SYSCO CORP
Form 10-Q
February 03, 2009

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

Form 10-Q

(Mark One)

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

For the quarterly period ended December 27, 2008

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

Commission File Number 1-6544

Sysco Corporation
(Exact name of registrant as specified in its charter)

Delaware	**74-1648137**
(State or other jurisdiction of incorporation or organization)	*(IRS employer* identification number)
1390 Enclave Parkway Houston, Texas	**77077-2099**
(Address of principal executive offices)	*(Zip Code)*

Registrant s Telephone Number, Including Area Code:
(281) 584-1390

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

589,218,845 shares of common stock were outstanding as of January 24, 2009.

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PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

Sysco Corporation and its Consolidated Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except for Share Data)

	Dec. 27, 2008 (unaudited)	June 28, 2008	Dec. 29, 2007 (unaudited)
ASSETS			
Current assets			
Cash and cash equivalents	$ 373,074	$ 551,552	$ 168,786
Accounts and notes receivable, less allowances of $67,400, $31,730 and $54,541	2,623,509	2,723,189	2,754,339
Inventories	1,862,187	1,836,478	1,896,557
Prepaid expenses and other current assets	60,938	63,814	64,798
Total current assets	4,919,708	5,175,033	4,884,480
Plant and equipment at cost, less depreciation	2,890,641	2,889,790	2,841,229
Other assets			
Goodwill	1,384,790	1,413,224	1,408,061
Intangibles, less amortization	78,976	87,528	91,329
Restricted cash	93,541	92,587	95,511
Prepaid pension cost	249,840	215,159	403,064
Other assets	193,926	208,972	229,153
Total other assets	2,001,073	2,017,470	2,227,118
Total assets	$ 9,811,422	$ 10,082,293	$ 9,952,827
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Notes payable	$	$	$ 4,500
Accounts payable	1,707,331	2,048,759	2,000,419
Accrued expenses	806,055	917,892	773,216
Accrued income taxes	538,790	11,665	264,863
Deferred taxes	234,286	516,131	222,629
Current maturities of long-term debt	6,747	4,896	3,056
Total current liabilities	3,293,209	3,499,343	3,268,683
Other liabilities			
Long-term debt	1,972,612	1,975,435	2,135,547
Deferred taxes	539,534	540,330	567,235
Other long-term liabilities	712,055	658,199	651,299
Total other liabilities	3,224,201	3,173,964	3,354,081
Commitments and contingencies			
Shareholders equity			

Preferred stock, par value $1 per share Authorized 1,500,000 shares, issued none			
Common stock, par value $1 per share Authorized 2,000,000,000 shares, issued 765,174,900 shares	765,175	765,175	765,175
Paid-in capital	750,843	712,208	684,091
Retained earnings	6,281,575	6,041,429	5,731,024
Accumulated other comprehensive (loss) income	(197,287)	(68,768)	71,765
Treasury stock, 173,746,062, 163,942,358 and 160,126,587 shares	(4,306,294)	(4,041,058)	(3,921,992)
Total shareholders equity	3,294,012	3,408,986	3,330,063
Total liabilities and shareholders equity	$ 9,811,422	$ 10,082,293	$ 9,952,827

Note: The June 28, 2008 balance sheet has been derived from the audited financial statements at that date.
See Notes to Consolidated Financial Statements

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Sysco Corporation and its Consolidated Subsidiaries
CONSOLIDATED RESULTS OF OPERATIONS (Unaudited)
(In Thousands, Except for Share and Per Share Data)

	26-Week Period Ended		13-Week Period Ended	
	Dec. 27, 2008	Dec. 29, 2007	Dec. 27, 2008	Dec. 29, 2007
Sales	$ 19,027,232	$ 18,645,349	$ 9,149,803	$ 9,239,505
Cost of sales	15,390,563	15,086,427	7,399,690	7,471,725
Gross margin	3,636,669	3,558,922	1,750,113	1,767,780
Operating expenses	2,710,053	2,655,277	1,328,249	1,318,768
Operating income	926,616	903,645	421,864	449,012
Interest expense	54,810	55,286	28,400	28,915
Other income, net	(8,036)	(11,375)	(5,223)	(8,343)
Earnings before income taxes	879,842	859,734	398,687	428,440
Income taxes	365,374	328,597	161,033	164,292
Net earnings	$ 514,468	$ 531,137	$ 237,654	$ 264,148
Net earnings:				
Basic earnings per share	$ 0.86	$ 0.87	$ 0.40	$ 0.43
Diluted earnings per share	0.86	0.86	0.40	0.43
Average shares outstanding	599,903,629	609,489,326	597,549,831	608,169,202
Diluted shares outstanding	601,100,591	615,893,115	598,233,384	614,620,234
Dividends declared per common share	$ 0.46	$ 0.41	$ 0.24	$ 0.22

See Notes to Consolidated Financial Statements

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Sysco Corporation and its Consolidated Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In Thousands)

	26-Week Period Ended		13-Week Period Ended	
	Dec. 27, 2008	**Dec. 29, 2007**	**Dec. 27, 2008**	**Dec. 29, 2007**
Net earnings	$ 514,468	$ 531,137	$ 237,654	$ 264,148
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(118,701)	49,896	(104,574)	8,971
Amortization of cash flow hedge	214	213	107	107
Amortization of unrecognized prior service cost	961	1,888	730	945
Amortization of unrecognized actuarial losses (gains), net	5,411	1,002	2,705	501
Amortization of unrecognized transition obligation	46	47	23	23
Pension liability assumption	(16,450)		2,030	
Total other comprehensive (loss) income	(128,519)	53,046	(98,979)	10,547
Comprehensive income	$ 385,949	$ 584,183	$ 138,675	$ 274,695

See Notes to Consolidated Financial Statements

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Sysco Corporation and its Consolidated Subsidiaries
CONSOLIDATED CASH FLOWS (Unaudited)
(In Thousands)

	26-Week Period Ended	
	Dec. 27, 2008	Dec. 29, 2007
Cash flows from operating activities:		
Net earnings	$ 514,468	$ 531,137
Adjustments to reconcile net earnings to cash provided by operating activities:		
Share-based compensation expense	35,129	43,118
Depreciation and amortization	190,609	180,640
Deferred tax provision	337,453	301,276
Provision for losses on receivables	30,652	16,087
(Gain) on sale of assets	(112)	(653)
Additional investment in certain assets and liabilities, net of effect of businesses acquired:		
Decrease (increase) in receivables	26,769	(136,544)
(Increase) in inventories	(57,859)	(166,259)
Decrease in prepaid expenses and other current assets	2,144	58,939
(Decrease) increase in accounts payable	(301,018)	1,277
(Decrease) in accrued expenses	(149,811)	(165,581)
(Decrease) in accrued income taxes	(68,877)	(260,725)
Decrease (increase) in other assets	2,087	(8,019)
Increase in other long-term liabilities and prepaid pension cost, net	2,889	9,240
Excess tax benefits from share-based compensation arrangements	(2,774)	(3,029)
Net cash provided by operating activities	561,749	400,904
Cash flows from investing activities:		
Additions to plant and equipment	(178,596)	(277,552)
Proceeds from sales of plant and equipment	2,077	4,711
Acquisition of businesses, net of cash acquired	(16,277)	(34,729)
(Increase) decrease in restricted cash	(954)	1,418
Net cash used for investing activities	(193,750)	(306,152)
Cash flows from financing activities:		
Bank and commercial paper borrowings (repayments), net		361,954
Other debt borrowings	9,316	3,340
Other debt repayments	(5,610)	(4,303)
Debt issuance costs		(7)
Common stock reissued from treasury	85,628	84,352
Treasury stock purchases	(358,751)	(352,832)
Dividends paid	(264,687)	(232,130)
Excess tax benefits from share-based compensation arrangements	2,774	3,029

Net cash used for financing activities	(531,330)	(136,597)
Effect of exchange rates on cash	(15,147)	2,759
Net decrease in cash and cash equivalents	(178,478)	(39,086)
Cash and cash equivalents at beginning of period	551,552	207,872
Cash and cash equivalents at end of period	$ 373,074	$ 168,786
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 55,577	$ 55,670
Income taxes	73,830	277,455

See Notes to Consolidated Financial Statements

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Sysco Corporation and its Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Unless this Form 10-Q indicates otherwise or the context otherwise requires, the terms we, our, us, Sysco, or th company as used in this Form 10-Q refer to Sysco Corporation together with its consolidated subsidiaries and divisions.

1. BASIS OF PRESENTATION

The consolidated financial statements have been prepared by the company, without audit, with the exception of the June 28, 2008 consolidated balance sheet which was taken from the audited financial statements included in the company s Fiscal 2008 Annual Report on Form 10-K. The financial statements include consolidated balance sheets, consolidated results of operations, consolidated statements of comprehensive income and consolidated cash flows. In the opinion of management, all adjustments, which consist of normal recurring adjustments, necessary to present fairly the financial position, results of operations, comprehensive income and cash flows for all periods presented have been made.

These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the company s Fiscal 2008 Annual Report on Form 10-K.

A review of the financial information herein has been made by Ernst & Young LLP, independent auditors, in accordance with established professional standards and procedures for such a review. A report from Ernst & Young LLP concerning their review is included as Exhibit 15.1 to this Form 10-Q.

2. CHANGES IN ACCOUNTING

SFAS 157 Adoption

As of June 29, 2008, Sysco adopted the provisions of FASB Statement No. 157, Fair Value Measurements (SFAS 157), for financial assets and liabilities carried at fair value and non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis. SFAS 157 establishes a common definition for fair value under generally accepted accounting principles, establishes a framework for measuring fair value and expands disclosure requirements about such fair value measurements. The adoption did not have a material impact on the company s financial statements. Due to the issuance of FASB Staff Position 157-2, Effective Date of FASB Statement No. 157, SFAS 157 will be effective in fiscal 2010 for non-recurring, non-financial assets and liabilities that are recognized or disclosed at fair value. The company is continuing to evaluate the impact of adopting these provisions in fiscal 2010.

SFAS 158 Adoption

As of June 30, 2007, Sysco early-adopted the measurement date provision of FASB Statement No. 158, Employers Accounting for Defined Benefit and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). The measurement date provision requires employers to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position. As a result, beginning in fiscal 2008, the measurement date for Sysco s company-sponsored defined benefit and other postretirement plans returned to correspond with fiscal year-end rather than the May 31st measurement date previously used. The company performed measurements as of May 31, 2007 and June 30, 2007 of plan assets and benefit obligations. Sysco recorded a charge to beginning retained earnings on July 1, 2007 of $3,572,000, net of tax, for the impact of the cumulative difference in company-sponsored pension expense between the two measurement dates. The company also recorded a benefit to beginning accumulated other comprehensive income (loss) on July 1, 2007 of $22,780,000, net of tax, for the impact of the difference in the recognition provision between the two measurement dates.

FIN 48 Adoption

As of July 1, 2007, Sysco adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109 (SFAS 109). FIN 48 clarifies the application of SFAS 109 by defining criteria that an individual tax position must meet for any part of the benefit of that position to be recognized in the financial statements. Additionally, FIN 48 provides guidance on the measurement, derecognition, classification and disclosure of tax positions, along with accounting for the related interest and penalties. As a result of this adoption, Sysco recognized, as a cumulative effect of change in accounting principle, a $91,635,000 decrease in the company s beginning retained earnings related to FIN 48.

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3. NEW ACCOUNTING STANDARDS

FSP 132(R)-1

In December 2008, the FASB issued FASB Staff Position 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP 132(R)-1). FSP 132(R)-1 amends SFAS No. 132(R), Employers Disclosures about Pensions and Other Postretirement Benefits (SFAS 132(R)) to require additional disclosures about assets held in an employer s defined benefit pension or other postretirement plan. This standard will be effective for Sysco in fiscal 2010, although early application of the standard is permitted. Upon initial application, the information required by FSP 132(R)-1 is not required for earlier periods that are presented for comparative purposes. The company is currently evaluating the impact the adoption of FSP 132(R)-1 will have on its financial statement disclosures.

4. FAIR VALUE MEASUREMENTS

Cash equivalents include time deposits, certificates of deposit, short-term investments and all highly liquid instruments with original maturities of three months or less. The fair values of cash equivalents reflected in the consolidated balance sheets were $207,729,000, $341,958,000 and zero at December 27, 2008, June 28, 2008 and December 29, 2007, respectively. Pursuant to SFAS 157, the fair value of the company s cash equivalents is determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. As of these dates, the company held no other assets or liabilities requiring fair value measurement or disclosure.

5. RESTRICTED CASH

Sysco is required by its insurers to collateralize a part of the self-insured portion of its workers compensation and liability claims. Sysco has chosen to satisfy these collateral requirements by depositing funds in insurance trusts or by issuing letters of credit.

In addition, for certain acquisitions, Sysco placed funds into escrow to be disbursed to the sellers in the event that specified operating results were attained or contingencies were resolved.

A summary of restricted cash balances appears below:

	Dec. 27, 2008	June 28, 2008	Dec. 29, 2007
Funds deposited in insurance trusts	$ 93,541,000	$ 92,587,000	$ 91,511,000
Escrow funds related to acquisitions			4,000,000
Total	$ 93,541,000	$ 92,587,000	$ 95,511,000

6. DEBT

As of December 27, 2008, Sysco had uncommitted bank lines of credit which provided for unsecured borrowings for working capital of up to $145,000,000, of which none was outstanding.

As of December 27, 2008, there were no commercial paper issuances outstanding.

During the 26-week period ended December 27, 2008, the aggregate of commercial paper issuances and short-term bank borrowings ranged from zero to approximately $118,976,000.

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7. EMPLOYEE BENEFIT PLANS

The components of net company-sponsored benefit cost for the 26-week periods presented are as follows:

	Pension Benefits		Other Postretirement Plans	
	Dec. 27, 2008	Dec. 29, 2007	Dec. 27, 2008	Dec. 29, 2007
Service cost	$ 40,387,000	$ 45,284,000	$ 245,000	$ 242,000
Interest cost	56,606,000	50,609,000	312,000	285,000
Expected return on plan assets	(63,711,000)	(67,672,000)		
Amortization of prior service cost	1,494,000	2,992,000	65,000	72,000
Recognized net actuarial loss (gain)	8,863,000	1,705,000	(79,000)	(78,000)
Amortization of transition obligation			76,000	76,000
Net periodic benefit cost	$ 43,639,000	$ 32,918,000	$ 619,000	$ 597,000

The components of net company-sponsored benefit cost for the 13-week periods presented are as follows:

	Pension Benefits		Other Postretirement Plans	
	Dec. 27, 2008	Dec. 29, 2007	Dec. 27, 2008	Dec. 29, 2007
Service cost	$ 20,256,000	$ 22,642,000	$ 123,000	$ 121,000
Interest cost	28,555,000	25,304,000	156,000	143,000
Expected return on plan assets	(31,856,000)	(33,836,000)		
Amortization of prior service cost	1,151,000	1,496,000	33,000	36,000
Recognized net actuarial loss (gain)	4,431,000	853,000	(40,000)	(39,000)
Amortization of transition obligation			38,000	38,000
Net periodic benefit cost	$ 22,537,000	$ 16,459,000	$ 310,000	$ 299,000

Sysco s contributions to its company-sponsored defined benefit plans were $87,394,000 and $45,648,000 during the 26-week periods ended December 27, 2008 and December 29, 2007, respectively.

Although contributions to its qualified pension plan (Retirement Plan) are not required to meet ERISA minimum funding requirements, the company made a voluntary contribution of $80,000,000 during the first quarter fiscal 2009 and does not currently expect to make any further contributions this fiscal year. The company s contributions to the Supplemental Executive Retirement Plan (SERP) and other post-retirement plans are made in the amounts needed to fund current year benefit payments. The estimated fiscal 2009 contributions to fund benefit payments for the SERP and other post-retirement plans are $17,082,000 and $319,000, respectively.

During the first quarter of fiscal 2009, the company merged active participants from an under-funded multi-employer pension plan into its Retirement Plan and assumed $26,704,000 of liabilities as part of its withdrawal agreement from this plan. These liabilities are due to the assumption of prior service costs related to the active participants and their accrued benefits which were previously included in this multi-employer plan. This resulted in a charge of $16,450,000 to other comprehensive loss, net of tax, in the first 26 weeks of fiscal 2009. See further discussion of this withdrawal under Multi-Employer Pension Plans in Note 12, Commitments and Contingencies.

8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	26-Week Period Ended		13-Week Period Ended	
	Dec. 27, 2008	Dec. 29, 2007	Dec. 27, 2008	Dec. 29, 2007
Numerator:				
Net earnings	$ 514,568,000	$ 531,137,000	$ 237,654,000	$ 264,148,000
Denominator:				
Weighted-average basic shares outstanding	599,903,629	609,489,326	597,549,831	608,169,202
Dilutive effect of employee and director stock options	1,196,962	6,403,789	683,553	6,451,032
Weighted-average diluted shares outstanding	601,100,591	615,893,115	598,233,384	614,620,234
Basic earnings per share:	$ 0.86	$ 0.87	$ 0.40	$ 0.43
Diluted earnings per share:	$ 0.86	$ 0.86	$ 0.40	$ 0.43

The number of options that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive was approximately 61,300,000 and 16,500,000 for the first 26 weeks of fiscal 2009 and 2008, respectively. The number of options that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive was approximately 63,000,000 and 16,000,000 for the second quarter of fiscal 2009 and 2008, respectively.

9. SHARE-BASED COMPENSATION

Sysco provides compensation benefits to employees and non-employee directors under several share-based payment arrangements including various employee stock incentive plans, the Employees Stock Purchase Plan, and various non-employee director plans. Sysco also previously provided share-based compensation under its Management Incentive Plans.

Stock Incentive Plans

In the first 26 weeks of fiscal 2009 and fiscal 2008, options to purchase 7,767,750 and 6,415,800 shares, respectively, were granted to employees from the 2007 Stock Incentive Plan.

The fair value of each option award is estimated as of the date of grant using a Black-Scholes option pricing model. The weighted average grant-date fair value per share of options granted during the first 26 weeks of fiscal 2009 and fiscal 2008 was $5.91 and $6.50, respectively.

In the first 26 weeks of fiscal 2009 and fiscal 2008, 65,631 and 47,920 shares, respectively, of restricted stock were granted to non-employee directors from the 2005 Non-Employee Directors Stock Plan.

Employees Stock Purchase Plan

Shares of Sysco common stock purchased by plan participants under the Sysco Employees Stock Purchase Plan during the first 26 weeks of fiscal 2009 and 2008 were 924,839 and 833,605 respectively.

The weighted average fair value per share of employee stock purchase rights issued pursuant to the Employees Stock Purchase Plan was $4.36 and $5.14 during the first 26 weeks of fiscal 2009 and 2008, respectively. The fair value of the stock purchase rights was calculated as the difference between the stock price and the employee purchase price.

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Management Incentive Compensation

A total of 672,087 shares and 588,143 shares at a fair value per share of $28.22 and $32.99, respectively, were issued pursuant to the Management Incentive Plan in the first quarter of fiscal 2009 and fiscal 2008, respectively, for bonuses earned in the preceding fiscal years.

All Share-Based Payment Arrangements

The total share-based compensation cost that has been recognized in results of operations was $35,129,000 and $43,118,000 for the first 26 weeks of fiscal 2009 and fiscal 2008, respectively.

As of December 27, 200right"> 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

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.

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.

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.

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.

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			Construction		
(dollars in thousands)	Services	Materials	Materials Testing	Services	Materials	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.

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, wi 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.

Recent Developments

On July 28, 2008, we 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 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

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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Results of Operations

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:

	Nine months ended September 30,				Three months ended September 30,			
	2008		2007		2008		2007	
(dollars in thousands)	(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.

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.

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:	September 30, 2008		December 31, 2007	
(amounts in thousands)	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
Maximun 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.	September 30, 2008		December 31, 2007	
(amounts in thousands)	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.	September 30, 2008		December 31, 2007	
(amounts in thousands)	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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(b) Changes in Internal Control over Financial Reporting

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

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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