\$ 14,998,612
Common stock issued on exercise of options	32,250	32	173,441		
Stock-based compensation			333,290		
Net income for the nine months ended September 30, 2008					4,666,964
Balance at September 30, 2008	5,180,654	\$ 5,180	\$ 20,828,846	\$ (799,147)	\$ 19,665,576

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	Nine months ended	
	September 30,	
	2008	2007
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from customers	\$ 183,633,721	\$ 155,667,016
Cash paid to suppliers and employees	(161,661,225)	(141,948,818)
Income taxes paid	(3,347,950)	(1,565,059)
Interest received	608,693	1,164,024
Interest paid	(101,231)	(196,421)
Net cash provided by operating activities	19,132,008	13,120,742
Cash flows from investing activities:		
Decrease in restricted cash	327,640	437,916
Proceeds from sale of property and equipment	289,576	634,974
Purchase of property and equipment	(1,658,002)	(3,826,849)
Proceeds from note receivable	82,703	79,476
Purchase of minority interest common stock		(8,644,944)
Net cash used in investing activities	(958,083)	(11,319,427)
Cash flows from financing activities:		
Proceeds from issuance of common stock	173,473	91,896
Proceeds from minority interest in consolidated subsidiary		22,000
Proceeds from notes payable	990,676	2,956,120
Repayment of notes payable	(4,465,274)	(7,139,712)
Repayment of capital lease obligations	(102,100)	(307,223)
Excess tax benefits from share-based payment arrangements		86,085
Net cash used in financing activities	(3,403,225)	(4,290,834)
Net increase (decrease) in cash and cash equivalents	14,770,700	(2,489,519)
Cash and cash equivalents at beginning of period	28,146,028	29,354,582
Cash and cash equivalents at end of period	\$ 42,916,728	\$ 26,865,063

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	Nine months ended	
	September 30,	
	2008	2007
Increase (decrease) in cash and cash equivalents (Continued):		
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 4,666,964	\$ 2,493,338
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,604,720	5,241,471
(Gain) Loss on sale of property and equipment	114,733	(249,119)
Stock-based compensation expense	333,290	521,703
Deferred taxes, net	(78,231)	(110,293)
Allowance for doubtful accounts	130,566	149,935
Inventory allowance		(64)
Minority interest in consolidated subsidiary	(526,754)	724,327
Changes in operating assets and liabilities:		
Accounts receivable	(1,667,029)	(6,093,500)
Prepaid expenses and other	1,680,482	1,351,756
Inventory	(513,154)	(43,192)
Costs and estimated earnings in excess of billings on uncompleted contracts	311,928	681,747
Refundable deposits	27,904	1,292,482
Claims receivable	734,204	
Accounts payable	3,440,369	3,556,098
Accrued liabilities	(180,158)	(1,674,083)
Income taxes payable	(940,851)	438,766
Billings in excess of costs and estimated earnings on uncompleted contracts	5,993,025	4,839,370
Net cash provided by operating activities	\$ 19,132,008	\$ 13,120,742

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies and Use of Estimates:*Presentation of Interim Information:*

The condensed consolidated financial statements included herein have been prepared by Meadow Valley Corporation (we, us, our or the Company) without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC) and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, as permitted by the SEC, although we believe the disclosures, which are made are adequate to make the information presented not misleading. Further, the condensed consolidated financial statements reflect, in the opinion of management, all normal recurring adjustments necessary to present fairly our financial position at September 30, 2008 and the results of our operations and cash flows for the periods presented. The December 31, 2007 condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Merger Costs:

The condensed consolidated financial statements include non-recurring adjustments related to the accrual of expenses incurred in connection with the Company s proposed merger transaction. At September 30, 2008, the Company had accrued and expensed approximately \$1.4 million in fees and charges related to the proposed merger.

Seasonal Variations:

Interim results are subject to significant seasonal variations and the results of operations for the nine months and three months ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year.

Nature of Corporation:

Meadow Valley Corporation 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. (MCVI) (construction services segment), Ready Mix, Inc. (RMI) (construction materials segment) and Apex Testing Corp. (Apex) (construction materials testing segment). MCVI is a general contractor, primarily engaged in the construction of structural concrete highway bridges and overpasses, and the paving of highways and airport runways for various governmental authorities, municipalities and developers in southern Nevada and Arizona. RMI manufactures and distributes ready-mix concrete in the Las Vegas, Nevada and Phoenix, Arizona metropolitan areas. In 2007, the Company purchased 620,212 shares of RMI s common stock, bringing the total number of shares of RMI s common stock owned by the Company to 2,645,212 shares or approximately 69% of RMI s 3,809,500 total shares outstanding. Apex is a construction materials testing provider in the Las Vegas, Nevada area.

Liquidity:

The Company had income from operations for the nine months ended September 30, 2008 and 2007 of \$6,026,895 and \$3,846,093, respectively, and provided cash from operating activities of \$19,132,008 and \$13,120,742, respectively, for the same periods.

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 for in their entirety 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.

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**MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies and Use of Estimates (Continued):

Revenue and Cost Recognition (Continued):

We recognize revenue in our construction materials segment on the sale of our concrete and aggregate products at the time of delivery. We recognize revenue in our construction materials testing segment for the sale of our professional services at the time services are provided.

Claims Receivable:

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 September 30, 2008, the total amount of contract claims filed by the Company with various public entities was \$12,002,782. Of this amount, the Company's portion of the claims total was \$8,336,931, and the balance of \$3,665,851 pertains to other contractors' claims.

In September 2008, the Company realized approximately \$2.3 million, net in gross profit on the settlement of claims with the Federal Highway Administration. Claims of approximately \$7.1 million were settled for \$3.2 million, thereby reducing the Company's previously recorded claims receivable from \$2,463,880 to \$1,729,676. Of the \$3.2 million in settlement proceeds, \$.2 million was paid to subcontractors for their portion of the total claim. Since the remaining \$3.0 million in proceeds exceeded the approximately \$.7 million of claims receivable the Company had recorded on the project, the difference of \$2.3 million was included in gross profit during the quarter ended September 30, 2008.

Total claim amounts reported by the Company in its filings are approximate and are subject to revision as final documentation, resolution of issues, settlements progress and/or payments are received. Relative to the aforementioned claims, the Company has recorded \$1,729,676 in cumulative claims receivable as of September 30, 2008 to offset a portion of costs incurred-to-date on the claims. All claims receivable amounts as of September 30, 2008 are classified as long-term.

The Company has not accrued a liability related to the prime contractor or subcontractors' claims as no liability would be deemed payable if their portion of the claims did not receive a favorable outcome. Correspondingly, no receivable has been recorded for overhead and profit included in their portion of the claims on the Company's behalf.

Although the Company believes that the claims receivable amounts represent a reasonably conservative posture, any claim proceeds ultimately paid to the Company, less than the aggregate amount recorded on the balance sheet of \$1,729,676, will decrease earnings. Conversely, a payment for those same items in excess of \$1,729,676 will result in increased income.

A common and customary practice in construction contracts is the owner's withholding of a portion of the contract in the form of retention. Retention practices vary from contract to contract, but in general, retention (usually somewhere between 5% to 10% of the contract) is withheld from each progress payment by the owner and then paid upon satisfactory completion of the contract. Contract proceeds comprising retention are included in the Company's balance sheet in accounts receivable. The portion of accounts receivable pertaining to retention withheld on the contracts for which claims have been filed totals \$879,763 as of September 30, 2008. The degree to which the Company is successful in prosecuting any claims may also impact the amount of retention paid by the owner.

The Company believes that all retention amounts currently being held by the owners on the contracts with outstanding claims will be paid in full in accordance with the contract terms. Therefore, no allowance has been made to reduce the receivables due from the retention on the disputed contracts.

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**MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies and Use of Estimates (Continued):

Earnings per Share:

Statement of Financial Accounting Standards No. 128, Earnings per Share, (SFAS 128) provides for the calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity.

Stock-Based Compensation:

Both the Company and RMI have stock-based compensation plans. The Company accounts for stock-based compensation utilizing the fair value recognition provisions of SFAS 123R. The Company recognizes expected tax benefits related to employee stock-based compensation as awards are granted and the incremental tax benefit or liability when related awards are deductible. The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award, which is typically three years.

The Company and RMI estimate fair value using the Black-Scholes valuation model. Assumptions used to estimate compensation expense are determined as follows:

Expected term is generally determined using an average of the contractual term and vesting period of the award;

Expected volatility is measured using the average of historical daily changes in the market price of the Company's common stock over the expected term of the award;

Risk-free interest rate is equivalent to the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards; and

Forfeitures are based on the history of cancellations of awards granted by both companies and management's analysis of potential forfeitures.

Recent Accounting Pronouncements:

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2008, that are of significance, or potential significance, to us.

In March 2008, the FASB issued FASB Statement No. 161 Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact, if any, that SFAS 161 will have on our financial statements.

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of FSP 142-3 on its financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The implementation of this standard will not have a material impact

on our financial position and results of operations.

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**MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies and Use of Estimates (Continued):

Recent Accounting Pronouncements (Continued):

In June 2008, the FASB ratified EITF Issue No. 08-3, Accounting for Lessees for Maintenance Deposits Under Lease Arrangements (EITF 08-3). EITF 08-3 provides guidance for accounting for nonrefundable maintenance deposits. It also provides revenue recognition accounting guidance for the lessor. EITF 08-3 is effective for fiscal years beginning after December 15, 2008. The implementation of this standard will not have a material impact on our financial position and results of operations.

In September 2008, the FASB issued FSP 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP 133-1 and FIN 45-4). FSP 133-1 and FIN 45-4 amends and enhances disclosure requirements for sellers of credit derivatives and financial guarantees. It also clarifies that the disclosure requirements of SFAS No. 161 are effective for quarterly periods beginning after November 15, 2008 and fiscal years that include those periods. FSP 133-1 and FIN 45-4 is effective for reporting periods (annual or interim) ending after November 15, 2008. The implementation of this standard will not have a material impact on our financial position and results of operations.

In September 2008, the FASB ratified EITF Issue No. 08-5, Issuer s Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement (EITF 08-5). EITF 08-5 provides guidance for measuring liabilities issued with an attached third-party credit enhancement (such as a guarantee). It clarifies that the issuer of a liability with a third-party credit enhancement (such as a guarantee) should not include the effect of the credit enhancement in the fair value measurement of the liability. EITF 08-5 is effective for the first reporting period beginning after December 15, 2008. The Company is currently assessing the impact of EITF 08-5 on its financial position and results of operations.

In October 2008, the FASB issued FSP 157-3 Determining Fair Value of a Financial Asset in a Market That Is Not Active (FSP 157-3). FSP 157-3 clarified the application of SFAS No. 157 in an inactive market. It demonstrated how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The implementation of this standard did not have a material impact on our financial position and results of operations.

2. Agreement and Plan of Merger:

On July 28, 2008, the Company entered into an agreement and plan of merger (Agreement) with affiliates of Insight Equity I LP (Insight). Pursuant to the Agreement, each issued and outstanding share of the Company s common stock, par value \$0.001 per share, will be converted into the right to receive a cash payment in the amount of \$11.25 per share, without interest. Upon closing of the transaction, the Company will no longer be publicly traded. The closing is subject to a number of closing conditions, including the approval of the Company s stockholders.

In accordance with the Agreement, the Special Committee of the Company s Board of Directors, with the assistance of its financial and legal advisors, conducted a market test for 45 days by soliciting superior proposals from other parties. The solicitation of proposals resulted in no superior proposals or alternative transactions.

The Company filed its preliminary proxy statement on Schedule 14A and other materials with the SEC on September 19, 2008 pursuant to the Agreement. The Company amended its proxy statement on October 27, 2008 and November 19, 2008 in response to SEC review comments. Following completion of the SEC s review of these filings, the Company intends to promptly file a definitive proxy statement and schedule a special meeting of shareholders to consider and vote on the agreement.

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**MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

2. Agreement and Plan of Merger (Continued):

The Agreement provides for termination rights for both parties and certain termination rights require the payment of fees and expenses in specific instances. The Company may be required to pay from \$500,000 up to 4.5% of the aggregate merger consideration plus, in each case, all of Insight's documented expenses related to this transaction if the Agreement is terminated in certain instances.

On July 28, 2008, the Company announced the merger to the public by issuing a press release dated July 28, 2008 and by filing a Current Report on Form 8-K with the SEC with the Agreement, press release, and a letter to the Company's employees dated July 28, 2008 attached as exhibits. All of these documents are available on the Company's Internet site <http://www.meadowvalley.com>, however, the information on the Company's Internet site is not incorporated into this report.

3. Stock-Based Compensation:

The Company and RMI both have individual stock-based compensation plans. Meadow Valley Corporation's accompanying condensed consolidated financial statements and these related notes to financial statements have been presented on a consolidated basis and therefore include RMI's stock-based compensation information. The information below is presented to show disclosures related to both the Company's and RMI's individual stock-based compensation plans. Under the sub-heading Meadow Valley Corporation of this note, information is only for the Company's plan, with the exception of information presented that is directly related to the consolidation of the accompanying financial statements, which information is identified as consolidated. Under the sub-heading Ready Mix, Inc. of this note, information is only for RMI's plan.

Meadow Valley Corporation:

The Company accounts for stock-based compensation utilizing the fair value recognition provisions of SFAS 123R. The Company recognizes expected tax benefits related to employee stock-based compensation as awards are granted and the incremental tax benefit or liability when related awards are deductible.

As of September 30, 2008, the Company has the following stock-based compensation plan:

Equity Incentive Plan

In 2004, the Company adopted the 2004 Equity Incentive Plan (the 2004 Plan). The 2004 Plan permits the granting of any or all of the following types of awards: (1) incentive and nonqualified stock options, (2) stock appreciation rights, (3) stock awards, restricted stock and stock units, and (4) other stock or cash-based awards. In connection with any award or any deferred award, payments may also be made representing dividends or their equivalent.

The 2004 Plan authorizes the issuance of up to 1,200,000 shares of the Company's common stock, all of which were previously reserved for issuance under the Company's prior plan. Shares of common stock covered by an award granted under the 2004 Plan will not be counted as used unless and until they are actually issued and delivered to a participant. As of September 30, 2008, 141,217 shares of the Company's common stock were available for future grant under the 2004 Plan. The stock options granted under the 2004 Plan have terms from five to ten years and generally may be exercised after issuance as follows: 33.3% after one year of continuous service, 66.6% after two years of continuous service and 100% after three years of continuous service. The exercise price of each option is no less than the market price of the Company's common stock on the date of the grant. The Company's board of directors has full discretion to modify these terms on a grant by grant basis.

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MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Stock-Based Compensation (Continued):

The Company uses the Black Scholes option pricing model to estimate fair value of stock-based awards with the following assumptions for prior awards of options:

	Awards granted during the nine months ended September 30, 2008	Awards Prior to January 1, 2008
Dividend yield	0%	0%
Expected volatility	53.30%	23.94% - 82.23%
Weighted-average expected volatility	53.30%	50.12%
Risk-free interest rate	5.00%	5.00%
Expected life of options (in years)	4	3-5
Weighted-average grant-date fair value	\$ 5.81	\$ 1.40

During the nine months ended September 30, 2008, options to purchase an aggregate of 15,000 shares of the Company's stock were granted to the Company's three outside directors. The options granted to the three outside directors were granted on January 2, 2008, were fully vested upon grant, are exercisable at \$12.50 per share, and expire five years after the date of grant.

The following table summarizes the Company's stock option activity during the first nine months of fiscal 2008:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (1)	Aggregate Fair Value	Aggregate Intrinsic Value (2)
Outstanding January 1, 2008	320,011	5.35	3.87	\$ 771,784	\$ 2,379,777
Granted	15,000	12.50		87,150	
Exercised	(32,250)	5.38		(44,204)	133,286
Forfeited or expired	(6,068)	5.39		(8,324)	
Outstanding September 30, 2008	296,693	5.70	3.57	\$ 806,406	\$ 1,351,320
Exercisable September 30, 2008	235,023	4.56	3.69	\$ 507,923	\$ 1,348,970

(1) Remaining contractual term is presented in years.

(2) The aggregate intrinsic value is calculated as the difference between the

exercise price of the underlying awards and the closing price of the Company's common stock as of September 30, 2008, for those awards that have an exercise price currently below the closing price as of September 30, 2008. Awards with an exercise price above the closing price as of September 30, 2008 are considered to have no intrinsic value.

A summary of the status of the Company's nonvested options to purchase the Company's common stock as of September 30, 2008 and changes during the nine months ended September 30, 2008 is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested stock options at January 1, 2008	61,667	\$ 4.84
Granted	15,000	5.81
Vested	(15,000)	5.81
Forfeited		
Nonvested stock options at September 30, 2008	61,667	\$ 4.84

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MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Stock-Based Compensation (Continued):

During the nine months ended September 30, 2008 and 2007, the Company recognized consolidated stock-based compensation expense of \$333,290 and \$521,703, respectively, of which \$143,836 and \$307,361, respectively, was related to RMI's stock-based compensation plan, and the Company recognized a tax benefit of \$0 and \$86,085, respectively, related thereto. As of September 30, 2008, there was \$141,120 of total unrecognized compensation cost, net of \$19,541 attributable to estimated forfeitures, related to nonvested stock options granted under the 2004 Plan. That cost is expected to be recognized over the weighted average period of 1.15 years. During the nine months ended September 30, 2008, options to purchase 6,068 shares of the Company's common stock expired unexercised with a weighted average grant date fair value per share of \$1.37 and an aggregate grant date fair value of \$8,324.

During the nine months ended September 30, 2008 and 2007, options to purchase 32,250 and 35,098 shares of the Company's common stock, respectively, were exercised with aggregate intrinsic values of \$133,286 and \$313,222, respectively. Also during the nine months ended September 30, 2008 and 2007, the Company received proceeds of \$173,473 and \$91,911, respectively, as a result of the exercise of options to purchase the Company's common stock.

Ready Mix, Inc.:

RMI accounts for stock based compensation utilizing the fair value recognition provisions of SFAS 123R. RMI recognizes expected tax benefits related to employee stock-based compensation as awards are granted and the incremental tax benefit or liability when related awards are deductible.

As of September 30, 2008, RMI has the following stock-based compensation plan:

Equity Incentive Plan:

In 2005, RMI adopted the 2005 Equity Incentive Plan (the "2005 RMI Plan"). The 2005 RMI Plan permits the granting of any or all of the following types of awards: (1) incentive and nonqualified stock options, (2) stock appreciation rights, (3) stock awards, restricted stock and stock units, and (4) other stock or cash-based awards. In connection with any award or any deferred award, payments may also be made representing dividends or their equivalent.

As of September 30, 2008, RMI had reserved 673,000 shares of RMI's common stock for issuance under the 2005 RMI Plan. Shares of RMI's common stock covered by an award granted under the 2005 RMI Plan will not be counted as used unless and until RMI's common stock is actually issued and delivered to a participant. As of September 30, 2008, 293,875 shares of RMI's common stock were available for future grant under the 2005 RMI Plan. The term of the stock options granted under the 2005 RMI Plan is five years and typically may be exercised after issuance as follows: 33.3% after one year of continuous service, 66.6% after two years of continuous service and 100% after three years of continuous service. The exercise price of each option is no less than the closing market price of RMI's common stock on the date of grant. RMI's board of directors has full discretion to modify these terms on a grant by grant basis.

RMI uses the Black Scholes option pricing model to estimate fair value of stock-based awards with the following assumptions for the indicated periods:

	Awards granted during the nine months ended September 30, 2008	Awards granted prior to January 1, 2008
Dividend yield	0%	0%
Expected volatility	35.5%	21.4% - 39.1%
Weighted-average volatility	35.50%	27.18%
Risk-free interest rate	3.00%	5.00%
Expected life of options (in years)	5	3-5

Weighted-average grant-date fair value		\$ 2.31	\$ 2.40
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MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Stock-Based Compensation (Continued):

During the nine months ended September 30, 2008, options to purchase an aggregate of 20,000 shares of RMI's common stock were granted to RMI's four outside directors. The options granted to RMI's four outside directors were granted on January 2, 2008, were fully vested upon grant, are exercisable at \$6.40 per share, and expire five years after the date of grant.

The following table summarizes RMI's stock option activity during the first nine months of fiscal 2008:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (1)	Aggregate Fair Value	Aggregate Intrinsic Value (2)
Outstanding January 1, 2008	366,125	\$ 11.01	2.75	\$ 935,166	
Granted	20,000	6.40		46,200	
Exercised					
Forfeited or expired	(7,000)	11.00		(13,650)	
Outstanding September 30, 2008	379,125	\$ 10.76	2.13	\$ 967,716	\$
Exercisable September 30, 2008	305,708	\$ 10.82	1.91	\$ 726,545	\$

(1) Remaining contractual term is presented in years.

(2) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing price of RMI's common stock as of September 30, 2008, for those awards that have an exercise price currently below the closing price as

of
September 30,
2008. Awards
with an exercise
price above the
closing price as
of
September 30,
2008 are
considered to
have no intrinsic
value.

A summary of the status of RMI's nonvested shares as of September 30, 2008 and changes during the nine months ended September 30, 2008 is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested stock options at January 1, 2008	149,375	\$ 2.61
Granted	20,000	2.31
Vested	(91,458)	2.03
Forfeited	(4,500)	1.95
Nonvested stock options at September 30, 2008	73,417	\$ 3.28

During the nine months ended September 30, 2008 and 2007, RMI recognized compensation expense of \$143,836 and \$307,361, respectively, and a tax benefit of \$30,345 and \$57,148, respectively, related thereto. As of September 30, 2008, there was \$138,740 of total unrecognized compensation cost. That cost is expected to be recognized over the weighted average period of 1.25 years. The total fair value of options to purchase 91,458 and 95,126 shares of RMI's common stock vested during the nine months ended September 30, 2008 and 2007 was \$185,543 and \$146,496, respectively. During the nine months ended September 30, 2008, options to purchase 7,000 shares of RMI's common stock were forfeited with a fair value per share of \$1.95 and a total fair value of \$13,650.

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MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Notes Payable:

Notes payable consists of the following:

	September 30, 2008	December 31, 2007
Balance of notes payable outstanding from year end	\$ 12,623,238	\$ 16,485,515
Note payable, 8.25% interest rate with monthly payments of \$1,440, due April 25, 2013, collateralized by vehicles	65,777	
Note payable, 6.8% interest rate with monthly payments of \$1,848, due June 19, 2013, collateralized by equipment	89,825	
Notes payable, interest rates ranging 5.39% to 6.95% with combined monthly principal payments of \$42,589 plus interest, due dates ranging from June 26, 2011 to June 26, 2014, collateralized by equipment	2,227,806	
	15,006,646	16,485,515
Less: current portion	(5,051,256)	(4,216,498)
	\$ 9,955,390	\$ 12,269,017

Following are maturities of long-term debt as of September 30, 2008 for each of the following years:

2009	\$ 5,051,256
2010	4,008,436
2011	2,845,645
2012	1,478,265
2013	581,426
Subsequent to 2013	1,041,618
	\$ 15,006,646

5. Lines of Credit:

In October 2007, the Company amended and restated its line of credit agreements. The Company combined a \$3.0 million line of credit and an approximately \$2.0 million line of credit into a single \$10.0 million line of credit for MVCI with an interest rate at Chase Manhattan Bank's prime rate, plus .25%. The interest rate as of September 30, 2008 was 5.25%. The balance outstanding on the line of credit as of September 30, 2008 was \$265,669 and is reported in Note 4 Notes Payable of these notes to condensed consolidated financial statements. The loan agreement allows interest only payments until January 31, 2009. Beginning February 1, 2009, the line of credit converts into a term agreement requiring equal monthly principal plus interest payments through January 31, 2012 and is collateralized by all of MVCI's and the Company's assets. Under the terms of the loan agreement, the Company and/or MVCI are required to maintain a certain level of tangible net worth, a ratio of total debt to tangible net worth as well as a minimum cash flow to debt ratio. The Company is also required to maintain a certain level of earnings before interest, tax, depreciation and amortization (EBITDA). MVCI is also required to maintain a certain level of cash flow to current portion of long term debt. As of September 30, 2008, the Company and MVCI were in compliance with these

covenants.

As of September 30, 2008, the Company had a \$5.0 million line of credit loan agreement for RMI, with an interest rate at Chase Manhattan Bank's prime rate, plus .25%. The interest rate as of September 30, 2008 was 5.25%. The balance outstanding on the line of credit as of September 30, 2008 was \$660,844 and is reported in Note 4 Notes Payable of these notes to condensed consolidated financial statements. The loan agreement allows interest only payments until December 31, 2008. If the agreement is not renewed by December 31, 2008 and a balance is outstanding, then the line of credit converts into a term agreement requiring equal monthly principal plus interest payments through December 31, 2011 and is collateralized by all of RMI's and the Company's assets.

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MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Lines of Credit (Continued):

Under the terms of the loan agreement, the Company and/or RMI are required to maintain a certain level of tangible net worth, a ratio of total debt to tangible net worth as well as a minimum cash flow to debt ratio. The Company is also required to maintain a certain level of earnings before interest, tax, depreciation and amortization (EBITDA). RMI is also required to maintain a certain level of cash flow to current portion of long-term debt. As of September 30, 2008, the Company and RMI were in compliance with these covenants.

In addition to the line of credit agreements mentioned above, the Company and RMI have each established capital expenditure commitments in the amounts of \$10.0 million and \$15.0 million, respectively. The purpose of these commitments is to fund certain acquisitions of capital equipment that the Company and RMI may need to improve capacity or productivity. As of September 30, 2008, the Company and RMI had approximately \$8.3 million and \$6.7 million, respectively, available to draw against under such commitments.

6. Commitments:

During the nine months ended September 30, 2008, the Company extended three material purchase agreements and entered into one new material purchase agreement with various expirations through April 5, 2015. The Company also entered into four lease agreements related to office space and office equipment. Combined minimum future payments under these non-cancelable material purchase agreements and lease agreements entered into during the nine months ended September 30, 2008 for each of the following years are:

2009	\$ 871,830
2010	1,188,241
2011	1,549,490
2012	1,652,615
2013	1,652,615
After 2013	2,612,936
	\$ 9,527,727

The Company has agreed to indemnify its officers and directors for certain events or occurrences that may arise as a result of the officer or directors serving in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. However, the Company has a directors' and officers' liability insurance policy specifically covering Meadow Valley Corporation and RMI has a directors' and officers' liability insurance policy specifically covering RMI. Both policies enable each company separately to recover a portion of any future amounts paid up to \$10.0 million each.

In August 2008, a lawsuit was filed against the Company and each of the Company's directors in connection with the Company's previously announced Agreement and Plan of Merger dated July 28, 2008 with Phoenix Parent Corp. and Phoenix Merger Sub Inc. The complaint alleges, among other matters, that the Company and its directors breached their fiduciary duties for failure to maximize shareholder value in the negotiation of the merger. In October 2008, the plaintiff filed an amended complaint, which is similar to the original complaint except it includes an additional claim against the individual defendants for breach of fiduciary duty and a claim against the defendants of allegedly materially misleading and/or incomplete statements in the Company's proxy statement. The Company believes that this lawsuit is without merit and intends to vigorously defend itself. As a result, the Company believes the estimated fair value of these indemnification agreements is minimal and has not recorded liabilities for these agreements as of September 30, 2008.

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**MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

6. Commitments (Continued):

The Company enters into indemnification provisions under its agreements with other companies in the ordinary course of business, typically with business partners, customers, landlords, lenders and lessors. Under these provisions, the Company generally indemnifies and holds harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of September 30, 2008.

7. Statement of Cash Flows:

Non-Cash Investing and Financing Activities:

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

During the nine months ended September 30, 2008 and 2007, the Company financed the purchase of equipment in the amounts of \$1,995,729 and \$2,631,933, respectively.

During the nine months ended September 30, 2008 and 2007, the Company incurred \$333,290 and \$521,703, respectively, in stock-based compensation expense associated with stock option grants to employees, directors and consultants.

During the nine months ended September 30, 2008 and 2007, the Company realized income tax benefits of \$0 and \$86,085, respectively, as a result of disqualifying dispositions of incentive stock options and exercises of nonqualified stock options, which is included in income taxes payable and additional paid-in capital.

8. Litigation and Claim Matters:

The Company and its subsidiaries are party to legal proceedings in the ordinary course of business. With the exception of the matters detailed below, the Company believes that the nature of these proceedings (which generally relate to disputes between the Company, or the Company's subsidiaries, 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 deemed to be materially detrimental and some claims may prove beneficial to the Company's financial condition.

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

Requests for Equitable Adjustment to Construction Contracts. MVCI has made claims as described below on the following contracts:

- (1) Two contracts with the New Mexico State Highway and Transportation Department. The approximate total value of claims on these projects is \$12,002,782 of which \$8,336,931 is on behalf of MVCI and the balance of \$3,665,851 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. The trial date has been postponed to May 4, 2009.

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**MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

8. Litigation and Claim Matters (Continued):

- (2) Federal Highway Administration The approximate total value of claims on this project is \$7,081,529, of which \$6,751,940 is on behalf of MVCI and the balance of \$329,589 is on behalf of a subcontractor. The primary issues are unforeseen conditions, 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. On September 18, 2006, MVCI submitted a formal claim with the Federal Highway Administration. On September 28, 2007, the Federal Highway Administration denied all of MVCI's claims. On September 9, 2008, the Company announced it had reached a settlement of its \$7,081,529 claim with Federal Highway Administration for \$3,200,000.

The combined total of all outstanding claims as of September 30, 2008 is \$12,002,782. MVCI's portion of the total claims is \$8,336,931 and the balance pertaining to a prime contractor or subcontractors' claims is \$3,665,851. Total claim amounts reported by MVCI are approximate and are subject to revision as final documentation progresses and as issues are resolved and/or payments made. Claim amounts do not include any prejudgment interest, if applicable. Relative to the aforementioned claims, the Company has recorded \$1,729,676 in cumulative claims receivable to offset a portion of costs incurred to date on the claims.

The Company has not accrued a liability related to the prime contractor or subcontractors' claims as no liability would be deemed payable if their portion of the claims did not receive a favorable final outcome. Correspondingly, no receivable has been recorded for overhead and profit included in their portion of the claims on the Company's behalf.

Although the Company believes that the claims receivable amount represents a reasonably conservative posture, any claim proceeds ultimately paid to the Company less than the aggregate amount recorded on the balance sheet of \$1,729,676, will decrease earnings. Conversely, a payment for those same items in excess of \$1,729,676 will result in increased income.

The portion of accounts receivable pertaining to retention withheld on the contracts for which claims have been filed totals \$879,763. The degree to which the Company is successful in prosecuting its claims may also impact the amount of retention paid by the owners on the contracts. The Company believes that all retention amounts currently being held by the owners on the contracts with outstanding claims will be paid in full in accordance with the contract terms. Therefore, no allowance has been made to reduce the receivables due from the retention on the disputed contracts.

Lawsuits Filed Against Meadow Valley Contractors, Inc., Ready Mix, Inc. and Meadow Valley Corporation

- (1) MVCI is defending a claimed preference, in the Third Judicial Court of Salt Lake County, Utah, in connection with a payment made to it by an insurance company, Southern America Insurance Company, in the approximate amount of \$100,000. In January 2008, the court entered judgment against MVCI in the amount of approximately \$185,000, representing the original claim amount plus interest. In April 2008, MVCI settled this lawsuit for an amount less than the judgment amount.
- (2) MVCI, through its insurance company, is providing a defense to the State of Arizona, pursuant to its obligations under its contract, for a complaint brought by the parents of Corey James and Michelle James in the Superior Court of the State of Arizona, in and for the County of Pinal. The complaint, No. CV00400744, was filed on July 9, 2004. The complaint is a civil action titled John James, the Father of Decedent Corey James, Donna James, the mother of Decedent Corey James, Marjorie Surine, the Mother of Decedent Michelle James and Joseph Burkhamer, the Father of Decedent Michelle James, Plaintiffs, vs. The State of Arizona, a Body Politic; John Does and Jane Does 1-10; ABC Companies 1-5; and Black and White Corporations, Partnerships and/or Sole proprietorships 1-10, or Other Entities, Defendants. The complaint seeks damages from the State of Arizona for losses suffered by the plaintiffs as a result of a traffic accident. In January 2006, Joseph Burkhamer, the father of decedent Michelle James, was dismissed from the complaint and also in 2008 his appeal was dismissed. During 2007, MVCI's insurance company settled with the remaining plaintiffs with no additional responsibility for MVCI.

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MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Litigation and Claim Matters (Continued):

- (3) On November 8, 2007, Kitchell Contractors, Inc. of Arizona filed a complaint (CV2007-020708) in the Superior Court of the State of Arizona, against RMI for reimbursement of costs they incurred to remove and replace concrete totaling approximately \$200,000. The claim alleges that the materials supplied to a construction project did not meet the minimum standards as defined in the contract between the parties. RMI is disputing the claim and is vigorously defending against the complaint. As such, no liability has been recorded as of September 30, 2008 related to this matter.
- (4) On August 5, 2008, a lawsuit was filed in the Clark County, Nevada District Court under Case No. A569007 Dept. XIII against the Company, each of the Company's directors, Phoenix Parent Corp. and Phoenix Merger Sub Inc. by Pennsylvania Avenue Funds in connection with the Company's previously announced Agreement and Plan of Merger dated July 28, 2008 with Phoenix Parent Corp. and Phoenix Merger Sub Inc. The complaint alleges, among other matters, that the Company and its directors breached their fiduciary duties for failure to maximize shareholder value in the negotiation of the merger. The complaint further alleges that Phoenix Parent Corp. and Phoenix Merger Sub Inc. aided and abetted the alleged breach of fiduciary duties by the directors of the Company. The plaintiff is seeking class action certification on behalf of all shareholders of the Company (other than the defendants) and has requested that the court enjoin the merger or, if the merger is consummated prior to the entry of the court's final judgment, rescind the merger or award an unspecified amount of monetary damages. On October 7, 2008, the plaintiff filed an amended complaint, which the Company received on October 15, 2008. The amended complaint is similar to the original complaint except it includes an additional claim against the individual defendants for breach of fiduciary duty based on alleged materially misleading and/or incomplete statements in the proxy statement. On or about October 20, 2008, counsel for the individual defendants, after contacting plaintiff's counsel, agreed to accept service of the amended complaint on the individual defendants' behalf; however, plaintiff's counsel has not yet provided an acceptance of service to counsel for the individual defendants. The Company believes that this lawsuit is without merit and intends to vigorously defend itself.

9. Earnings per Share:

Statement of Financial Accounting Standards No. 128, Earnings per Share, provides for the calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity, as set forth below:

	Nine months ended September 30,		Three months ended September 30,	
	2008	2007	2008	2007
Weighted average common shares outstanding	5,168,723	5,126,690	5,179,589	5,130,980
Dilutive effect of:				
Stock options and warrants	143,465	180,178	140,121	179,468
Weighted average common shares outstanding assuming dilution	5,312,188	5,306,868	5,319,710	5,310,448

All dilutive common stock equivalents are reflected in our earnings per share calculations. Anti-dilutive common stock equivalents are not included in our earnings per share calculations. For the nine months ended September 30, 2008, the Company had outstanding options to purchase 187,026 shares of common stock at a range of \$1.46 to \$9.38 per share, which were included in the earnings per share calculation as they were dilutive and

outstanding options and warrants to purchase 186,879 shares of common stock at a range of \$10.11 to \$13.88 per share, which were not included in the earnings per share calculation as they were anti-dilutive.

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**MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

9. Earnings per Share (Continued):

The Company's diluted net income per common share at September 30, 2007 is computed based on the weighted average number of shares of common stock outstanding during the period and the weighted average number of shares underlying options and warrants to purchase 400,064 common shares at a range of \$1.46 to \$12.60. The weighted average number of shares underlying options to purchase 15,000 shares at \$13.88 per share were outstanding at September 30, 2007, but were not included in the computation of diluted net income per common shares because the options' exercise price was greater than the average market price of the common share.

10. Income Taxes:

The Company's effective tax rate is based on expected income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which it operates. For interim financial reporting, in accordance with APB Opinion No. 28, the Company estimates the annual tax rate based on projected taxable income for the full year and records a quarterly income tax provision in accordance with the anticipated annual rate. As the year progresses, we refine the estimates of the year's taxable income as new information becomes available, including year-to-date financial results. This continual estimation process can result in a change to the expected effective tax rate for the year. When this occurs, the Company adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected annual tax rate. Significant judgment is required in determining the Company's effective tax rate and in evaluating our tax positions.

The effective income tax rate of approximately 36% and 37% for the nine months ended September 30, 2008 and 2007, respectively, differed from the statutory rate, due primarily to state income taxes and non-deductible stock-based compensation expense associated with employee incentive stock options.

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MEADOW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. Segment Information:

The Company manages and operates three segments – construction services segment, construction materials segment and construction materials testing segment. The construction services segment provides construction services to a broad range of public and some private customers primarily in southern Nevada and Arizona. 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, Nevada and Phoenix, Arizona markets. Material customers include concrete subcontractors, prime contractors, homebuilders, commercial and industrial property developers and homeowners. The construction materials segment operates out of three locations in the Las Vegas, Nevada vicinity, one location in the Moapa, Nevada vicinity and four locations in the Phoenix, Arizona vicinity. The construction materials testing segment provides materials testing services to the broader construction industry in the Las Vegas, Nevada area.

	Nine Months Ended September 30,					
	2008			2007		
		Construction	Materials		Construction	Materials
(dollars in thousands)	Services	Materials	Testing	Services	Materials	Testing
Gross revenue	\$128,669	\$49,214	\$1,156	\$94,925	\$61,958	\$ 986
Intercompany revenue		(530)	(297)		(1,438)	(240)
Cost of revenue	113,020	48,910	1,022	87,271	56,385	1,084
Interest income	473	136		880	284	
Interest expense	19	82		(86)	(110)	
Depreciation and amortization	2,054	3,530	21	1,996	3,231	14
Income (loss) before income taxes and minority interest in consolidated subsidiary	9,225	(2,696)	(60)	3,109	2,511	(509)
Income tax benefit (expense)	(3,322)	971	22	(1,119)	(958)	183
Income (loss) before minority interest in consolidated subsidiary	5,903	(1,725)	(38)	1,989	1,554	(326)
Minority interest in consolidated subsidiary		527			(724)	
Net income (loss)	5,903	(1,198)	(38)	1,989	830	(326)
Total assets	68,932	43,624	575	54,685	47,581	435

There are no differences in accounting principles between the three segments. All centrally incurred costs are allocated to the construction services segment. A management fee is allocated to the materials segment in the amount of \$22,000 per month. Intercompany revenue is eliminated at cost to arrive at consolidated revenue and cost of revenue.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
Forward-Looking Statement Disclosure

This Quarterly Report on Form 10-Q and the documents we incorporate by reference herein include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that involve known and unknown risks. All statements other than statements of historical facts contained in this Form 10-Q and the documents we incorporate by reference, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words believe, may, estimate, continue, anticipate, intend, should, plan, could, target, potential, is likely, similar import or statements of our management's opinion, as they relate to us, are intended to identify forward-looking statements within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. These forward-looking statements and assumptions involve known and unknown risks, uncertainties and other factors that may cause our actual results, market performance or achievements to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause such differences include, but are not limited to the following: (1) the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement, (2) the outcome of any legal proceedings that have been or may be in the future instituted against the Company and others following announcement of the merger agreement, (3) the inability to complete the merger due to the failure to obtain stockholder approval or satisfy other conditions to the closing of the merger, (4) failure of any party to the merger agreement to abide by the terms of that agreement, (5) risks that the merger, including the uncertainty surrounding the closing of the merger, will disrupt the current plans and operations of the Company, including as a result of undue distraction of management and personnel retention problems, (6) conflicts of interest that may exist between members of management who will be participating in the ownership of the Company following the closing of the merger and (7) the amount of the costs, fees, expenses and charges related to the merger, including the impact of any termination fees the Company may incur, which may be substantial. Furthermore, the expectations expressed in forward-looking statements about the Company could materially differ from the actual outcomes because of changes in demand for the Company's products and services, the timing of new orders and contract awards, the Company's ability to successfully win contract bids, the impact of competitive products and pricing, excess or shortage of production capacity, bonding capacity, and the other risks, uncertainties and assumptions described in Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, and any changes thereto in Part II, Item 1A Risk Factors of this Form 10-Q and of our Quarterly Report on Form 10-Q ended June 30, 2008. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. Further, our past results of operations do not necessarily indicate our future results. Moreover, the construction services segment and the construction materials segment of our business are very competitive and rapidly changing. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Except as otherwise required by applicable laws, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this Quarterly Report on Form 10-Q or in the documents we incorporate by reference, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Quarterly Report on Form 10-Q. You should not rely upon forward-looking statements as predictions of future events or performance. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

General

The following is management's discussion and analysis of certain significant factors affecting our 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 discussion are forward-looking statements.

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Revenue on uncompleted fixed price contracts is recorded under the percentage-of-completion method of accounting. We begin to recognize revenue on our contracts when we first incur 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 for in total when determined, regardless of the percent complete.

In general, labor, equipment and disposable materials tend to be the types of costs with the greatest uncertainty, and, therefore, have the greatest risk of variation from budgeted costs. Permanent materials and subcontract costs tend to be more predictable and, to a greater degree, can be fixed for the duration of the contract, and thus have less risk of variation from the original estimate. We have avoided material deterioration of profit margins due to untimely delivery of important construction materials or from rapidly rising costs of the same, and from minor cost overruns due to rising costs of raw materials in our construction services segment. A significant and unforeseen rise in the cost of crude oil could negatively impact our performance. Likewise, prolonged shortages of raw materials could delay progress on projects, cause cost overruns and potentially erode profit margins.

Overview

As with each quarter this year, the third quarter was significantly buoyed up by the performance of our construction services segment. Entering fiscal 2008 with approximately \$172.4 million in backlog provided a good deal of momentum for the construction services segment. Contract backlog as of the end of the third quarter was approximately \$145.1 million, 63.4% more than a year ago, and should continue to provide near-term opportunity for solid performance from the construction services segment. The construction services segment is primarily engaged in public infrastructure construction and, so far, the public works sector of the construction industry has been less affected by the turmoil in our nation's economy. As a result, we have had ample bidding opportunities, but what is apparent from the bidding is that competition is intensifying both in terms of the number of bidders as well as tightening profit margins. Our current bonding limits of approximately \$250 million total bonding program and a single project limit of approximately \$100 million allow us to bid on larger projects which typically see fewer bidders because of such high bonding requirements. Nonetheless, in today's competitive environment we see an increased number of bidders on jobs of all sizes.

The sharp decline of the housing sector has been the primary cause of the recent poor performance of our construction materials segment. Since demand for our product, ready-mix concrete, depends entirely on the amount and location of construction activity and because most of our facilities are located to best serve the residential or residential-related commercial construction projects, we have been dramatically affected by this downturn. A few quarters ago, what seemed to start as a slowdown in housing has now erupted into a full-blown global financial crisis. It appears highly likely that we will experience a much more pronounced and longer downturn than previously believed. Furthermore, commercial construction typically lags residential construction and we have only begun to see the slowdown in commercial construction activity. Accordingly, we have taken specific actions to reduce costs and preserve cash for our construction materials segment. These actions include, but are not limited to: (i) not filling the vacancy created by the promotion of our Vice President to President of RMI upon our President's retirement, (ii) reducing construction materials segment administrative personnel, (iii) implementing a fuel surcharge, and (iv) reducing operational overtime for the construction materials segment. Subsequent to the third quarter ended September 30, 2008 we also imposed a 5% reduction in pay for all construction materials segment salaried employees. We will continue to analyze our operations for other opportunities to further reduce costs and preserve cash.

The quarter's results were also favorably impacted by the settlement and payment of the construction claim on what we have frequently referred to as the Gooseberry job. Our total claims on this project were approximately \$7.1 million and we agreed to settle all of these claims for \$3.2 million. While we feel strongly that our claims were valid and substantiated, the business decision was made to settle as opposed to facing years of litigation that would likely ensue and the accompanying legal costs. Since the claims receivable established on this project was conservative, the difference between the net settlement amount (after paying certain subcontractor claims) and the claim receivable was \$2.3 million and was included in this quarter's gross profit.

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Recent Developments

On July 28, 2008, we entered into an agreement and plan of merger (Agreement) with affiliates of Insight Equity LP (Insight). Pursuant to the Agreement, each issued and outstanding share of our common stock, par value \$0.001 per share, will be converted into the right to receive a cash payment in the amount of \$11.25 per share without interest. Upon closing of the transaction, our Company s common stock will no longer be publicly traded. The closing is subject to a number of closing conditions, including the approval of our stockholders.

In accordance with the Agreement, the Special Committee of the Company s Board of Directors, with the assistance of its financial and legal advisors, conducted a market test for 45 days by soliciting superior proposals from other parties. The solicitation of proposals resulted in no superior proposals or alternative transactions.

The Company filed its preliminary proxy statement on Schedule 14A and other materials with the SEC on September 19, 2008 pursuant to the Agreement. The Company amended its proxy statement on October 27, 2008 and November 19, 2008 in response to SEC review comments. Following completion of the SEC s review of these filings, the Company intends to promptly file a definitive proxy statement and schedule a special meeting of shareholders to consider and vote on the agreement.

The Agreement provides for termination rights for both parties and certain termination rights require the payment of fees and expenses in specific instances. We may be required to pay from \$500,000 up to 4.5% of the aggregate merger consideration plus, in each case, all of Insight s documented expenses related to this transaction if the Agreement is terminated in certain instances.

On July 28, 2008, we announced the merger to the public by issuing a press release dated July 28, 2008 and by filing a Current Report on Form 8-K with the SEC with the Agreement, press release, and a letter to our employees dated July 28, 2008 attached as exhibits. All of these documents are available on our Internet site <http://www.meadowvalley.com>, however, the information on our Internet site is not incorporated into this quarterly report on Form 10-Q.

On August 5, 2008, a lawsuit was filed in the Clark County, Nevada District Court under Case No. A569007 Dept. XIII against us, each of our directors, Phoenix Parent Corp. and Phoenix Merger Sub Inc. by Pennsylvania Avenue Funds in connection with our previously announced Agreement and Plan of Merger dated July 28, 2008 with Phoenix Parent Corp. and Phoenix Merger Sub Inc. The complaint alleges, among other matters, that we and our directors breached our fiduciary duties for failure to maximize shareholder value in the negotiation of the merger. The complaint further alleges that Phoenix Parent Corp. and Phoenix Merger Sub Inc. aided and abetted the alleged breach of fiduciary duties by our directors of the Company. The plaintiff is seeking class action certification on behalf of all shareholders of the Company (other than the defendants) and has requested that the court enjoin the merger or, if the merger is consummated prior to the entry of the court s final judgment, rescind the merger or award an unspecified amount of monetary damages. On October 7, 2008, the plaintiff filed an amended complaint, which we received on October 15, 2008. The amended complaint is similar to the original complaint except it includes an additional claim against the individual defendants for breach of fiduciary duty and a claim against the defendants of allegedly materially misleading and/or incomplete statements in the Company s proxy statement. On or about October 20, 2008, counsel for the individual defendants, after contacting plaintiff s counsel, agreed to accept service of the amended complaint on the individual defendants behalf; however, plaintiff s counsel has not yet provided an acceptance of service to counsel for the individual defendants. We believe that this lawsuit is without merit and we intend to vigorously defend ourselves.

Critical Accounting Policies, Estimates and Judgments

Significant accounting policies are described in the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007. We believe our most critical accounting policies are revenue recognition and cost estimation on certain contracts for which we use a percentage-of-completion accounting method, our allowances for doubtful accounts, our inventory allowance, the valuation of property and equipment, and our accounting policies on contingencies, income taxes and the valuation of stock-based compensation. The revenue recognition and cost estimation accounting method is applied by our construction services segment to heavy construction projects executed under multi-year contracts with various customers.

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Revenue 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 of 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 for in their entirety 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 revisions become known.

The asset costs and estimated earnings in excess of billings on uncompleted contracts represents revenue recognized in excess of amounts billed. The liability billings in excess of costs and estimated earnings on uncompleted contracts represents billings in excess of revenues recognized.

The complexity of the estimation process and all issues related to the assumptions, risks and uncertainties inherent with the application of the percentage-of-completion method of accounting affects the amounts reported in our condensed consolidated financial statements. A number of internal and external factors affect our percentage-of-completion estimates, including labor rate and efficiency variances, estimated future material prices and customer specification changes. If our business conditions were different, or if we used different assumptions in the application of this accounting policy, it is likely that materially different amounts would be reported in our condensed consolidated financial statements.

We are required to estimate the collectability of our accounts receivable. A considerable amount of judgment is required in assessing the realization of these receivables, including the current credit worthiness of each customer and the related aging of the past due balances. Our provision for bad debts at September 30, 2008 and December 31, 2007 amounted to \$725,288 and \$594,722, respectively. We determine our reserve by using percentages applied to certain aged receivable categories and percentages of certain types of revenue generated, as well as a review of the individual accounts outstanding and our collection history.

We are required to state our inventories at the lower of cost or market. In assessing the ultimate realization of inventories, we are required to make judgments as to the future demand requirements and compare these with the current inventory levels. Our reserve requirements generally increase as our projected demand requirements decrease due to market conditions and longer than expected usage periods. At September 30, 2008 and December 31, 2007, inventories of \$1,745,632 and \$1,232,478, respectively, are net of reserves of \$199,936. It is possible that significant changes in required inventory reserves may occur in the future if there is a further decline in market conditions or market activity.

We are required to provide property and equipment net of depreciation and amortization expense. We expense depreciation and amortization utilizing the straight-line method over what we believe to be the estimated useful lives of the assets. Leasehold improvements are amortized over their estimated useful lives or the lease term, whichever is shorter. The life of any piece of equipment can vary, even within the same category of equipment, due to the quality of the maintenance, care provided by the operator and the general environmental conditions, such as temperature, weather severity and the terrain in which the equipment operates. We maintain, service and repair a majority of our equipment through the use of our mechanics. If we inaccurately estimate the life of any given piece of equipment or category of equipment we may be overstating or understating earnings in any given period.

We also review our property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Impairments are recognized in the period during which they are identified. Assets to be disposed of, if any, are reported at the lower of the carrying amount or fair value less costs to sell.

We are required to estimate our income taxes in each jurisdiction in which we operate. This process requires us to estimate the actual current tax exposure together with assessing temporary differences resulting from differing

treatment of items for tax and financial reporting purposes. These temporary differences result in deferred tax assets and liabilities on our balance sheets. We must calculate the blended tax rate, combining all applicable tax

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jurisdictions, which can vary over time as a result of the allocation of taxable income between the tax jurisdictions and the changes in tax rates. We must also assess the likelihood that the deferred tax assets, if any, will be recovered from future taxable income and, to the extent recovery is not likely, must establish a valuation allowance. This assessment is complicated by the fact that we are required to consolidate our subsidiaries for financial reporting purposes, while being separately reported for tax purposes. As of September 30, 2008, we had total deferred tax asset of \$0.7 million with no valuation allowance and total deferred tax liability of \$2.6 million. The deferred tax asset does not contain a valuation allowance as we believe we will be able to utilize the deferred tax asset through future taxable income.

Furthermore, we are subject to periodic review by domestic tax authorities for audit of our income tax returns. These audits generally include questions regarding our tax filing positions, including the amount and timing of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposures associated with our various tax filing positions, including federal and state taxes, we believe we have complied with the rules of the service codes and therefore have not recorded reserves for any possible exposure. Typically the taxing authorities can audit the previous three years of tax returns and in certain situations audit additional years, therefore a significant amount of time may pass before an audit is conducted and fully resolved. Although no audits are currently being conducted, if a taxing authority would require us to amend a prior year's tax return we would record the increase or decrease in our tax obligation in the period in which it is more likely than not to be realized.

We use the fair value recognition provisions of SFAS 123R, to value stock-based payment awards. Under this method we recognize compensation expense for all stock-based payments granted. In accordance with SFAS 123R we use the Black Scholes option valuation model to value the stock-based payment awards. Under the fair value recognition provisions of SFAS 123R, we recognize stock-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest on a straight-line basis over the requisite service period of the award.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. See Note 3 – Stock-Based Compensation in the accompanying notes to the condensed consolidated financial statements for a further discussion on stock-based compensation.

As discussed elsewhere in this filing, we disclose various litigation and claims matters. These issues involve significant estimates and judgments, which may materially change in future periods due to change in circumstances.

New Accounting Pronouncements

In March 2008, the FASB issued FASB Statement No. 161 – Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact, if any, that SFAS 161 will have on our financial statements.

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of FSP 142-3 on its financial position and results of operations.

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In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The implementation of this standard will not have a material impact on our financial position and results of operations.

In June 2008, the FASB ratified EITF Issue No. 08-3, Accounting for Lessees for Maintenance Deposits Under Lease Arrangements (EITF 08-3). EITF 08-3 provides guidance for accounting for nonrefundable maintenance deposits. It also provides revenue recognition accounting guidance for the lessor. EITF 08-3 is effective for fiscal years beginning after December 15, 2008. The implementation of this standard will not have a material impact on our financial position and results of operations.

In September 2008, the FASB issued FSP 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP 133-1 and FIN 45-4). FSP 133-1 and FIN 45-4 amends and enhances disclosure requirements for sellers of credit derivatives and financial guarantees. It also clarifies that the disclosure requirements of SFAS No. 161 are effective for quarterly periods beginning after November 15, 2008, and fiscal years that include those periods. FSP 133-1 and FIN 45-4 is effective for reporting periods (annual or interim) ending after November 15, 2008. The implementation of this standard will not have a material impact on our financial position and results of operations.

In September 2008, the FASB ratified EITF Issue No. 08-5, Issuer's Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement (EITF 08-5). EITF 08-5 provides guidance for measuring liabilities issued with an attached third-party credit enhancement (such as a guarantee). It clarifies that the issuer of a liability with a third-party credit enhancement (such as a guarantee) should not include the effect of the credit enhancement in the fair value measurement of the liability. EITF 08-5 is effective for the first reporting period beginning after December 15, 2008. The Company is currently assessing the impact of EITF 08-5 on its financial position and results of operations.

In October 2008, the FASB issued FSP 157-3 Determining Fair Value of a Financial Asset in a Market That Is Not Active (FSP 157-3). FSP 157-3 clarified the application of SFAS No. 157 in an inactive market. It demonstrated how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The implementation of this standard did not have a material impact on our financial position and results of operations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

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The following table sets forth, for the nine months and three months ended September 30, 2008 and 2007, certain items derived from our condensed consolidated statements of operations and the corresponding percentage of total revenue for each item:

(dollars in thousands)	Nine months ended September 30,				Three months ended September 30,			
	2008		2007		2008		2007	
	(Unaudited)				(Unaudited)			
Revenue:								
Construction services	\$ 128,669	72.2%	\$ 94,925	60.8%	\$ 44,528	73.2%	\$ 35,863	65.3%
Construction materials	48,684	27.3%	60,520	38.7%	16,088	26.4%	18,706	34.1%
Construction materials testing	859	0.5%	746	0.5%	214	0.4%	322	0.6%
Total revenue	178,212	100.0%	156,191	100.0%	60,830	100.0%	54,891	100.0%
Gross profit	16,087	9.0%	13,129	8.4%	7,739	12.7%	4,378	8.0%
General and administrative expenses	10,060	5.6%	9,283	5.9%	4,595	7.5%	3,060	5.6%
Income from operations	6,027	3.4%	3,846	2.5%	3,144	5.2%	1,317	2.4%
Interest income	609	0.3%	1,164	0.7%	173	0.3%	396	0.7%
Interest expense	(101)	-0.1%	(196)	-0.1%	(34)	-0.1%	(50)	-0.1%
Other income (expense)	(65)	0.0%	298	0.2%	13	0.0%	132	0.2%
Income before income taxes and minority interest in consolidated subsidiary	6,469	3.6%	5,111	3.3%	3,295	5.4%	1,795	3.3%
Income tax expense	(2,329)	-1.3%	(1,894)	-1.2%	(1,185)	-1.9%	(664)	-1.2%
Income before minority interest in consolidated subsidiary	4,140	2.3%	3,218	2.1%	2,110	3.5%	1,131	2.1%
Minority interest in consolidated subsidiary	527	0.3%	(724)	-0.5%	186	0.3%	(24)	0.0%
Net income	\$ 4,667	2.6%	\$ 2,493	1.6%	\$ 2,296	3.8%	\$ 1,107	2.0%
Depreciation and amortization	\$ 5,605	3.1%	\$ 5,241	3.4%	\$ 1,887	3.1%	\$ 1,820	3.3%

Nine Months Ended September 30, 2008 compared to Nine Months Ended September 30, 2007

Revenue and Backlog. Consolidated revenue for the nine months ended September 30, 2008, which we refer to as interim 2008, was \$178.2 million compared to \$156.2 million for the nine months ended September 30, 2007, which we refer to as interim 2007. The increase in revenue was primarily the result of a \$33.7 million increase in revenue from the construction services segment and a \$0.1 million increase in the construction materials testing segment, offset by \$11.8 million decrease in revenue from the construction materials segment. The decreased revenue from the construction materials segment resulted primarily from a 15.4% decrease in the sale of cubic yards of concrete, which we refer to as units, aggravated by a 5.9% decrease in the average unit sales price. The construction services segment revenue was impacted by the amount of the progress schedules of current projects in progress and nature of the contracts contained in the backlog at the beginning of interim 2008.

Gross Profit. Consolidated gross profit increased to \$16.1 million for interim 2008 from \$13.1 million for interim 2007, and consolidated gross margin, as a percent of revenue, increased to 9.0% in interim 2008 from 8.4% in interim 2007. Gross profit from the construction services segment increased to \$15.6 million in interim 2008 when compared to \$7.7 million in interim 2007, and the gross profit margin increased to 12.2% in interim 2008 from 8.1% in interim 2007. Gross profit margins in the construction services segment were positively affected by the settlement of a claim on a closed project. Net claims proceeds received in excess of amounts previously recorded as claims receivable were approximately \$2.3 million. Gross profit from the construction materials segment decreased to \$0.3 million in interim 2008 from \$5.6 million in interim 2007 and the gross profit margin decreased to 0.6% from 9.2% in the respective periods. The decrease from the construction materials segment in gross profit margin during interim 2008 was primarily due to the reduced sales volume, reduced average selling price, and higher fixed costs associated with the increased capacity completed during 2007 and early 2008.

General and Administrative Expenses. General and administrative expenses increased to \$10.1 million for interim 2008 from \$9.3 million in interim 2007. General and administrative expenses increased due to increases in public company costs, including merger related costs, accounting and auditing fees, legal fees, and consulting fees totaling \$1.5 million offset by decreases in compensation costs and bad debt expenses totaling \$0.7 million.

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Interest Income, Expense and Other Income (Expense). Interest income and other income (expense) decreased \$0.9 million, while interest expense decreased \$0.1 million in interim 2008 when compared to interim 2007. Other income (expense) decreased due to gains on the sale of equipment in interim 2007.

Income Taxes. The income tax provision for interim 2008 increased \$0.4 million when compared with interim 2007. The interim 2008 income tax provision was \$2.3 million compared to an income tax provision of \$1.9 million for interim 2007.

Net Income. Net income was \$4.7 million for interim 2008 as compared to net income of \$2.5 million for interim 2007. The overall increase in net income was the result of the additive effect of minority interest on RMI's net losses in interim 2008 compared to a reduction of minority interest on RMI's net income in interim 2007.

Three Months Ended September 30, 2008 compared to Three Months Ended September 30, 2007

Revenue and Backlog. Consolidated revenue for the three months ended September 30, 2008, which we refer to as 3rd quarter 2008, was \$60.8 million compared to \$54.9 million for the three months ended September 30, 2007, which we refer to as 3rd quarter 2007. The increase in revenue was primarily the result of an \$8.7 million increase in revenue from the construction services segment, offset by a \$2.6 million decrease in revenue from the construction materials segment. The decreased revenue from the construction materials segment resulted primarily from an 8.9% decrease in the sale of cubic yards of concrete, which we refer to as units, compounded by a 6.5% decrease in the average unit sales price. The construction services segment revenue was impacted by the amount of the progress schedules of current projects in progress and nature of the contracts contained in the backlog at the beginning of 3rd quarter 2008.

Gross Profit. Consolidated gross profit increased to \$7.7 million for 3rd quarter 2008 from \$4.4 million for 3rd quarter 2007, and consolidated gross margin, as a percent of revenue, increased to 12.7% in 3rd quarter 2008 from 8.0% in 3rd quarter 2007. Gross profit from the construction services segment increased to \$7.8 million in 3rd quarter 2008 when compared to \$3.3 million in 3rd quarter 2007, and the gross profit margin increased to 17.4% in 3rd quarter 2008 from 9.1% in 3rd quarter 2007. Gross profit margins in the construction services segment were positively affected by the settlement of a claim on a closed project. Net claims proceeds received in 3rd quarter 2008 in excess of amounts previously recorded as claims receivable were approximately \$2.3 million. Gross profit from the construction materials segment decreased \$1.1 million in 3rd quarter 2008 from \$1.1 million in 3rd quarter 2007 and the gross profit margin decreased to 0.1% from 6.0% in the respective periods. The decrease from the construction materials segment in gross profit margin during 3rd quarter 2008 was primarily due to reduced sales volume, reduced average selling price, and higher fixed costs associated with the increased capacity completed during 2007 and interim 2008.

General and Administrative Expenses. General and administrative expenses increased to \$4.6 million for 3rd quarter 2008 from \$3.1 million in 3rd quarter 2007. General and administrative expenses increased due to increases in public company costs, accounting and auditing fees, legal fees and bad debt expense totaling \$1.6 million offset by decreases in compensation costs totaling \$0.1 million.

Interest Income, Expense and Other Income (Expense). Interest income and other income (expense) decreased \$0.3 million, while interest expense remained flat in 3rd quarter 2008 compared to 3rd quarter 2007. Other income (expense) decreased due to gains on the sale of equipment in 3rd quarter 2007.

Income Taxes. The income tax provision for 3rd quarter 2008 was \$1.2 million compared to an income tax provision of \$0.7 million for 3rd quarter 2007.

Net Income. Net income was \$2.3 million for 3rd quarter 2008 as compared to net income of \$1.1 million for 3rd quarter 2007.

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Seasonality

The construction industry is seasonal, generally due to inclement weather and length of daylight hours occurring in the winter months. Accordingly, we may experience a seasonal pattern in our operating results with lower revenue in the first and fourth quarters of each calendar year. Quarterly results may also be affected by the timing of bid solicitations by governmental authorities, the stage of completion of major projects and revenue recognition policies. Results for any one particular quarter, therefore, may not be indicative of results for other quarters or for the year.

Inflation

Inflation has not had a material impact on our financial results; however, increases in liquid asphalt, fuel, aggregates, the purchase price of certain other materials and transportation costs have affected our costs of construction. These increases have been mitigated in our financial results due to our general anticipation of cost increases, such as those discussed above, and were considered in our bids to customers on proposed new construction projects. Some of our customers also provide for adjustments in certain construction material prices that are based upon published commodity cost indexes.

Where we are the successful bidder on a project, we execute purchase agreements with material suppliers and contracts with subcontractors covering the prices and quantities of most materials and services, other than fuel products, thereby mitigating future price increases and supply disruptions.

There can be no assurance that liquid asphalt, fuel, aggregates or other construction materials used in our business will be adequately covered by the estimated escalation we have included in our bidding process or that all of our vendors will fulfill their pricing and supply commitments under their purchase agreements and contracts with us. We adjust our total estimated costs on our projects where we believe it is probable that we will have cost increases which will not be recovered from customers or vendors.

Liquidity and Capital Resources

Our primary need for capital will be to maximize our working capital to continually improve our bonding limits. RMI no longer guarantees any Meadow Valley debt; however, Meadow Valley Corporation continues to maintain certain guarantees for the benefit of RMI. We expect, but cannot assure, that eventually there will be no guarantees between the two related companies. As we expand our businesses we will continue to utilize the availability of capital offered by financial institutions, in turn increasing our total debt and debt service obligations.

Our level of working capital may be adversely impacted by the closing of the merger. We will incur additional significant professional fees, including legal fees defending the Company and its board members in the lawsuit discussed above, in connection with the closing of the merger.

Historically, our largest provider of financing has been Wells Fargo Equipment Financing, Inc., formerly known as CIT Construction, who we refer to as WFE. We believe our working capital and our historical sources of capital will be satisfactory to meet our needs for at least one year from the date of this Quarterly Report on Form 10-Q.

In October 2007, we amended and restated our line of credit agreements with WFE. This amendment combined a \$3.0 million line of credit and an approximately \$2.0 million line of credit into a single \$10.0 million line of credit for MVCI. This amendment reduced MVCI's interest rate from .75% to .25% plus the Chase Manhattan Bank's prime rate. This agreement with WFE also provides MVCI a capital expenditure commitment of \$10.0 million. As of September 30, 2008, MVCI had approximately \$9.7 million available on this revolving credit facility and also had approximately \$8.3 million available on the capital expenditure commitment.

We also have an additional credit facility with WFE which provides RMI with a \$5.0 million line of credit, as well as a \$15.0 million capital expenditure commitment. As of September 30, 2008, RMI had approximately \$4.3 million available on its revolving credit facility and also had approximately \$6.7 million available on the capital expenditure commitment.

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These WFE credit facilities are collateralized by each of our subsidiary's assets and are guaranteed by the Company.

Listed below are the covenants which are required to be maintained by the Company on a consolidated basis and individual subsidiary covenant requirements as of September 30, 2008 and December 31, 2007:

Meadow Valley Corporation: (amounts in thousands)	September 30, 2008		December 31, 2007	
	Covenant Requirement	Actual Results	Covenant Requirement	Actual Results
Minimum Net Worth (1)	21,156	39,700	21,156	34,527
Maximum Leverage (2)	n/a	n/a	3.0 to 1.0	1.58 to 1.0
Maximum Funded Debt to EBITDA (3)	3.0 to 1.0	.92 to 1.0	3.0 to 1.0	1.19 to 1.0
Minimum CF/CPLTD (4)	n/a	n/a	1.25 to 1.0	2.58 to 1.0
 Meadow Valley Contractors, Inc. (amounts in thousands)	September 30, 2008		December 31, 2007	
	Covenant Requirement	Actual Results	Covenant Requirement	Actual Results
Minimum CF/CPLTD (4)	n/a	n/a	1.25 to 1.0	2.17 to 1.0
 Ready Mix, Inc. (amounts in thousands)	September 30, 2008		December 31, 2007	
	Covenant Requirement	Actual Results	Covenant Requirement	Actual Results
Minimum CF/CPLTD (4)	n/a	n/a	1.25 to 1.0	2.84 to 1.0

(1) Minimum Net Worth is defined as the sum of common stock, additional paid in capital, retained earnings minus goodwill and other intangible assets, all determined in accordance with United States Generally Accepted Accounting Principles. Base net worth of \$14,000,000 as of September 15,

2005 plus 75%
of net profit for
every fiscal year
thereafter,
beginning
December 31,
2005.

- (2) Leverage is defined as total liabilities to Net Worth. Measured at fiscal year end.
- (3) Funded Debt to EBITDA is defined as all interest bearing notes, loans and capital leases divided by the sum of net profit, interest expense, taxes, depreciation and amortization less interest income and dividends, plus or minus minority interest of consolidated subsidiary and extraordinary expenses or gains, to be determined at WFE's sole discretion, for the previous four fiscal quarterly periods. Measured quarterly.
- (4) Minimum CF to CPLTD is defined as cash flow (the sum of

net profit,
depreciation and
amortization,
less dividends,
plus or minus
extraordinary
expenses or
gains, to be
determined at
WFE's sole
discretion)
divided by the
current portion
of long term
debt. Measured
at fiscal year
end.

n/a Not required to
be calculated at
the interim
period.

The following table sets forth for the nine months ended September 30, 2008 and 2007, certain items from the condensed consolidated statements of cash flows.

	Nine Months Ended September 30,	
	2008	2007
	(unaudited)	
Cash flows provided by operating activities	\$ 19,132,008	\$ 13,120,742
Cash flows used in investing activities	(958,083)	(11,319,427)
Cash flows used in financing activities	(3,403,225)	(4,290,834)

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Cash provided by operating activities during interim 2008 of \$19.1 million represents a \$6.0 million increase from the amount provided by operating activities during interim 2007. The change was primarily due to the increase in cash received from customers, partially offset by increases in cash paid to our suppliers and our employees.

Cash used in investing activities during interim 2008 of \$1.0 million represents a \$10.4 million decrease from the amount used in investing activities during interim 2007. The change was primarily due to the purchase of minority interest common stock in interim 2007 and the decrease in the purchase of property and equipment during interim 2008.

Cash used in financing activities during interim 2008 of \$3.4 million represents a \$.9 million decrease from the amount used in financing activities during interim 2007. The change was primarily due to the decrease in cash used in repayments of notes payable.

Website Access

Our website address is www.meadowvalley.com. On our website we make available, free of charge, our Annual Report on Form 10-K, our most recent quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3, 4, and 5 related to beneficial ownership of securities, our code of ethics and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The information on our website is not incorporated into, and is not part of, this report.

Item 3. Quantitative and Qualitative Disclosures 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. We do not have foreign currency exchange rate and commodity price market risk.

Interest Rate Risk From time to time we temporarily invest our excess cash in interest-bearing securities issued by high-quality issuers. We monitor risk exposure to monies invested in securities in our financial institutions. Due to the short time the investments are outstanding and their general liquidity, these instruments are classified as cash equivalents in our condensed consolidated balance sheets and do not represent a material interest rate risk. Our primary market risk exposure for changes in interest rates relates to our long-term debt obligations. We manage our exposure to changing interest rates principally through the use of a combination of fixed and floating rate debt.

We evaluated the potential effect that near term changes in interest rates would have had on the fair value of our interest rate risk sensitive financial instruments at September 30, 2008. Assuming a 100 basis point increase in the prime interest rate at September 30, 2008, the potential increase in our debt obligations would have been approximately \$9,300 at September 30, 2008. See Note 4 Notes Payable and Note 5 Lines of Credit in the notes of the accompanying September 30, 2008 condensed consolidated financial statements.

Item 4T. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our principal executive officer and principal financial officer, based on their evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that (i) our disclosure controls and procedures are effective for ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION**Item 1. Legal Proceedings**

For information about legal proceedings involving us, see Note 8 – Litigation and Claim Matters to the condensed consolidated financial statements in Part I of this report, which we incorporate by reference into this Item 1.

On August 5, 2008, a lawsuit was filed in the Clark County, Nevada District Court under Case No. A569007 – Dept. XIII against us, each of our directors, Phoenix Parent Corp. and Phoenix Merger Sub Inc. by Pennsylvania Avenue Funds in connection with our previously announced Agreement and Plan of Merger dated July 28, 2008 with Phoenix Parent Corp. and Phoenix Merger Sub Inc. The complaint alleges, among other matters, that we and our directors breached our fiduciary duties for failure to maximize shareholder value in the negotiation of the merger. The complaint further alleges that Phoenix Parent Corp. and Phoenix Merger Sub Inc. aided and abetted the alleged breach of fiduciary duties by our directors of the Company. The plaintiff is seeking class action certification on behalf of all shareholders of the Company (other than the defendants) and has requested that the court enjoin the merger or, if the merger is consummated prior to the entry of the court’s final judgment, rescind the merger or award an unspecified amount of monetary damages. On October 7, 2008, the plaintiff filed an amended complaint, which we received on October 15, 2008. The amended complaint is similar to the original complaint except it includes an additional claim against the individual defendants for breach of fiduciary duty and a claim against the defendants of allegedly materially misleading and/or incomplete statements in the Company’s proxy statement. On or about October 20, 2008, counsel for the individual defendants, after contacting plaintiff’s counsel, agreed to accept service of the amended complaint on the individual defendants’ behalf; however, plaintiff’s counsel has not yet provided an acceptance of service to counsel for the individual defendants. We believe that this lawsuit is without merit and we intend to vigorously defend ourselves.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, the factors and risks listed below, among others, could affect our future performance and should be carefully considered in evaluating our outlook. You should also carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007 and Part II, Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Our operating results may be adversely impacted by worldwide political and economic uncertainties and these conditions may be more prevalent or may have more of an adverse effect in our operating markets as it relates to various construction industries. As a result, the market price of our common stock may decline.

Recently general worldwide economic conditions have experienced a downturn due to the credit conditions impacted by the subprime-mortgage turmoil, slower economic activity, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns in general, the ongoing effects of the war in Iraq, recent international conflicts and terrorist and military activity, and the impact of natural disasters, among others. These conditions make it extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and they could cause U.S. and foreign businesses to slow spending on products and services that may negatively affect our operations, which could delay and lengthen sales cycles and delay projects scheduled to bid in the near term. We experienced slowdowns in sales as a result of the general residential housing downturn in the second half of 2006 that continued through 2007 and thus far through 2008, and we may experience further

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slowdowns in the future. Furthermore, during challenging economic times our customers may face issues gaining timely access to sufficient capital, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts and our days sales outstanding would be negatively impacted. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery, worldwide, or in the construction industry or, more specifically, the residential housing markets. If the economy or markets in which we operate continue to deteriorate, our business, financial condition and results of operations will likely be materially and adversely affected. Additionally, the combination of increased downward pressure on pricing for the construction materials segment and increased competition in low-bid public works projects in our construction services segment, coupled with challenging macroeconomic conditions could have a synergistic negative impact on our business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits:

- 2.1 Agreement and Plan of Merger, dated July 28, 2008, by and among Meadow Valley Corporation, Phoenix Parent Corp. and Phoenix Merger Sub, Inc. (incorporated by reference to exhibit number 2.1 of the Form 8-K filed by Meadow Valley Corporation with the SEC on July 28, 2008)
- 4.2 Amendment to Rights Agreement, dated as of July 28, 2008, by and among Meadow Valley Corporation and Corporate Stock Transfer, Inc. (incorporated by reference to exhibit number 4.1 of the Form 8-K filed by Meadow Valley Corporation with the SEC on July 28, 2008)
- 31.1 Certification of Chief Executive Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934
- 31.2 Certification of Chief Financial Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

MEADOW VALLEY CORPORATION
(Registrant)

By /s/ Bradley E. Larson
Bradley E. Larson
President and Chief Executive Officer
November 14, 2008

By /s/ David D. Doty
David D. Doty
Chief Financial Officer
November 14, 2008

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