

GOLDFIELD CORP  
Form 10-Q  
November 12, 2010  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER: 1-7525

**THE GOLDFIELD CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

Edgar Filing: GOLDFIELD CORP - Form 10-Q

**Delaware**  
(State or other Jurisdiction of

**88-0031580**  
(I.R.S. Employer

**Incorporation or Organization)**

**Identification No.)**

**1684 West Hibiscus Blvd., Melbourne, Florida, 32901**

(Address of Principal Executive Offices)(Zip Code)

**(321) 724-1700**

(Registrant's Telephone Number, Including Area Code)

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-Accelerated Filer ☐

Smaller reporting company ☒

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

The number of shares the Registrant's Common Stock outstanding as of November 9, 2010 was 25,451,354.

**Table of Contents**

**THE GOLDFIELD CORPORATION AND SUBSIDIARIES**

**QUARTERLY REPORT ON FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

**INDEX**

|                                                                                                             |           |
|-------------------------------------------------------------------------------------------------------------|-----------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>                                                                 | <b>3</b>  |
| <b><u>Item 1. Financial Statements</u></b>                                                                  | <b>3</b>  |
| <b><u>Consolidated Balance Sheets</u></b>                                                                   | <b>3</b>  |
| <b><u>Consolidated Statements of Operations</u></b>                                                         | <b>4</b>  |
| <b><u>Consolidated Statements of Cash Flows</u></b>                                                         | <b>5</b>  |
| <b><u>Notes to Consolidated Financial Statements</u></b>                                                    | <b>6</b>  |
| <b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> | <b>13</b> |
| <b><u>Item 4T. Controls and Procedures.</u></b>                                                             | <b>25</b> |
| <b><u>PART II. OTHER INFORMATION</u></b>                                                                    | <b>26</b> |
| <b><u>Item 1. Legal Proceedings</u></b>                                                                     | <b>26</b> |
| <b><u>Item 1A. Risk Factors</u></b>                                                                         | <b>26</b> |
| <b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>                           | <b>26</b> |
| <b><u>Item 4. (Removed and Reserved)</u></b>                                                                | <b>26</b> |
| <b><u>Item 6. Exhibits</u></b>                                                                              | <b>26</b> |
| <b><u>SIGNATURES</u></b>                                                                                    | <b>27</b> |

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****THE GOLDFIELD CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

|                                                                                                                              | September 30,<br>2010 | December 31,<br>2009 |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                |                       |                      |
| Current assets                                                                                                               |                       |                      |
| Cash and cash equivalents                                                                                                    | \$ 1,934,114          | \$ 3,534,993         |
| Accounts receivable and accrued billings, net of allowance for doubtful accounts of \$0 in 2010 and 2009                     | 5,369,541             | 3,740,047            |
| Remediation insurance receivable                                                                                             | 564                   | 8,746                |
| Current portion of notes receivable                                                                                          | 46,552                | 36,419               |
| Construction inventory                                                                                                       | 30,198                | 110,428              |
| Real estate inventory                                                                                                        | 1,282,431             | 1,456,682            |
| Costs and estimated earnings in excess of billings on uncompleted contracts                                                  | 1,343,813             | 1,625,835            |
| Income taxes recoverable                                                                                                     | 498,514               | 819,027              |
| Prepaid expenses                                                                                                             | 569,604               | 365,778              |
| Other current assets                                                                                                         | 20,886                | 15,054               |
| Total current assets                                                                                                         | 11,096,217            | 11,713,009           |
| Property, buildings and equipment, at cost, net of accumulated depreciation of \$21,590,776 in 2010 and \$19,987,725 in 2009 | 8,425,068             | 8,292,973            |
| Notes receivable, less current portion                                                                                       | 247,479               | 275,513              |
| Deferred charges and other assets                                                                                            |                       |                      |
| Land and land development costs                                                                                              | 662,219               | 662,219              |
| Cash surrender value of life insurance                                                                                       | 661,206               | 675,669              |
| Other assets                                                                                                                 | 89,788                | 42,815               |
| Total deferred charges and other assets                                                                                      | 1,413,213             | 1,380,703            |
| Total assets                                                                                                                 | \$ 21,181,977         | \$ 21,662,198        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                  |                       |                      |
| Current liabilities                                                                                                          |                       |                      |
| Accounts payable and accrued liabilities                                                                                     | \$ 2,358,964          | \$ 1,994,458         |
| Contract loss accruals                                                                                                       | 28,038                | 512,079              |
| Billings in excess of costs and estimated earnings on uncompleted contracts                                                  | 48,033                | 2,603                |
| Current portion of notes payable                                                                                             | 1,657,881             | 2,130,666            |
| Reserve for remediation                                                                                                      |                       | 2,175                |
| Total current liabilities                                                                                                    | 4,092,916             | 4,641,981            |

# Edgar Filing: GOLDFIELD CORP - Form 10-Q

|                                                                                                                         |               |               |
|-------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Other accrued liabilities                                                                                               | 19,447        | 25,234        |
| Notes payable, less current portion                                                                                     | 2,790,000     | 2,283,950     |
| Total liabilities                                                                                                       | 6,902,363     | 6,951,165     |
| Commitments and contingencies                                                                                           |               |               |
| Stockholders' equity                                                                                                    |               |               |
| Preferred stock, \$1 par value, 5,000,000 shares authorized, none issued                                                |               |               |
| Common stock, \$.10 par value, 40,000,000 shares authorized; 27,813,772 shares issued and 25,451,354 shares outstanding | 2,781,377     | 2,781,377     |
| Capital surplus                                                                                                         | 18,481,683    | 18,481,683    |
| Accumulated deficit                                                                                                     | (5,675,259)   | (5,243,840)   |
| Treasury stock, 2,362,418 shares, at cost                                                                               | (1,308,187)   | (1,308,187)   |
| Total stockholders' equity                                                                                              | 14,279,614    | 14,711,033    |
| Total liabilities and stockholders' equity                                                                              | \$ 21,181,977 | \$ 21,662,198 |

See accompanying notes to consolidated financial statements

**Table of Contents****THE GOLDFIELD CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

|                                                                                               | Three Months Ended<br>September 30, |                     | Nine Months Ended<br>September 30, |                       |
|-----------------------------------------------------------------------------------------------|-------------------------------------|---------------------|------------------------------------|-----------------------|
|                                                                                               | 2010                                | 2009                | 2010                               | 2009                  |
| <b>Revenue</b>                                                                                |                                     |                     |                                    |                       |
| Electrical construction                                                                       | \$ 6,991,028                        | \$ 5,425,834        | \$ 23,191,762                      | \$ 21,559,876         |
| Real estate development                                                                       | 532,800                             | 1,144,800           | 1,428,826                          | 1,144,800             |
| <b>Total revenue</b>                                                                          | <b>7,523,828</b>                    | <b>6,570,634</b>    | <b>24,620,588</b>                  | <b>22,704,676</b>     |
| <b>Costs and expenses</b>                                                                     |                                     |                     |                                    |                       |
| Electrical construction                                                                       | 5,975,383                           | 5,218,563           | 19,705,712                         | 18,626,849            |
| Real estate development                                                                       | 351,378                             | 741,290             | 844,756                            | 829,803               |
| Selling, general and administrative                                                           | 668,204                             | 827,839             | 2,320,003                          | 2,396,761             |
| Depreciation                                                                                  | 645,228                             | 587,840             | 2,086,666                          | 2,143,071             |
| (Gain) loss on sale of assets                                                                 | (10,323)                            | 761                 | (10,323)                           | (52,704)              |
| <b>Total costs and expenses</b>                                                               | <b>7,629,870</b>                    | <b>7,376,293</b>    | <b>24,946,814</b>                  | <b>23,943,780</b>     |
| <b>Total operating loss</b>                                                                   | <b>(106,042)</b>                    | <b>(805,659)</b>    | <b>(326,226)</b>                   | <b>(1,239,104)</b>    |
| <b>Other (expenses) income, net</b>                                                           |                                     |                     |                                    |                       |
| Interest income                                                                               | 7,023                               | 9,607               | 21,189                             | 27,041                |
| Interest expense, net                                                                         | (34,146)                            | (22,898)            | (102,920)                          | (110,875)             |
| Other (expenses) income, net                                                                  | (7,084)                             | 11,154              | 17,843                             | 20,230                |
| <b>Total other expenses, net</b>                                                              | <b>(34,207)</b>                     | <b>(2,137)</b>      | <b>(63,888)</b>                    | <b>(63,604)</b>       |
| <b>Loss from continuing operations before income taxes</b>                                    | <b>(140,249)</b>                    | <b>(807,796)</b>    | <b>(390,114)</b>                   | <b>(1,302,708)</b>    |
| <b>Income tax provision</b>                                                                   | <b>3,593</b>                        | <b>(22,039)</b>     | <b>28,304</b>                      | <b>(22,039)</b>       |
| <b>Loss from continuing operations</b>                                                        | <b>(143,842)</b>                    | <b>(785,757)</b>    | <b>(418,418)</b>                   | <b>(1,280,669)</b>    |
| <b>(Loss) gain from discontinued operations, net of tax provision of \$0 in 2010 and 2009</b> | <b>(13,001)</b>                     | <b>(2,981)</b>      | <b>(13,001)</b>                    | <b>387</b>            |
| <b>Net loss</b>                                                                               | <b>\$ (156,843)</b>                 | <b>\$ (788,738)</b> | <b>\$ (431,419)</b>                | <b>\$ (1,280,282)</b> |
| <b>Loss per share of common stock - basic and diluted</b>                                     |                                     |                     |                                    |                       |
| Continuing operations                                                                         | \$ (0.01)                           | \$ (0.03)           | \$ (0.02)                          | \$ (0.05)             |
| Discontinued operations                                                                       |                                     |                     |                                    |                       |

## Edgar Filing: GOLDFIELD CORP - Form 10-Q

|                                                         |    |            |    |            |    |            |    |            |
|---------------------------------------------------------|----|------------|----|------------|----|------------|----|------------|
| Net loss                                                | \$ | (0.01)     | \$ | (0.03)     | \$ | (0.02)     | \$ | (0.05)     |
| Weighted average shares outstanding - basic and diluted |    | 25,451,354 |    | 25,451,354 |    | 25,451,354 |    | 25,451,354 |

See accompanying notes to consolidated financial statements

**Table of Contents****THE GOLDFIELD CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

|                                                                                | Nine Months Ended<br>September 30, |                     |
|--------------------------------------------------------------------------------|------------------------------------|---------------------|
|                                                                                | 2010                               | 2009                |
| <b>Cash flows from operating activities</b>                                    |                                    |                     |
| Net loss                                                                       | \$ (431,419)                       | \$ (1,280,282)      |
| Adjustments to reconcile net loss to net cash provided by operating activities |                                    |                     |
| Depreciation                                                                   | 2,086,666                          | 2,143,071           |
| Gain on sale of assets                                                         | (10,323)                           | (52,704)            |
| Cash surrender value of life insurance                                         | 14,463                             |                     |
| Changes in operating assets and liabilities:                                   |                                    |                     |
| Accounts receivable and accrued billings                                       | (1,629,494)                        | 3,334,473           |
| Remediation insurance receivable                                               | 8,182                              | 65,247              |
| Construction inventory                                                         | 80,230                             |                     |
| Real estate inventory                                                          | 174,251                            | 693,659             |
| Costs and estimated earnings in excess of billings on uncompleted contracts    | 282,022                            | (117,652)           |
| Land and land development costs                                                |                                    | 48,276              |
| Income taxes recoverable                                                       | 320,513                            | 316,688             |
| Prepaid expenses and other assets                                              | (256,631)                          | (381,133)           |
| Accounts payable and accrued liabilities                                       | 340,993                            | (975,629)           |
| Contract loss accrual                                                          | (484,041)                          | (17,106)            |
| Billings in excess of costs and estimated earnings on uncompleted contracts    | 45,430                             | (6,594)             |
| Remediation accrual                                                            | (2,175)                            | (147,789)           |
| <b>Net cash provided by operating activities</b>                               | <b>538,667</b>                     | <b>3,622,525</b>    |
| <b>Cash flows from investing activities</b>                                    |                                    |                     |
| Proceeds from disposal of property and equipment                               | 26,750                             | 63,753              |
| Proceeds from notes receivable                                                 | 17,901                             | 31,225              |
| Purchases of property and equipment                                            | (2,202,363)                        | (1,931,141)         |
| Cash surrender value of life insurance                                         |                                    | (350,277)           |
| <b>Net cash used in investing activities</b>                                   | <b>(2,157,712)</b>                 | <b>(2,186,440)</b>  |
| <b>Cash flows from financing activities</b>                                    |                                    |                     |
| Proceeds from notes payable                                                    | 1,546,050                          | 360,000             |
| Repayments on notes payable                                                    | (1,527,884)                        | (1,960,944)         |
| Repayments on capital leases                                                   |                                    | (579,357)           |
| <b>Net cash provided by (used in) financing activities</b>                     | <b>18,166</b>                      | <b>(2,180,301)</b>  |
| <b>Net decrease in cash and cash equivalents</b>                               | <b>(1,600,879)</b>                 | <b>(744,216)</b>    |
| <b>Cash and cash equivalents at beginning of period</b>                        | <b>3,534,993</b>                   | <b>4,921,980</b>    |
| <b>Cash and cash equivalents at end of period</b>                              | <b>\$ 1,934,114</b>                | <b>\$ 4,177,764</b> |

# Edgar Filing: GOLDFIELD CORP - Form 10-Q

## Supplemental disclosure of cash flow information:

|                                          |            |           |
|------------------------------------------|------------|-----------|
| Interest paid, net of amount capitalized | \$ 415,627 | \$ 66,508 |
| Income taxes paid (refunded)             | (292,209)  | (338,727) |

## Supplemental disclosure of non-cash investing and financing activities

|                                      |        |        |
|--------------------------------------|--------|--------|
| Liability for equipment acquired     | 32,825 | 1,723  |
| Debt issued in lieu of interest paid | 15,099 | 53,633 |

See accompanying notes to consolidated financial statements

**Table of Contents**

**THE GOLDFIELD CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1 Organization and Summary of Significant Accounting Policies**

***Overview***

The Goldfield Corporation (the "Company") was incorporated in Wyoming in 1906 and subsequently reincorporated in Delaware in 1968. The Company's principal lines of business are electrical construction and real estate development. The principal market for the Company's electrical construction operation is electric utilities throughout most of the United States. The primary focus of the Company's real estate operations is on the development of luxury condominium projects on the east coast of Florida. The Company also makes limited opportunistic investments in distressed residential properties, which it improves or repositions for resale.

***Basis of Financial Statement Presentation***

In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments necessary to present fairly the Company's financial position, results of operations and changes in cash flows for the interim periods reported. These adjustments are of a normal recurring nature. All financial statements presented herein are unaudited with the exception of the consolidated balance sheet as of December 31, 2009, which was derived from the audited consolidated financial statements. The results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. These statements should be read in conjunction with the financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2009.

***Use of Estimates***

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates. Management considers the most significant estimates in preparing these financial statements to be the estimated cost to complete electrical construction contracts in progress, estimated cost to complete real estate development projects in progress, fair value of real estate inventory and the recoverability of deferred tax assets.

***Financial Instruments - Fair Value***

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable and accrued billings, contracts receivable, remediation insurance receivable and accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. The fair value of notes receivable is considered by management to approximate carrying value based on their interest rates and terms, maturities, collateral and current status of the receivables. The fair value of notes payable is considered by management to approximate carrying value due in part to the short term maturity of these borrowings. The Company's long-term notes payable are also estimated by management to approximate carrying value since the interest rates prescribed by the Bank are variable market interest rates and are adjusted periodically.

***Reclassifications***

Certain amounts previously reflected in the prior period statements of cash flows have been reclassified to conform to the Company's 2010 presentation. The reclassifications on the statement of cash flows for the nine months ended September 30, 2010 consist of the 2009 Contract loss accrual amount, previously reported within Accounts payable and accrued liabilities. In addition, the cash flows from discontinued operations, previously reported as a single line item are currently disclosed on the line items Remediation insurance receivable and Remediation accrual. These reclassifications had no effect on the previously reported cash flows from operating activities.

**Note 2 Inventory**

## Edgar Filing: GOLDFIELD CORP - Form 10-Q

Construction inventory, which consists of specifically identified electrical construction materials, is stated at the lower of cost or market.

Real estate inventory, which consists of completed condominium units and residential properties, is carried at the lower of cost or estimated fair value. As of September 30, 2010, the Company had four completed

**Table of Contents**

condominium units held for sale within the Pineapple House project compared to eight at December 31, 2009. The Company also owned three residential properties as of September 30, 2010, compared to zero as of December 31, 2009. In accordance with Accounting Standards Codification ( ASC ) ASC 360-10 *Accounting for the Impairment or Disposal of Long-lived Assets*, real estate inventory is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If no changes in circumstances occur management reviews real estate inventory on a quarterly basis. If the carrying amount or basis is not expected to be recovered, impairment losses are recorded and the related assets are adjusted to their estimated fair value. The Company also complies with ASC Topic 820 *Fair Value Measurement*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

For the nine months ended September 30, 2010, management reviewed the real estate inventory for impairment. In accordance with ASC 360-10, if the undiscounted cash flow expected to be generated by an asset is less than its carrying amount, the Company is required to record an impairment charge to write down the carrying amount of such asset to its fair value. The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The Company did not record an impairment write-down for each of the nine months ended September 30, 2010 and 2009.

**Note 3 Notes Payable**

The following table presents the balances of our outstanding notes as of the dates indicated:

|                                       | Maturity Date     | September 30,<br>2010 | December 31,<br>2009 |
|---------------------------------------|-------------------|-----------------------|----------------------|
| Working capital loan                  | December 28, 2010 | \$ 500,000            | \$                   |
| Pineapple House mortgage              | July 18, 2011     | 452,881               | 1,635,666            |
| \$3.8 million equipment loan          | December 29, 2014 | 3,495,000             | 2,778,950            |
| Total notes payable                   |                   | 4,447,881             | 4,414,616            |
| Less current portion of notes payable |                   | (1,657,881)           | (2,130,666)          |
| Notes payable, less current portion   |                   | \$ 2,790,000          | \$ 2,283,950         |

As of September 30, 2010, the Company, the Company's wholly owned subsidiaries, Southeast Power Corporation ( Southeast Power ), Bayswater Development Corporation ( Bayswater ), Pineapple House of Brevard, Inc. ( Pineapple House ) and Oak Park of Brevard, Inc. ( Oak Park ) have a loan agreement and a series of related ancillary agreements with Branch Banking and Trust Company (the Bank ) providing for a revolving line of credit loan for a maximum principal amount of \$3.0 million, to be used as a Working Capital Loan. The Working Capital Loan was renewed on December 29, 2009, with modified terms, which include interest payable monthly at an annual rate equal to the monthly LIBOR rate plus one and eight-tenths percent, subject to a minimum rate of 3.50% (3.50% as of both September 30, 2010 and December 31, 2009) and is now due and payable on December 28, 2010, unless extended by the Bank at its discretion. As of September 30, 2010 and December 31, 2009, there was \$500,000 and \$0 outstanding under the Working Capital Loan.

As of September 30, 2010, the Company, the Company's wholly owned subsidiaries, Southeast Power, Bayswater, and Pineapple House, and the Bank are parties to a loan agreement and a series of related ancillary agreements for a revolving line of credit loan for a maximum principal amount of \$499,400 (the Pineapple House Mortgage ). Interest is payable monthly at an annual rate equal to the monthly LIBOR rate plus one and eighty-five one-hundredths percent, subject to a minimum rate of 3.20% (3.20% and 2.08% as of September 30, 2010 and December 31, 2009, respectively). The maturity date of the Pineapple House Mortgage is July 18, 2011. Borrowings outstanding under this agreement were \$453,000 and \$1.6 million as of September 30, 2010 and December 31, 2009, respectively. The loan is secured by a Mortgage and Security Agreement.

As of September 30, 2010, the Company, the Company's wholly owned subsidiary, Southeast Power, and the Bank, had a loan agreement for a maximum principal amount of \$3.8 million to be used by Southeast Power for durable equipment purchases, evidenced by a promissory note dated December 29, 2009. Borrowings outstanding under this loan agreement were \$3.5 million and \$2.8 million as of September 30, 2010 and December 31, 2009, respectively. Interest is payable monthly at an annual rate equal to the monthly LIBOR rate plus two and one-half percent (2.76% and 2.73% as of September 30, 2010 and December 31, 2009, respectively). The maturity date of the loan is December 29, 2014. Repayment terms of the loan are as follows: interest is payable in sixty monthly payments beginning January 29, 2010, plus nine monthly principal payments of \$55,000 beginning on April 29, 2010, followed by twelve monthly principal payments of \$60,000, followed by thirty-six

monthly principal

## **Table of Contents**

payments of \$72,500. The loan is secured by the grant of a continuing security interest in all equipment purchased with the proceeds of the loan, and any replacements, accessions, or substitutions thereof and all cash and non-cash proceeds thereof.

The Company's debt arrangements contain various financial and other covenants including, but not limited to, minimum tangible net worth, outside debt limitation, and maximum debt to tangible net worth ratio. Other loan covenants prohibit, among other things, incurring additional indebtedness, issuing loans to other entities in excess of a certain amount, entering into a merger or consolidation, and any change in the Company's current Chief Executive Officer without prior written consent from the Bank. The loans also have cross-default provisions whereby any default under any loans of the Company (or its subsidiaries) with the Bank will constitute a default under all of the other loans of the Company (and its subsidiaries) with the Bank. The Company was in compliance with all of its covenants as of September 30, 2010.

### **Note 4 Commitments and Contingencies Related to Discontinued Operations**

Through certain of our subsidiaries and predecessor companies, we were previously engaged in mining activities, and all such activities were discontinued or disposed of prior to 2003.

#### ***Anderson-Calhoun Mine/Mill Site***

On September 8, 2003, the United States Environmental Protection Agency (the "EPA") issued a special notice letter notifying the Company that it was a potentially responsible party ("PRP"), along with three other parties, with respect to investigation and removal activities at the Anderson-Calhoun Mine/Mill Site (the "Site") in Stevens County, Washington.

The Company and one of the other PRPs, Combustion Engineering, entered into a Settlement Agreement with the EPA, which was adopted by the EPA as final with an effective date of September 1, 2009. In accordance with the Settlement Agreement and the EPA's instructions, the Company made a cash payment to the EPA of \$73,000 on September 17, 2009. Combustion Engineering also reported that on September 11, 2009, Combustion Engineering paid the remainder of the amount due the EPA. The Settlement Agreement is based, in part, on the EPA's acceptance of the Company's representations to the effect that it was a minimal contributor to the hazardous substances that are the subject of the environmental investigation and removal action. The EPA has also entered into a separate settlement agreement with Blue Tee Corporation, the remaining PRP, with respect to the Site. Pursuant to the Settlement Agreement and the Blue Tee settlement agreement, the Company is released from further claims by the EPA, Combustion Engineering and Blue Tee with respect to the Site, subject to certain terms and conditions as set forth in the settlement agreements. The Company has been advised that the EPA anticipates using settlement proceeds to implement the remediation work itself at the Site. Having entered into cash settlements with Blue Tee, Combustion Engineering, and the Company, the EPA will bear the risk of remediation cost overruns and future operation and maintenance costs, subject to certain terms and conditions set forth in the settlement agreements. The Company is not aware of any facts suggesting that the Company's future liability associated with the Site is more than de minimis.

One of the Company's former general liability insurance carriers ("Insurer No. 1") has accepted the defense of this matter and has agreed to pay an 80% share of costs of defense incurred to date, subject to certain reservation of rights as to coverage. During the nine months ended September 30, 2010 and 2009, the Company was reimbursed \$5,000 and \$40,000, respectively, from Insurer No. 1. As of September 30, 2010, the Company has received \$433,000 from Insurer No. 1, which represents 80% of the Company's insurable costs incurred from the inception of this matter through September 30, 2010. Another of the Company's former general liability insurance carriers ("Insurer No. 2") has also accepted the defense of this matter, subject to certain reservation of rights as to coverage, and has agreed to pay a 20% share of the costs of defense incurred to date. During the nine months ended September 30, 2010 and September 30, 2009, the Company received \$3,500 and \$9,900 from Insurer No. 2. As of September 30, 2010, the Company has received \$108,000 from Insurer No. 2, which represents 20% of the Company's insurable costs incurred from the inception of this matter through September 30, 2010. For the three and nine months ended September 30, 2010, the Company recorded an increase of \$200 to the estimated insurance reimbursements as a change to the net expense within discontinued operations. For the three and nine months ended September 30, 2009, the Company recorded a reduction of \$17,000 to the estimated insurance reimbursements as a change to the net expense within discontinued operations. As of September 30, 2010 and December 31, 2009, the balance of the receivable for estimated future insurance reimbursements was \$600 and \$8,700, respectively. The Company will record any additional change to the estimated insurance reimbursements as a change to the net expense within discontinued operations.

**Table of Contents**

In accordance with ASC 450-20 *Loss Contingencies*, and ASC 410-30, *Environmental Obligations*, the Company has recognized a net expense (within discontinued operations) for this matter. As of September 30, 2010, the cumulative net expense was \$173,000. This represents the Company's share of the costs associated with both an emergency removal action previously undertaken by the EPA and actual remediation costs, as fixed under the Settlement Agreement with the EPA, the professional fees associated with the EE/CA Report and the current estimate of the anticipated professional fees associated through the completed remediation, all reduced by both actual and estimated insurance recoveries. As of September 30, 2010 and December 31, 2009, the Company has recorded a reserve balance for professional fees and other applicable costs of \$0 and \$2,200, respectively (accrued as a current liability within discontinued operations).

***Newton County Mine Tailings Superfund Site***

On July 12, 2010, the Company received a request from the EPA for information pursuant to Section 104(e) of CERCLA for Newton County Mine Tailings Superfund Site, Newton County, Missouri (the Wentworth Site) relating to mining activities involving the site.

Preliminary information indicates that the Company was party to an Option Agreement dated August 1, 1948 that may relate to a portion of the Wentworth Site. Due to a near 50% drop in lead/zinc prices during this period of time, the property closed down in early 1949. On May 31, 1949, the Company decided not to exercise its option under the Option Agreement. The nature and scope of the Company's operations relating to the mine property under option, if any, and the relationship, if any, between such operations and the Wentworth Site as defined by the EPA, are still under investigation.

The Company's management has evaluated the aforementioned request for information in accordance with ASC 410-30 and ASC 450-20 and has concluded that at this early stage of the investigation, a range of loss or even the possibility of a liability is impossible to determine at this time. Accordingly, a loss contingency was not recorded as of September 30, 2010. For the three and the nine months ended September 30, 2010, the Company has recorded a net loss from discontinued operations of \$13,000, due to professional and legal service expenditures mainly attributable to the aforementioned request for information.

Assets and liabilities of the discontinued operations have been reflected in the accompanying consolidated balance sheets as follows:

|                                  | September 30,<br>2010 | December 31,<br>2009 |
|----------------------------------|-----------------------|----------------------|
| Remediation insurance receivable | \$ 564                | \$ 8,746             |
| Reserve for remediation          | \$                    | \$ 2,175             |

The following table sets forth certain unaudited operating results of the discontinued operations for the three and nine months ended September 30 as indicated:

|                                                               | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |        |
|---------------------------------------------------------------|-------------------------------------|------------|------------------------------------|--------|
|                                                               | 2010                                | 2009       | 2010                               | 2009   |
| Provision for remediation                                     | \$ (13,001)                         | \$ (2,981) | \$ (13,001)                        | \$ 387 |
| (Loss) income from discontinued operations, net of tax of \$0 | \$ (13,001)                         | \$ (2,981) | \$ (13,001)                        | \$ 387 |

**Note 5 Commitments and Contingencies**

In certain circumstances, the Company is required to provide performance bonds to secure its contractual commitments. Management is not aware of any performance bonds issued for the Company that have ever been called by a customer. As of September 30, 2010, outstanding performance bonds issued on behalf of the Company's electrical construction subsidiary amounted to \$3.5 million.



**Table of Contents****Note 6 Loss per Share of Common Stock**

Basic loss per common share is computed by dividing net loss by the weighted average number of common stock shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if common stock equivalents were exercised into common stock that subsequently shared in the earnings or loss of the Company.

As of September 30, 2010 and December 31, 2009, the Company had no common stock equivalents. The computation of the weighted average number of common stock shares outstanding excludes 2,362,418 shares of treasury stock for each of the three and nine month periods ended September 30, 2010 and 2009.

**Note 7 Income Taxes**

As of September 30, 2010, the Company had net operating loss ( NOL ) carryforwards of approximately \$4.1 million available to offset future federal taxable income, which if unused will begin to expire in 2028, and alternative minimum tax ( AMT ) credit carryforwards of approximately \$279,000 available to reduce future federal income taxes over an indefinite period. In addition, there were inventory basis differences of \$1.3 million, which will be recognized as expenses as condominium units are sold. The Company also had net operating loss carryforwards from Florida of approximately \$5.2 million available to offset future Florida taxable income, which if unused will begin to expire in 2027.

The carrying amounts of deferred tax assets are reduced by a valuation allowance, if based on the available evidence, it is more likely than not such assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the deferred tax assets are expected to be recovered or settled. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, experience with loss carryforwards expiring unused and tax planning alternatives. If the Company determines it will not be able to realize all or part of the deferred tax assets, a valuation allowance would be recorded to reduce deferred tax assets to the amount that is more likely than not to be realized.

Based upon an evaluation of all available evidence, the Company established a full valuation allowance against net deferred tax assets in 2008. The Company's cumulative loss position over the evaluation period and the current market conditions were significant negative evidence in assessing the need for a valuation allowance. Consequently, the future provision for income taxes will include no tax benefit with respect to losses incurred and limited tax expense with respect to income generated until the respective valuation allowance is eliminated. This will cause variability in the effective tax rate. In the event the Company were to subsequently determine that it would be able to realize deferred tax assets in the future in excess of the net recorded amount, an adjustment to the previously recorded valuation allowance would increase income in the period such determination was made. The net deferred tax asset valuation allowance was \$2.1 million as of September 30, 2010, compared to \$2.3 million as of December 31, 2009.

The following table presents the provision for income tax and effective income tax rate from continuing operations for the periods ended as indicated:

|                           | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|---------------------------|-------------------------------------|-------------|------------------------------------|-------------|
|                           | 2010                                | 2009        | 2010                               | 2009        |
| Income tax provision      | \$ 3,593                            | \$ (22,039) | \$ 28,304                          | \$ (22,039) |
| Effective income tax rate | 2.6%                                | (2.7)%      | 7.3%                               | (1.7)%      |

For the three and nine months ended September 30, 2010, the effective tax rates were 2.6% and 7.3%, respectively. The income tax provision includes only state income tax expense attributable to a subsidiary and does not reflect the federal statutory rate of 34% since tax benefits are not recognized on anticipated losses. Due to the impact of the deferred tax valuation allowance and the volatility in estimated future taxable income, the effective tax rate is based on a year-to-date income tax calculation. For the three and nine months ended September 30, 2009, the effective tax rates were (2.7)% and (1.7)%, respectively. The income tax provision includes a refundable federal credit and does not reflect the federal statutory rate since tax benefits are not recognized on anticipated losses.



## Table of Contents

The Company had gross unrecognized tax benefits of \$18,000 and \$13,000 as of September 30, 2010 and December 31, 2009, respectively. The Company believes that it is reasonably possible that the liability for unrecognized tax benefits related to certain state income tax matters may be settled within the next twelve months. The federal statute of limitation has expired for tax years prior to 2005 and relevant state statutes vary. The Company is currently not under any income tax audits or examinations and does not expect the assessment of any significant additional tax in excess of amounts reserved.

The Company accrues interest and penalties related to unrecognized tax benefits as interest expense and other general and administrative expense, respectively, and not as a component of income taxes.

### Note 8 Business Segment Information

The Company is currently involved in two segments, electrical construction and real estate development. There were no material amounts of sales or transfers between segments and no material amounts of foreign sales. Any intersegment sales have been eliminated.

The following table sets forth certain segment information for the periods ended as indicated:

|                                       | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                    |
|---------------------------------------|-------------------------------------|------------------|------------------------------------|--------------------|
|                                       | 2010                                | 2009             | 2010                               | 2009               |
| <b>Revenue</b>                        |                                     |                  |                                    |                    |
| Electrical construction               | \$ 6,991,028                        | \$ 5,425,834     | \$ 23,191,762                      | \$ 21,559,876      |
| Real estate development               | 532,800                             | 1,144,800        | 1,428,826                          | 1,144,800          |
| <b>Total revenues</b>                 | <b>7,523,828</b>                    | <b>6,570,634</b> | <b>24,620,588</b>                  | <b>22,704,676</b>  |
| <b>Operating expenses</b>             |                                     |                  |                                    |                    |
| Electrical construction               | 6,643,528                           | 5,851,903        | 21,912,013                         | 20,838,938         |
| Real estate development               | 457,816                             | 871,579          | 1,184,168                          | 1,131,347          |
| Corporate                             | 528,526                             | 652,811          | 1,850,633                          | 1,973,495          |
| <b>Total operating expenses</b>       | <b>7,629,870</b>                    | <b>7,376,293</b> | <b>24,946,814</b>                  | <b>23,943,780</b>  |
| <b>Operating income (loss)</b>        |                                     |                  |                                    |                    |
| Electrical construction               | 347,500                             | (426,069)        | 1,279,749                          | 720,938            |
| Real estate development               | 74,984                              | 273,221          | 244,658                            | 13,453             |
| Corporate                             | (528,526)                           | (652,811)        | (1,850,633)                        | (1,973,495)        |
| <b>Total operating loss</b>           | <b>(106,042)</b>                    | <b>(805,659)</b> | <b>(326,226)</b>                   | <b>(1,239,104)</b> |
| <b>Other income (expenses), net</b>   |                                     |                  |                                    |                    |
| Electrical construction               | (32,578)                            | (1,891)          | (56,164)                           | (40,684)           |
| Real estate development               | (6,302)                             | (8,923)          | (23,955)                           | (39,427)           |
| Corporate                             | 4,673                               | 8,677            | 16,231                             | 16,507             |
| <b>Total other expenses, net</b>      | <b>(34,207)</b>                     | <b>(2,137)</b>   | <b>(63,888)</b>                    | <b>(63,604)</b>    |
| <b>Net income (loss) before taxes</b> |                                     |                  |                                    |                    |
| Electrical construction               | 314,922                             | (427,960)        | 1,223,585                          | 680,254            |
| Real estate development               | 68,682                              | 264,298          | 220,703                            | (25,974)           |
| Corporate                             | (523,853)                           | (644,134)        | (1,834,402)                        | (1,956,988)        |

## Edgar Filing: GOLDFIELD CORP - Form 10-Q

|                             |              |              |              |                |
|-----------------------------|--------------|--------------|--------------|----------------|
| Total net loss before taxes | \$ (140,249) | \$ (807,796) | \$ (390,114) | \$ (1,302,708) |
|-----------------------------|--------------|--------------|--------------|----------------|

Operating income (loss) is total operating revenue less operating expense inclusive of depreciation and SG&A expense for each segment. Operating income (loss) excludes interest expense, interest income and income taxes. Corporate expenses are comprised of general and administrative expense and corporate depreciation expense.

**Table of Contents**

The following table sets forth identifiable assets by segment as of the dates indicated:

|                         | September 30,<br>2010 | December 31,<br>2009 |
|-------------------------|-----------------------|----------------------|
| Identifiable assets     |                       |                      |
| Electrical construction | \$ 17,449,148         | \$ 17,293,104        |
| Real estate development | 1,984,319             | 2,171,919            |
| Corporate               | 1,747,946             | 2,188,429            |
| Discontinued operations | 564                   | 8,746                |
| Total                   | \$ 21,181,977         | \$ 21,662,198        |

A significant portion of the Company's electrical construction revenue has historically been derived from three or four utility customers each year. For the three months ended September 30, 2010 and 2009, the three largest customers accounted for 49% and 57%, respectively, of the Company's total revenue. For the nine months ended September 30, 2010 and 2009, the three largest customers accounted for 44% and 61%, respectively, of the Company's total revenue. The real estate development operations did not have revenue from any one customer that exceeded 10% of the Company's total revenue for the three or nine month periods ended September 30, 2010 and 2009.

**Note 9 Subsequent Events**

On October 25, 2010, the Company, as grantor, Valley Forge Insurance Company (the Beneficiary) and Branch Banking and Trust Company (the Trustee) entered into a Collateral Trust Agreement (the Agreement) in connection with the Company's workers' compensation insurance policies previously issued by the Beneficiary (the Policies). The Agreement was made to grant the Beneficiary a security interest in certain of the Company's assets and to place those assets in a Trust Account to secure the Company's obligations to the Beneficiary under the Policies.

Subsequently, on October 28, 2010, the Company made a cash deposit in the amount of \$79,000 to the Trust Account, pursuant to and in accordance with the terms and specifications of the Agreement regarding the establishment of the Trust Account. Also pursuant to the Agreement, the Company may be required to deposit additional assets into the Trust Account if the Beneficiary determines that the value of the assets in the Trust Account is insufficient to secure the Company's obligations under the Policies. The Trust Account may only be terminated by the joint action of the Company and the Beneficiary.

## **Table of Contents**

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

#### **Forward-Looking Statements**

*We make forward-looking statements within the safe harbor provision of the Private Securities Litigation Reform Act of 1995 throughout this document. You can identify these statements by forward-looking words such as may, will, expect, anticipate, believe, estimate, plan, and continue or similar words. We have based these statements on our current expectations about future events. Although we believe that our expectations reflected in or suggested by our forward-looking statements are reasonable, we cannot assure you that these expectations will be achieved. Our actual results may differ materially from what we currently expect. Factors that may affect the results of our electrical construction operations include, among others: the level of construction activities by public utilities; the timing and duration of construction projects for which we are engaged; our ability to estimate accurately with respect to fixed price construction contracts; and heightened competition in the electrical construction field, including intensification of price competition. Factors that may affect the results of our real estate development operations include, among others: the continued weakness in the Florida real estate market; the level of consumer confidence; our ability to acquire land; increases in interest rates and availability of mortgage financing to our buyers; and increases in construction and homeowner insurance and the availability of insurance. Factors that may affect the results of all of our operations include, among others: adverse weather; natural disasters; effects of climate changes; changes in generally accepted accounting principles; ability to obtain necessary permits from regulatory agencies; our ability to maintain or increase historical revenue and profit margins; general economic conditions, both nationally and in our region; adverse legislation or regulations; availability of skilled construction labor and materials and material increases in labor and material costs; and our ability to obtain additional and/or renew financing, particularly in light of the current disruption in the credit markets. Other important factors which could cause our actual results to differ materially from the forward-looking statements in this document include, but are not limited to, those discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as those discussed elsewhere in this report and as set forth from time to time in our other public filings and public statements. In addition to the other information included in this report and our other public filings and releases, a discussion of factors affecting our business is included in our Annual Report on Form 10-K for the year ended December 31, 2009 under Item 1A. Risk Factors and should be considered while evaluating our business, financial condition, results of operations and prospects.*

*You should read this report completely and with the understanding that our actual future results may be materially different from what we expect. We may not update these forward-looking statements, even in the event that our situation changes in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.*

#### **Overview**

We are a provider of electrical construction services throughout most of the United States and a developer of condominiums on the east coast of Florida and we also make limited opportunistic investments in distressed residential properties, which we improve or reposition for resale. We report our results under two reportable segments, electrical construction and real estate development. For the nine months ended September 30, 2010, our total consolidated revenue was \$24.6 million, of which 94% was attributable to the electrical construction segment and 6% to the real estate development segment.

Through our subsidiary, Southeast Power Corporation, we are engaged in the construction and maintenance of electric utility facilities for electric utilities and industrial customers and the installation of fiber optic cable for fiber optic cable manufacturers, telecommunication companies and electric utilities. Southeast Power is headquartered in Titusville, Florida, and performs electrical contracting services throughout most of the United States.

The electrical construction business is highly competitive and fragmented. We compete with other independent contractors, including larger regional and national firms that may have financial, operational, technical and marketing resources that exceed our own. We also face competition from existing and prospective customers establishing or augmenting in-house service organizations that employ personnel who perform some of the same types of service as those provided by us. In addition, a significant portion of our electrical construction revenue is derived from a small group of customers, with several different customers accounting for a substantial portion of our revenue in any given year. For example, for the year ended December 31, 2009 and for the nine months ended September 30, 2010, three of our customers accounted for approximately 56% and 44% of our consolidated revenue, respectively. The loss of, or decrease in current demand from, one or more of these customers would, if not replaced by other business, result in a decrease in revenue, margins and profits which could be material.



## **Table of Contents**

Through our subsidiary Bayswater Development Corporation and its various subsidiaries ( Bayswater ) we are engaged in the acquisition, development, management and disposition of land and improved properties. The primary focus of our real estate operations has been the development of residential condominium projects along the east coast of Central Florida and recently we have expanded our real estate development operations to include the opportunistic acquisition of residential properties in distress sale situations for subsequent refurbishment and resale. We intend to use our knowledge of the local real estate market obtained through our condominium development operations to selectively pursue opportunities as they arise. As of September 30, 2010, we have acquired four such residential properties, one of which has been sold. Our most recently completed condominium project, Pineapple House, is an eight-story building in Melbourne, Florida containing thirty-three luxury river-view condominium units of which twenty-nine units have been sold as of September 30, 2010. It is the first phase of a planned multi-phase development. Our customers generally are pre-retirement, retirement or second homebuyers seeking higher quality, maintenance free residences with generous amenities.

The housing market has experienced the most significant downturn in recent history. The credit markets and mortgage industry have experienced a period of unparalleled instability, and this disruption has affected buyers' ability to secure financing for home purchases. Foreclosures and distress sales continue to adversely affect market conditions. Increasing local unemployment levels is another factor negatively affecting the real estate market. As a result of these and other factors, we continue to postpone commencement of the next phase of the Pineapple House project until market conditions improve. We are unable to predict when market conditions will improve. Market conditions may continue to have an adverse impact on the sales and pricing of our real estate properties, the commencement and development of new projects and on the results of our real estate development operations. We have completed the first phase of the Pineapple House project on budget and in a timely manner, and believe the project is attractive and of high quality. Furthermore, we are no longer incurring construction costs with respect to this phase and our share of the holding costs on the unsold units is expected to be no more than \$31,000 annually.

### **Critical Accounting Estimates**

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expense, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to fixed price electrical construction contracts, real estate development projects, deferred income tax assets and environmental remediation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our management has discussed the selection and development of our critical accounting policies, estimates and related disclosure with the Audit Committee of the Board of Directors.

### ***Percentage of Completion Electrical Construction Segment***

We recognize revenue from fixed price contracts on a percentage-of-completion basis, using primarily the cost-to-cost method based on the percentage of total cost incurred to date in proportion to total estimated cost to complete the contract. Total estimated cost, and thus contract income, is impacted by several factors including, but not limited to, changes in productivity and scheduling, and the cost of labor, subcontracts, materials and equipment. Additionally, external factors such as weather, site conditions and scheduling that differ from those assumed in the original bid (to the extent contract remedies are unavailable), client needs, client delays in providing approvals, the availability and skill level of workers in the geographic location of the project, a change in the availability and proximity of materials and governmental regulation, may also affect the progress and estimated cost of a project's completion and thus the timing of income and revenue recognition.

The accuracy of our revenue and profit recognition in a given period is almost solely dependent on the accuracy of our estimates of the cost to complete each project. Due to our experience and our detailed approach in determining our cost estimates for all of our significant projects, we believe our estimates to be highly reliable. However, our projects can be complex and in almost every case the profit margin estimates for a project will either increase or decrease to some extent from the amount that was originally estimated at the time of bid. Because we have a number of projects of varying levels of complexity and size in process at any given time, these changes in estimates can offset each other without materially impacting our overall profitability. If a current estimate of total costs indicates a loss on a contract, the projected loss is recognized in full when determined. Accrued contract losses as of September 30, 2010 and December 31, 2009, were \$28,000 and \$512,000, respectively. The accrued



## **Table of Contents**

contract losses for 2010 are mainly attributable to a few recently started transmission projects, for which we have projected losses. The accrued contract losses for 2009 were mainly attributable to one electrical construction project highly impacted by adverse weather conditions. Revenue from change orders, extra work, variations in the scope of work and claims is recognized when realization is probable.

### ***Percentage of Completion Real Estate Development Segment***

We currently do not have any projects in development. For all future projects, revenue will be recognized using the guidance provided in ASC 360-20, *Real Estate Sales*. ASC 360-20 provides guidance in assessing the collectibility of the sales price, which is required in order to recognize profit under the percentage-of-completion method pursuant to ASC 360-20-40-50 *Sales of Condominium Units*. ASC 360-20-40-50 states that an entity should evaluate the adequacy of the buyer's initial and continuing investment in reaching a conclusion that the sales price is collectible. To meet the continuing involvement criterion, a buyer would be required to either (1) make additional payments during the construction term at least equal to the level of annual payments that would be required to fund principal and interest on a customary mortgage for the remaining purchase price of the property, or (2) increase the minimum initial investment by an equivalent aggregate amount. If the test for initial and continuing investment is not met, the deposit method should be applied and profit recognized only after the buyer's aggregate deposit meets the required investment tests for the duration of the construction period. In future projects, we believe that we will be required in most cases to collect higher deposits from buyers than we have historically in order to recognize revenue under the percentage-of-completion method of accounting. If we are unable to meet the requirements of ASC Topic 360 on future projects, we will be required to delay revenue recognition until the aggregate investment tests described in ASC 360-20-40-50 have been met.

We believe that a material difference in total actual project cost versus total estimated project cost is unlikely due to the nature of the fixed price contracts we enter into with the general contractors on our real estate projects.

If a current estimate of total project cost indicates a loss on a project, the projected loss is recognized in full when determined. There were no contract loss accruals recorded as of September 30, 2010 and December 31, 2009 in the real estate development segment. The timing of revenue and expense recognition using the percentage-of-completion method is contingent on construction productivity. Factors possibly impeding construction productivity include, but are not limited to, supply of labor, materials and equipment, scheduling, weather, permitting and unforeseen events. When a buyer defaults on a contract for sale, revenue and expense recognized in prior periods are adjusted in the period of default.

### ***Real Estate Inventory Valuation***

Real estate inventory, which consists of completed condominium units and residential properties, is carried at the lower of cost or estimated fair value. In accordance with ASC 360-10 *Accounting for the Impairment or Disposal of Long-lived Assets*, real estate inventory is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If no changes in circumstances occur, management reviews real estate inventory on a quarterly basis. If the carrying amount or basis is not expected to be recovered, impairment losses are recorded and the related assets are adjusted to their estimated fair value. We also comply with ASC Topic 820 *Fair Value Measurement*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

As of September 30, 2010, management reviewed the real estate inventory for impairment. ASC 360-10, requires that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write-down the carrying amount of such asset to its fair value. The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

In determining the need for recording any impairment on our real estate inventory, management reviews the carrying value of the remaining inventory. Management considers sales expectations and the historical pace of sales during the prior year. Management also evaluates the margins of the property sold, current selling prices and any property under contract. Considering these factors we establish three probability scenarios for the amount of inventory we project to sell over the next twelve months and each successive twelve month period until all properties are projected to be sold. We estimate the number of properties that will be sold using 60%, 30% and 10% levels of probability.

Due to the fact that the estimates and assumptions included in our cash flow models are based upon historical results and projected trends, they do not anticipate unexpected changes in market conditions that may lead to us incurring additional impairment charges in the future. Additional factors considered in our analysis are



## **Table of Contents**

unemployment rates, local real estate market trends, such as supply and demand, marketing incentives, and other local factors. Therefore, changes in the local economy highly influence our market conditions. Our most critical assumptions in our cash flow models are our projected absorption pace, which is analyzed based on our historical sales and current sales within surrounding areas, current selling prices and a discount factor for our condominium sales.

We estimate the fair value of our condominium units by using a discounted cash flow model, which incorporates the probability assessments described above. In estimating the cash flows for completed condominium units, we use various estimates such as (a) expected sales pace to absorb the number of units based upon economic conditions that may have either a short-term or long-term impact on the market in which the units are located, competition within our market, historical sales rates of the units within the project; and (b) expected net sales prices in the near-term based upon current pricing estimates, as well as estimated changes in future sales prices based upon historical sales prices of the units within the project, or historical sales prices of similar product offerings in our market. Our determination of fair value requires discounting the estimated cash flows at a rate commensurate with the inherent risks associated with selling the assets and related estimated cash flows. In determining the fair value of the remaining condominium units in our Pineapple House project we used a discount rate of 18%.

In addition, we have applied sensitivity factors to our impairment analysis. If our assumptions or estimates in our fair value calculations change, we could incur impairment charges in future periods, which would decrease operating income and result in lower asset values on our balance sheet. For example, as of September 30, 2010 and December 31, 2009, we performed sensitivity analyses for the three key assumptions in our Pineapple House condominium inventory impairment test: current selling prices, discount factor and projected absorption pace. Based on these analyses, we determined that a ten percent decrease in the estimated selling prices of the condominium units in inventory, an increase of ten percent in the estimated discount factor used in our calculation or a decrease of two units in the estimated number of condominium units to be sold over the next twelve months, each calculated separately, had no impact on the carrying value of our condominium inventory either as of September 30, 2010 or as of December 31, 2009, because even using these adverse assumptions, we still estimate the fair value of our condominium inventory to be at or above its carrying value, based on our discounted cash flow model.

We estimate the fair value of our residential property using a model which also incorporates the probability assessments described above. The fair value calculation considers estimates of our expected sales pace and our expected net sales price. For purposes of a sensitivity analysis, we determined that a ten percent decrease in the estimated selling prices of the residential properties in inventory, which are currently not under contract or sold, had no impact on the carrying value of our residential property inventory as of September 30, 2010. Properties under contract to be sold will typically sell within a 30-day period. Consequently, a change in selling price is deemed unlikely and not considered a factor in the sensitivity analysis for residential properties in inventory as of September 30, 2010. In addition, the discount rate is not applied and a decrease in the estimated number of properties to be sold is not considered in the sensitivity analysis due to the short term nature of these investments. We had no residential properties in real estate inventory as of December 31, 2009.

Our current real estate inventory consists of one condominium project with four remaining condominium units and three residential properties as of September 30, 2010. During the nine months ended September 30, 2010, four condominium units, or 50% of the remaining units at the end of the prior year, were sold in excess of their carrying values. The residential property sold in 2010 also sold in excess of its carrying value. In addition, the condominium units sold are similar to the condominium units remaining to be sold. We are selling at substantially our current asking price, which is in excess of our carrying costs. Based on the above, management determined that no additional impairment write-down to our current real estate inventory was necessary.

### ***Other Assets Valuation***

As described above, the Company carefully monitors the value of the real estate inventory, and the Company also regularly performs impairment analysis on the electrical construction segment's property and equipment balances. In conducting our impairment testing, we have considered whether the decrease in the Company's market capitalization below our book value should be a specific triggering event necessitating impairment testing. We note that the Company's market capitalization is significantly lower than our book value. While its market capitalization is an indicator of market sentiment on a particular day, the day-to-day share price of the Company's stock at particular points in time may not, and frequently does not, fairly reflect the value of the Company's significant assets, primarily the real estate inventory of our real estate segment and the investment in the equipment of our electrical construction segment. We further note that in almost all of the past fifteen years our market capitalization has been significantly below our book value.

## **Table of Contents**

Under these circumstances, we do not consider such market capitalization to be a specific triggering event necessitating impairment testing, particularly in light of the fact that the Company does not have any goodwill or similar intangible assets recorded on its balance sheet. Regardless, the Company reviews the book value of its assets on a regular basis to determine possible impairments in accordance with ASC Topic 360, as it believes it will continue as a viable business in the future. Specifically, in its evaluation for potential impairment, the Company determines the value of its real estate inventory, as well as its investments in electrical construction property and equipment using a fair value methodology, and in accordance with ASC Topic 820.

### ***Deferred Tax Assets***

We account for income taxes in accordance with ASC Topic 740, *Income Taxes*, which establishes the recognition requirements necessary for implementation. Deferred tax assets and liabilities are recognized for the future tax effects attributable to temporary differences and carryforwards between the financial statement carrying amounts of existing assets and liabilities and the respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

As of September 30, 2010, our deferred tax assets were largely comprised of net operating loss ( NOL ) carryforwards, alternative minimum tax ( AMT ) credit carryforwards and inventory basis differences on unsold condominium units. The carrying amounts of deferred tax assets are reduced by a valuation allowance, if based on the available evidence, it is more likely than not such assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the deferred tax assets are expected to be recovered or settled. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with loss carryforwards expiring unused and tax planning alternatives. If we determine we will not be able to realize all or part of our deferred tax assets, a valuation allowance would be recorded to reduce our deferred tax assets to the amount that is more likely than not to be realized.

Based upon an evaluation of all available evidence, we established a full valuation allowance against our net deferred tax assets in 2008. Our cumulative loss position over the evaluation period and the current market conditions were significant negative evidence in assessing the need for a valuation allowance. Consequently, our future provision for income taxes will include no tax benefit with respect to losses incurred and limited tax expense with respect to income generated until the respective valuation allowance is eliminated. This will cause variability in our effective tax rate. In the event we were to subsequently determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the previously recorded valuation allowance would increase income in the period such determination is made.

### ***Provision for Remediation***

In September 2003, we were notified by the United States Environmental Protection Agency (the EPA ) that we were a potentially responsible party ( PRP ) with respect to possible investigation and removal activities at a mine that we formerly owned and in September 2009 we entered into a Settlement Agreement with the EPA with respect thereto, pursuant to which we made a cash payment to the EPA of \$73,000. Refer to note 4 of the notes to the consolidated financial statements for a discussion of this matter.

As of September 30, 2010, the cumulative net expense associated with this matter was \$173,000 (within discontinued operations), which represents our current estimate of our share of the costs associated with both an emergency removal action previously undertaken by the EPA and actual remediation costs, as fixed under the Settlement Agreement with EPA, the professional fees associated with the EE/CA Report and our current estimate of the anticipated professional fees associated through the completed remediation, all reduced by both actual and estimated insurance recoveries.

In July 2010, we received a request for information from the EPA relating to a mine tailings site in Newton County, Missouri. We have evaluated the request and concluded at this early stage of the investigation that a range of loss or the possibility of a liability is impossible to determine at this time and accordingly have not made any provision for remediation in respect of this matter. During the three and the nine months ended September 30, 2010, we have recorded a net loss from discontinued operations of \$13,000, due to professional and legal service expenses mainly attributable to the request for information. Refer to note 4 of the notes to the consolidated financial statements for a discussion of this matter.



**Table of Contents****Results of Operations**

*Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009*

**Segment Information**

The table below is a reconciliation of our operating income attributable to each of our segments for the nine months ended September 30 as indicated:

|                                     | September 30,<br>2010 | 2009          |
|-------------------------------------|-----------------------|---------------|
| Electrical construction             |                       |               |
| Revenue                             | \$ 23,191,762         | \$ 21,559,876 |
| Operating expenses                  |                       |               |
| Cost of goods sold                  | 19,705,712            | 18,626,849    |
| Selling, general and administrative | 193,957               | 226,667       |
| Depreciation                        | 2,022,924             | 2,038,199     |
| Gain on sale of assets              | (10,580)              | (52,777)      |
| Total operating expenses            | 21,912,013            | 20,838,938    |
| Operating income                    | \$ 1,279,749          | \$ 720,938    |
| Real estate development             |                       |               |
| Revenue                             | \$ 1,428,826          | \$ 1,144,800  |
| Operating expenses                  |                       |               |
| Cost of goods sold                  | 844,756               | 829,803       |
| Selling, general and administrative | 336,319               | 288,917       |
| Depreciation                        | 2,838                 | 12,627        |
| Loss on sale of assets              | 255                   |               |
| Total operating expenses            | 1,184,168             | 1,131,347     |
| Operating income                    | \$ 244,658            | \$ 13,453     |

**Continuing Operations****Revenue**

Total revenue in the nine months ended September 30, 2010, increased by 8.4% to \$24.6 million, compared to \$22.7 million in the nine months ended September 30, 2009, mainly due to an increase in electrical construction revenue.

Electrical construction revenue increased to \$23.2 million for the nine months ended September 30, 2010, compared to \$21.6 million for the nine months ended September 30, 2009, an increase of \$1.6 million, or 7.6%. The increase in electrical construction revenue during the nine months ended September 30, 2010, is mainly due to increases in transmission and fiber optic revenue, when compared to the same period during the prior year. These increases in revenue were partially offset by decreases in storm work during the nine month period ended September 30, 2010, when compared to the same period in 2009.

The varying magnitude and duration of electrical construction projects may result in substantial fluctuations in our backlog from time to time. Backlog represents the uncompleted portion of services to be performed under project-specific contracts and the estimated value of future

## Edgar Filing: GOLDFIELD CORP - Form 10-Q

services that we expect to provide under our existing service agreements, including new contractual agreements on which work has not begun. In many instances, our customers are not contractually committed to specific volumes of services and many of our contracts may be terminated with notice, therefore we do not consider any portion of our backlog to be firm. However, our customers become obligated once we provide the services they have requested. Our service agreements are typically multi-year agreements, and we include in our backlog the amount of services projected to be performed over the terms of the contracts based on our historical relationships with these customers. Our estimates of a customer's requirements during a particular future period may not be accurate at any point in time. As of September 30, 2010, the electrical

**Table of Contents**

construction operation's backlog was approximately \$7.3 million, which included approximately \$4.3 million from fixed price contracts for which revenue is recognized using percentage-of-completion and approximately \$2.9 million from service agreement contracts for which revenue is recognized as work is performed. Of our total backlog, we expect approximately 79% to be completed within the current fiscal year. This compares to a backlog of \$11.5 million at September 30, 2009, of which approximately \$4.8 million represented backlog from fixed price contracts and approximately \$6.7 million represented service agreement backlog.

Real estate development revenue increased to \$1.4 million for the nine months ended September 30, 2010, from \$1.1 million for the like period in 2009, an increase of \$284,000 or 24.8%. This increase in real estate development revenue was mainly due to the type and sales price of the properties sold. During the nine months ended September 30, 2010, we recognized revenue on the sale of four units in the Pineapple House project and one residential property. In the nine months ended September 30, 2009, five Pineapple House condominium units were sold.

As of September 30, 2010, there was no backlog for the real estate development operation's segment.

**Operating Results**

Total operating loss was \$326,000 for the nine months ended September 30, 2010, compared to an operating loss of \$1.2 million for the like period in 2009, an improvement of \$913,000. Electrical construction operations had operating income of \$1.3 million during the nine months ended September 30, 2010, compared to operating income of \$721,000 during the nine months ended September 30, 2009, an increase of \$559,000. Operating margins on electrical construction operations increased to 5.5% for the nine months ended September 30, 2010, from 3.3% for the nine months ended September 30, 2009. The increase in operating margins is mainly the result of improved productivity on several transmission jobs in the current period compared to the prior year period, as well as the aforementioned increase in revenue from transmission and fiber optic projects, which cover a higher percentage of fixed overhead costs.

Real estate development operations had operating income of \$245,000 in the nine months ended September 30, 2010, compared to operating income of \$13,000 in the nine months ended September 30, 2009, an increase of \$231,000. Operating margins on real estate development operations increased to 17.1% for the nine months ended September 30, 2010, from 1.2% for the nine months ended September 30, 2009. The increase in operating margins for the nine month period ended September 30, 2010, was primarily due to the type and sales price of the properties sold during the nine month period ended September 30, 2010, compared to the same period in the prior year.

**Cost and Expense**

Total cost and expense, and the components thereof, increased 4.2% to \$25.0 million in the nine months ended September 30, 2010, from \$23.9 million in the nine months ended September 30, 2009.

Electrical construction cost of goods sold increased to \$19.7 million in the nine months ended September 30, 2010, from \$18.6 million in the nine months ended September 30, 2009, an increase of \$1.1 million. The increase in costs reflects the increase in revenue, during the nine months ended September 30, 2010, when compared to the same period in the prior year.

Real estate development cost of goods sold increased to \$845,000 in the nine months ended September 30, 2010, from \$830,000 in the nine months ended September 30, 2009. The increase in cost of goods sold is primarily attributable to the aforementioned variance in the type of the properties sold during the nine months ended September 30, 2010, when compared to the same period in the prior year.

The following table sets forth selling, general and administrative ( SG&A ) expense for each of our segments for the nine months ended September 30 as indicated:

|                         | 2010         | 2009         |
|-------------------------|--------------|--------------|
| Electrical construction | \$ 193,957   | \$ 226,667   |
| Real estate development | 336,319      | 288,917      |
| Corporate               | 1,789,727    | 1,881,177    |
| Total                   | \$ 2,320,003 | \$ 2,396,761 |

## Edgar Filing: GOLDFIELD CORP - Form 10-Q

SG&A expense remained relatively unchanged at \$2.3 million in the nine months ended September 30, 2010, compared to \$2.4 million in the nine months ended September 30, 2009. As a percentage of revenue, SG&A expense decreased to 9.4% for the nine months ended September 30, 2010, compared to 10.6% during the same period in 2009, mainly due to the increase in revenue in the current period.

**Table of Contents**

The following table sets forth the depreciation expense for each of our segments for the nine months ended September 30 as indicated:

|                         | 2010         | 2009         |
|-------------------------|--------------|--------------|
| Electrical construction | \$ 2,022,924 | \$ 2,038,199 |
| Real estate development | 2,838        | 12,627       |
| Corporate               | 60,904       | 92,245       |
| Total                   | \$ 2,086,666 | \$ 2,143,071 |

Depreciation expense remained relatively unchanged at \$2.1 million during the nine months ended September 30, 2010 and 2009.

***Income Taxes***

The following table presents our provision for income tax and effective income tax rate from continuing operations for the nine months ended September 30 as indicated:

|                           | 2010      | 2009        |
|---------------------------|-----------|-------------|
| Income tax provision      | \$ 28,304 | \$ (22,039) |
| Effective income tax rate | 7.3%      | (1.7)%      |

Our effective tax rate for the nine months ended September 30, 2010 was 7.3%. Our income tax provision includes only state income tax expense attributable to a subsidiary and does not reflect the federal statutory rate of 34% since tax benefits are not recognized on anticipated losses. Due to the impact of our deferred tax valuation allowance and the volatility in estimated future taxable income, our effective tax rate is based on a year-to-date income tax calculation. Our effective tax rate for the nine months ended September 30, 2009 was (1.7)%. Our income tax provision includes a refundable federal credit and does not reflect the federal statutory rate since tax benefits are not recognized on anticipated losses.

***Discontinued Operations***

In July 2010, we received a request for information from the EPA relating to a mine tailings site in Newton County, Missouri. We have evaluated the request and concluded at this early stage of the investigation that a range of loss or the possibility of a liability is impossible to determine at this time and accordingly have not made any provision for remediation in respect of this matter. During the nine months ended September 30, 2010, we have recorded a net loss from discontinued operations of \$13,000, due to professional and legal service expenses mainly attributable to the aforementioned request for information. Refer to note 4 of the notes to the consolidated financial statements for a discussion of this matter.

**Table of Contents**

*Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009*

**Segment Information**

The table below is a reconciliation of our operating income (loss) attributable to each of our segments for the three months ended September 30 as indicated:

|                                     | 2010         | 2009         |
|-------------------------------------|--------------|--------------|
| Electrical construction             |              |              |
| Revenue                             | \$ 6,991,028 | \$ 5,425,834 |
| Operating expenses                  |              |              |
| Cost of goods sold                  | 5,975,383    | 5,218,563    |
| Selling, general and administrative | 41,887       | 71,535       |
| Depreciation                        | 636,838      | 561,117      |
| (Gain) loss on sale of assets       | (10,580)     | 688          |
| Total operating expenses            | 6,643,528    | 5,851,903    |
| Operating income (loss)             | \$ 347,500   | \$ (426,069) |
| Real estate development             |              |              |
| Revenue                             | \$ 532,800   | \$ 1,144,800 |
| Operating expenses                  |              |              |
| Cost of goods sold                  | 351,378      | 741,290      |
| Selling, general and administrative | 105,669      | 129,151      |
| Depreciation                        | 514          | 1,138        |
| Loss on sale of assets              | 255          |              |
| Total operating expenses            | 457,816      | 871,579      |
| Operating income                    | \$ 74,984    | \$ 273,221   |

**Continuing Operations****Revenue**

Total revenue in the three months ended September 30, 2010, increased by 14.5% to \$7.5 million, compared to \$6.6 million in the three months ended September 30, 2009, due to an increase in electrical construction revenue.

Electrical construction revenue increased \$1.6 million, or 28.8%, to \$7.0 million for the three months ended September 30, 2010, from \$5.4 million for the three months ended September 30, 2009. The increase in electrical construction revenue is primarily due to an increase in transmission projects during the three months ended September 30, 2010, when compared to the same period in 2009.

Real estate development revenue decreased to \$533,000 for the three months ended September 30, 2010, from \$1.1 million for the same period in 2009. The decrease in real estate development revenue is mainly due to the decrease in the number of properties sold during the three months ended September 30, 2010, when compared to the same period in the prior year. During the three months ended September 30, 2010, we recognized revenue on the sale of one unit in the Pineapple House project and one residential property, compared to the sale of five Pineapple House condominium units during the three months ended September 30, 2009.

**Operating Results**

## Edgar Filing: GOLDFIELD CORP - Form 10-Q

Total operating loss was \$106,000 for the three months ended September 30, 2010, compared to an operating loss of \$806,000 for the like period in 2009, an improvement of \$700,000. Electrical construction operations had operating income of \$348,000 during the three months ended September 30, 2010, compared to an operating loss of \$426,000 during the three months ended September 30, 2009, an increase of \$774,000. The increase in electrical construction operating income is mainly attributable to the increase in electrical construction transmission revenue. Operating margins on electrical construction operations increased to 5.0% for the three months ended September 30, 2010, from (7.9)% for the three months ended September 30, 2009. This increase in operating margins is mainly attributable to several above average profit margin projects, when compared to the same three month period ended in 2009.

**Table of Contents**

Real estate development operations had operating income of \$75,000 in the three months ended September 30, 2010, compared to \$273,000 in the three months ended September 30, 2009, a decrease of \$198,000. Operating margins on real estate development operations decreased to 14.1% for the three months ended September 30, 2010, from 23.9% for the three months ended September 30, 2009. The decrease in operating margins was primarily due to the aforementioned difference in the number of properties sold during the three months ended September 30, 2010, when compared to the same period in 2009.

***Cost and Expense***

Total cost and expense, and the components thereof, increased 3.4% to \$7.6 million in the three months ended September 30, 2010, from \$7.4 million in the three months ended September 30, 2009.

Electrical construction cost of goods sold increased to \$6.0 million in the three months ended September 30, 2010, from \$5.2 million in the three months ended September 30, 2009, an increase of \$757,000, or 14.5%. The increase in costs reflects the increase in our transmission work and corresponds to our increase in revenue in the current period.

Real estate development cost of goods sold decreased to \$351,000 in the three months ended September 30, 2010, from \$741,000 in the three months ended September 30, 2009. The decrease in cost of goods sold is primarily attributable to the decrease in the number and type of properties sold during the three months ended September 30, 2010, when compared to the same period in the prior year.

The following table sets forth selling, general and administrative ( SG&A ) expense for each of our segments for the three months ended September 30 as indicated:

|                         | 2010       | 2009       |
|-------------------------|------------|------------|
| Electrical construction | \$ 41,887  | \$ 71,535  |
| Real estate development | 105,669    | 129,151    |
| Corporate               | 520,648    | 627,153    |
| Total                   | \$ 668,204 | \$ 827,839 |

SG&A expense decreased to \$668,000 in the three months ended September 30, 2010, compared to \$828,000 for the same period in 2009. The decreases in SG&A expenses are mainly due to decreases in professional services within the corporate and electrical construction segments. Also contributing to the decreases are decreases in selling expenses, property taxes and other expenses within the real estate segment attributable to the decrease in revenue for the three months ended September 30, 2010, when compared to the same period in 2009. As a percentage of revenue, SG&A expense decreased to 8.9% for the three months ended September 30, 2010, from 12.6% in the three months ended September 30, 2009, mainly due to the increase in revenue and the decrease in SG&A expenses in the current period.

The following table sets forth the depreciation expense for each of our segments for the three months ended September 30 as indicated:

|                         | 2010       | 2009       |
|-------------------------|------------|------------|
| Electrical construction | \$ 636,838 | \$ 561,117 |
| Real estate development | 514        | 1,138      |
| Corporate               | 7,876      | 25,585     |
| Total                   | \$ 645,228 | \$ 587,840 |

Depreciation expense was \$645,000 in the three months ended September 30, 2010, compared to \$588,000 in the three months ended September 30, 2009, an increase of \$57,000 or 9.8%. The increase in depreciation expense is mainly due to the timing of new assets purchased during 2010 being placed in service, primarily within the electrical construction segment.



**Table of Contents*****Income Taxes***

The following table presents our provision for income tax and effective income tax rate from continuing operations for the three months ended September 30 as indicated:

|                           | 2010     | 2009        |
|---------------------------|----------|-------------|
| Income tax provision      | \$ 3,593 | \$ (22,039) |
| Effective income tax rate | 2.6%     | (2.7)%      |

Our effective tax rate for the three months ended September 30, 2010 was 2.6%. Our income tax provision includes only state income tax expense attributable to a subsidiary and does not reflect the federal statutory rate of 34% since tax benefits are not recognized on anticipated losses. Due to the impact of our deferred tax valuation allowance and the volatility in estimated future taxable income, our effective tax rate is based on a year-to-date income tax calculation. Our effective tax rate for the three months ended September 30, 2009 was (2.7)%. Our income tax provision includes a refundable federal credit and does not reflect the federal statutory rate since tax benefits are not recognized on anticipated losses.

***Discontinued Operations***

In July 2010, we received a request for information from the EPA relating to a mine tailings site in Newton County, Missouri. We have evaluated the request and concluded at this early stage of the investigation that a range of loss or the possibility of a liability is impossible to determine at this time and accordingly have not made any provision for remediation in respect of this matter. During the three months ended September 30, 2010, we have recorded a net loss from discontinued operations of \$13,000, due to professional and legal service expenses mainly attributable to the aforementioned request for information. Refer to note 4 of the notes to the consolidated financial statements for a discussion of this matter.

**Liquidity and Capital Resources****Working Capital Analysis**

Our primary cash needs have been for working capital and capital expenditures. Our primary sources of cash have been cash flow from operations and borrowings under our lines of credit. As of September 30, 2010, we had cash and cash equivalents of \$1.9 million and working capital of \$7.0 million, as compared to cash and cash equivalents of \$3.5 million and working capital of \$7.1 million as of December 31, 2009. In addition, we have \$2.5 million available in a revolving line of credit as of September 30, 2010. This revolving line of credit is used as a Working Capital Loan and is due and payable on December 28, 2010, at which time we expect to renew this loan. We anticipate that this cash on hand, our credit facilities and our future cash flows from operating activities will provide sufficient cash to enable us to meet our future operating needs and debt requirements.

**Cash Flow Analysis**

Net cash flows for each of the nine months ended September 30 were as follows:

|                                                     | 2010           | 2009         |
|-----------------------------------------------------|----------------|--------------|
| Net cash provided by operating activities           | \$ 538,667     | \$ 3,622,525 |
| Net cash used in investing activities               | (2,157,712)    | (2,186,440)  |
| Net cash provided by (used in) financing activities | 18,166         | (2,180,301)  |
| Net decrease in cash and cash equivalents           | \$ (1,600,879) | \$ (744,216) |

***Operating Activities***

## Edgar Filing: GOLDFIELD CORP - Form 10-Q

Cash flows from operating activities are comprised of income from continuing operations adjusted to reflect the timing of cash receipts and disbursements therefrom. Our cash flows are influenced by the level of operations, operating margins and the types of services we provide, as well as the stages of our projects in both the electrical construction and real estate segments.

Net cash provided by operating activities decreased \$3.1 million to \$539,000 in the nine months ended September 30, 2010, compared to \$3.6 million in the nine months ended September 30, 2009. The decrease in cash flows from operating activities is primarily due to the changes in accounts receivable and accrued billings in the

## **Table of Contents**

current period. The changes in accounts receivable and accrued billings decreased \$5.0 million from \$3.3 million, when comparing the nine months ended September 30, 2010, to the same period in the prior year. The decrease in cash flows associated with changes in accounts receivable and accrued billings is mainly due to an increase in accounts receivable and accrued billings in the current period, resulting from one large project for a major customer, which was billed in the last month of the quarter ended September 30, 2010, compared to the same period in 2009.

### ***Days of Sales Outstanding Analysis***

We evaluate fluctuations in our accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts for the electrical construction segment by comparing days of sales outstanding ( DSO ). We calculate DSO as of the end of any period by utilizing the respective quarter's electrical construction revenue to determine sales per day. We then divide accounts receivable and accrued billings, net of allowance for doubtful accounts at the end of the period by sales per day to calculate DSO for accounts receivable. To calculate DSO for costs and estimated earnings in excess of billings, we divide costs and estimated earnings in excess of billings on uncompleted contracts by sales per day.

For the quarters ended September 30, 2010 and 2009, our DSO for accounts receivable was 71 and 57, respectively, and our DSO for costs and estimated earnings in excess of billings on uncompleted contracts was 18 and 21, respectively. The increase in DSO for accounts receivable when comparing the quarter ended September 30, 2010 to the same period in 2009, is mainly due to one large project for a major customer, which was billed in the last month of the quarter ended September 30, 2010, compared to the same period in 2009. As of November 4, 2010, we have received approximately 77.9% of our September 30, 2010 outstanding trade accounts receivable and have billed 79.4% of our costs and estimated earnings in excess of billings balance.

### ***Investing Activities***

Net cash used in investing activities remained relatively unchanged at \$2.2 million during the nine months ended September 30, 2010 and 2009. Our investing activities for the current period consist primarily of capital expenditures of \$2.2 million. Our investing activities for the prior year period also consisted primarily of capital expenditures of \$1.9 million and the repayment of outstanding loans related to the cash surrender value of life insurance of approximately \$350,000. The capital expenditures in both periods are mainly attributable to our electrical construction segment for the upgrading and replacement of equipment. Our capital budget for 2010 is expected to total approximately \$2.5 million.

### ***Financing Activities***

Net cash provided by financing activities during the nine months ended September 30, 2010, was \$18,000, compared to cash used in financing activities of \$2.2 million during the same period in 2009. Our financing activities for the current period consist mainly of proceeds of \$1.1 million from our Equipment Loan and \$500,000 from our Working Capital Loan. These borrowings were partially offset mainly by repayments on notes payable of \$1.2 million for the Pineapple House Mortgage and \$330,000 for the Equipment Loan. Our financing activities for the same period in the prior year consisted of repayments on notes payable of \$1.1 million for the Pineapple House Mortgage and \$821,000 for the electrical construction segment loan, as well as repayments on capital leases of \$579,000. These repayments are partially offset by proceeds from notes payable of \$360,000 from our working capital loan.

We have paid no cash dividends on our Common Stock since 1933, and it is not expected that we will pay any cash dividends on our Common Stock in the immediate future.

### ***Debt Covenants***

Our debt arrangements contain various financial and other covenants including, but not limited to, minimum tangible net worth, outside debt limitation, and maximum debt to tangible net worth ratio. Other loan covenants prohibit, among other things, incurring additional indebtedness, issuing loans to other entities in excess of a certain amount, entering into a merger or consolidation, and any change in the Company's current Chief Executive Officer without prior written consent from the lender. The loans also have cross-default provisions whereby any default under any loans of the Company (or its subsidiaries) with the lender will constitute a default under all of the other loans of the Company (and its subsidiaries) with the lender. The most significant of these covenants are minimum tangible net worth, outside debt limitation, and maximum debt to tangible net worth ratio. The Company must maintain a tangible net worth of at least \$13.5 million, no more than \$500,000 in outside debt and a maximum debt to worth ratio of no greater than 1.5 to 1.0. The Company was in compliance with all of its covenants as of September 30, 2010.



**Table of Contents**

The following are computations of these most restrictive financial covenants:

|                                                    | Covenant      | Actual as of<br>September 30, 2010 |
|----------------------------------------------------|---------------|------------------------------------|
| Tangible net worth minimum                         | \$ 13,500,000 | \$ 14,279,614                      |
| Outside debt must not exceed \$500,000             | 500,000       |                                    |
| Maximum debt/worth ratio must not exceed 1.5 : 1.0 | 1.5 : 1.0     | .48 : 1.0                          |

**Forecast**

We anticipate our cash on hand, cash flows from operations and credit facilities will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and planned capital expenditures for at least the next twelve months. The amount of our planned capital expenditures will depend, to some extent, on the results of our future performance. However, our revenue, results of operations and cash flows as well as our ability to seek additional financing may be negatively impacted by factors including, but not limited to, a decline in demand for electrical construction services and/or real estate in the markets served and general economic conditions, heightened competition, availability of construction materials, increased interest rates and adverse weather conditions.

**Item 4T. Controls and Procedures.*****Evaluation of Disclosure Controls and Procedures***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management timely. An evaluation was performed under the supervision and with the participation of our management, including John H. Sottile, our Chief Executive Officer and Stephen R. Wherry, our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2010. Based upon that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2010.

***Changes in Internal Controls over Financial Reporting***

No changes in our internal controls over financial reporting occurred during the third quarter of 2010 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Based on current regulations, Section 404(a) of the Sarbanes-Oxley Act required our management to provide an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2009. We have performed the necessary system and process documentation in preparation for the evaluation and testing required for management to make this assessment and for our independent registered public accounting firm to provide their attestation report. On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act. Included in the Act is a provision that permanently exempts smaller public companies that qualify as either a Non-Accelerated Filer or Smaller Reporting Company from the auditor attestation requirement of Section 404(b) of the Sarbanes-Oxley Act of 2002. For our fiscal year ending December 31, 2010, we currently expect to be exempt from such requirement.

***Limitations of the Effectiveness of Controls***

A control system, no matter how well conceived and operated, can provide only reasonable assurance, not absolute assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that the design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective

## Edgar Filing: GOLDFIELD CORP - Form 10-Q

control system, misstatements due to error or fraud may occur and not be detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our CEO and CFO have concluded, based on their evaluation, that our disclosure controls and procedures were effective as of September 30, 2010 to provide reasonable assurance that the objectives of the disclosure control system were met.

---

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

**Environmental**

The following supplements the discussion set forth under Part I, Item 3, Legal Proceedings in our Annual Report on Form 10-K for the year ended December 31, 2009.

On July 12, 2010 the Company received a request from the EPA for information pursuant to Section 104(e) of CERCLA for Newton County Mine Tailings Superfund Site, Newton County, Missouri (the Wentworth Site) relating to mining activities involving the site.

Preliminary information indicates that the Company was party to an Option Agreement dated August 1, 1948, that may relate to a portion of the Wentworth Site. Due to a near 50% drop in lead/zinc prices during this period of time, the property closed down in early 1949. On May 31, 1949, the Company decided not to exercise its option under the Option Agreement. The nature and scope of the Company's operations relating to the mine property under option, if any, and the relationship, if any, between such operations and the Wentworth Site as defined by the EPA, are still under investigation.

The Company's management has evaluated the aforementioned request for information in accordance with ASC 410-30 and ASC 450-20-25 and has concluded that at this early stage of the investigation, a range of loss or even the possibility of a liability is impossible to determine at this time. Accordingly, a loss contingency was not recorded as of September 30, 2010. During the nine months ended September 30, 2010, we have recorded a net loss from discontinued operations of \$13,000, due to professional and legal service expenses mainly attributable to the aforementioned request for information.

For additional information in response to this Item, see note 4 to the consolidated financial statements in this Form 10-Q.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

Since September 17, 2002, we have had a stock repurchase plan which, as last amended by the Board of Directors on September 21, 2010, permits the purchase of up to 3,500,000 shares until September 30, 2011. We did not purchase any of our Common Stock during the nine months ended September 30, 2010. As of September 30, 2010, we have a maximum of 1,154,940 shares that may be purchased under our publicly announced stock repurchase plan. Since the inception of the repurchase plan, we have repurchased 2,345,060 shares of our Common Stock at a cost of \$1,289,467 (average cost of \$0.55 per share). We may repurchase our shares either in the open market or through private transactions. The volume of the shares to be repurchased is contingent upon market conditions and other factors.

**Item 4. (Removed and Reserved)**

**Item 6. Exhibits**

\*31-1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 15 U.S.C. Section 7241

\*31-2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 15 U.S.C. Section 7241

\*32-1 \*\*Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

\*32-2 \*\*Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

## Edgar Filing: GOLDFIELD CORP - Form 10-Q

- \* Filed herewith.
- \*\* These exhibits are intended to be furnished in accordance with Regulation S-K Item 601(b)(32)(ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference.

**Table of Contents**

**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.

Dated: November 12, 2010

**THE GOLDFIELD CORPORATION**

By:       /s/   John H. Sottile  
John H. Sottile  
Chairman of the Board, President and Chief  
Executive Officer (Principal Executive Officer)

          /s/   Stephen R. Wherry  
Stephen R. Wherry  
Senior Vice President, Chief Financial  
Officer, Treasurer and Assistant Secretary  
(Principal Financial and Accounting Officer)