STERLING CONSTRUCTION CO INC
Form S-3/A
December 10, 2007

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As filed with the Securities and Exchange Commission on December 10, 2007

Registration No. 333-147593

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

Amendment No. 1
to
FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Sterling Construction Company, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**1600**	**25-1655321**
(State or other jurisdiction of incorporation or organization)	(Primary standard industrial classification code number)	(I.R.S. employer identification number)

20810 Fernbush Lane
Houston, Texas 77073
(281) 821-9091
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Patrick T. Manning
Chief Executive Officer
20810 Fernbush Lane
Houston, Texas 77073
(281) 821-9091
(Name, address, including zip code, and telephone number, including area code, of agent for service)

With a copy to:

Geoffrey K. Walker
Scott L. Olson
Andrews Kurth LLP
600 Travis, Suite 4200
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Stoel Rives LLP
600 University St., Suite 3600
Seattle, Washington 98101
Telephone: (206) 624-0900
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 7, 2007

PRELIMINARY PROSPECTUS

1,600,000 Shares

Sterling Construction Company, Inc.

Common Stock

We are offering to sell 1,600,000 shares of our common stock. Our common stock is listed on The NASDAQ Global Select Market, or Nasdaq, under the symbol STRL. The last reported sale price on Nasdaq on December 7, 2007 was $23.49.

We have granted the underwriter the right to purchase up to 240,000 additional shares of common stock to cover any over-allotments. The underwriter can exercise this right at any time within 30 days after the offering.

Investing in our common stock involves risks, including those incorporated by reference herein as described under Risk Factors on page 8 of this prospectus.

	Per Share	Total
Offering price	$	$
Discounts and commissions to underwriter	$	$
Offering proceeds to us, before expenses	$	$

The underwriter expects to deliver the shares of common stock to investors on or about , 2007.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or has determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

D.A. Davidson & Co.

The date of this prospectus is , 2007

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You should rely only on the information contained or incorporated by reference in this prospectus or in any related free writing prospectus filed with the Securities and Exchange Commission and used or referred to in an offering to you of these securities. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

MARKET DATA AND FORECASTS

Unless otherwise indicated, information in this prospectus concerning economic conditions and our industry is based on information from independent industry analysts and publications, as well as our estimates. Our estimates are derived from publicly available information released by third-party sources, as well as data from our internal research, and are based on such data and our knowledge of our industry. None of the independent industry publications used in this prospectus were prepared on our or our affiliates behalf and none of the sources cited in this prospectus have consented to the inclusion of any data from its reports, nor have we sought their consent. These industry publications generally indicate that they have obtained their information from sources believed to be reliable, but the sources do not guarantee the accuracy and completeness of their information.

SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the risks discussed under Risk Factors and the consolidated financial statements and notes thereto included elsewhere in this prospectus. In this prospectus, all references to Sterling, Sterling Construction, we, us and our refer to Sterling Construction Company, Inc. and its subsidiaries, unless otherwise stated or indicated by context.

Our Company

We are a leading heavy civil construction company that specializes in the building, reconstruction and repair of transportation and water infrastructure. Our transportation infrastructure projects include highways, roads, bridges and light rail, and our water infrastructure projects include water, wastewater and storm drainage systems. We provide general contracting services primarily to public sector clients utilizing our own employees and equipment for activities, including excavating, concrete and asphalt paving, installation of large-diameter water and wastewater distribution systems, construction of bridges and similar large structures, construction of light rail infrastructure, concrete batch plant operations, concrete crushing and aggregates and asphalt paving operations. We perform the majority of the work required by our contracts with our own crews, and generally engage subcontractors only for ancillary services.

Our business was founded in 1955 and has a history of profitable growth, which we have achieved by expanding both our service profile and our market areas. This involves adding services, such as our concrete operations, in order to capture a greater percentage of available work in our current and potential markets. It also involves strategically expanding our operations, either by establishing a branch office in a new market, often after having successfully bid on and completed a project in that market, or by acquiring a company that gives us an immediate entry into a market. We extended both our service profile and our geographic market reach with our recent acquisition of Road and Highway Builders, LLC, which we refer to as RHB, discussed below.

We operate in Texas and Nevada, two states that we believe benefit from both positive long-term demographic trends as well as an historical commitment to funding transportation and water infrastructure projects. From 2000 to 2006, the population grew 12.7% in Texas and 24.9% in Nevada. Budgeted net expenditures for transportation in 2007 totaled more than $7.6 billion in Texas, an increase of 4% from 2006. In the recent November election, Texas voters approved a $5 billion issuance of bonds for highway improvements. In Nevada, total highway fund revenue in 2006 reached $1.0 billion, an annual increase of 10.5% from 2001 levels, up 5% from 2005, and several large jobs are scheduled to be let over the next year. We anticipate that continued population growth and increased spending for infrastructure in these markets will positively affect our business opportunities over the coming years.

For the nine months ended September 30, 2007, we had revenues of $217.9 million, 17.7% higher than the same period in 2006. Over the same period, we had net income from continuing operations of $9.8 million, modestly higher than results for the same period in 2006. As of September 30, 2007, after giving effect to the RHB acquisition, we had a backlog of approximately $494 million.

Road and Highway Builders Acquisition

On October 31, 2007, we completed the acquisition of privately-owned RHB, which is headquartered in Reno, Nevada. RHB is a heavy civil construction business focused on the construction of roads and highways throughout the state of Nevada. We paid $53 million to acquire approximately 91.67% of the equity interest in RHB. The remaining 8.33% interest is owned by Mr. Richard Buenting, the chief executive officer of RHB, who continues to run RHB as part of our senior management team.

RHB s largest customer is the Nevada Department of Transportation, which is responsible for planning, construction, operation and maintenance of the 5,400 miles of highway and over 1,000 bridges that make up the state highway system. RHB is focused on providing timely and profitable execution of construction projects along with high-value deployment of construction materials such as aggregates and mixes for asphalt

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paving. RHB has concentrated its business in suburban and rural highway and road system projects requiring high-volume production and materials handling, and has not historically pursued municipal work such as water or storm water systems or high density urban projects. Since its founding in 1999, RHB has experienced profitable growth, capitalizing on strong market conditions and solid long-term demographics in Nevada.

For the nine months ended September 30, 2007, RHB generated revenue, net income and earnings before income, taxes, depreciation and amortization, or EBITDA, of $64.9 million, $20.9 million and $21.5 million, respectively. This high level of profitability in 2007 resulted from the exceptional profitability of specific RHB projects, and we do not expect this high level of profitability to be normal for RHB going forward. We purchased RHB based on an assumed sustainable trailing twelve month EBITDA of approximately $12 million and with the expectation of further future growth. EBITDA is not a financial measure calculated in accordance with generally accepted accounting principles, or GAAP. See Business Recent RHB Acquisition for a reconciliation of RHB s net income, the most directly comparable GAAP financial measure, to RHB s EBITDA for the nine months ended September 30, 2007. As of September 30, 2007, RHB had a backlog of approximately $127 million based on our methodology of calculating backlog. See Selected Historical Financial and Operating Data for information regarding our calculation of backlog.

We acquired RHB for a number of reasons, including those listed below:

- expansion into growing western U.S. infrastructure construction markets;
- strong management team with a shared corporate culture;
- expansion of our service lines into aggregates and asphalt paving materials;
- opportunities to extend our municipal and structural capabilities into Nevada; and
- RHB s strong financial results and immediate accretion to our earnings and earnings per share.

Our Competitive Strengths

We believe our competitive strengths include:

Comprehensive Infrastructure Construction Capabilities. We provide comprehensive construction services to our customers, which allows us to capture additional profit margin and to more aggressively bid on contracts as compared to some competitors more reliant upon subcontractors.

Long and Successful Track Record of Infrastructure Construction. We have over 50 years of experience in the construction industry and have developed the processes and controls that allow us to provide high-quality contracting services.

Leadership Position in Our Markets. We are an established leader in our markets based on our longevity, our management expertise and our reputation, as well as our in-depth knowledge of construction conditions in our market areas.

Consistent History of Managing Construction Projects and Contract Risk. Our significant experience and longevity in our markets provides us with an understanding of the many risks of infrastructure construction, which we monitor and manage from bidding through completion of a contract.

Track Record of Sourcing and Completing Acquisitions. We have successfully completed several acquisition transactions over the past five years, which have materially augmented our organic growth.

Experienced Management Team and Skilled Workforce. With over 30 years of industry experience at the CEO and President level, five senior managers averaging over 25 years of industry experience, and 15 project managers averaging over 15 years of industry experience, we believe that our management team and employees are key factors to our success.

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Our Business Strategy

Key features of our business strategy include:

Continue to Add Construction Capabilities. By adding capabilities that augment our core construction competencies, we are able to improve gross margin opportunities, more effectively compete for contracts and compete for contracts that might not otherwise be available to us.

Increase Our Market Leadership in Our Core Markets. We have a strong presence in a number of attractive growing markets in Texas and Nevada, in which we intend to continue to expand our presence.

Apply Core Competencies Across Our Markets. We intend to capitalize on opportunities to export our Texas experience constructing bridges and water and sewer systems into RHB s Nevada markets. Similarly, we believe RHB s experience in aggregates and asphalt paving materials will open new opportunities for us in our Texas markets.

Expand into Attractive New Markets and Selectively Pursue Strategic Acquisitions. We will continue to seek to identify attractive new markets and opportunities in select western and southeastern U.S. markets. We will also continue to assess opportunities to extend our service capabilities and expand our markets through acquisitions.

Position Our Business for Future Infrastructure Spending. We believe there is a growing awareness of the need to build, reconstruct and repair our country s infrastructure, including water, wastewater and storm drainage systems, and our transportation infrastructure such as bridges, highways and mass transit systems. We will continue to build our expertise to capture this infrastructure spending.

Continue to Develop Our Employees. We believe that our employees are a key to the successful implementation of our business strategy, and we will continue allocating significant resources in order to attract and retain talented managers and supervisory and field personnel.

Risks Related to Our Business and Strategy

You should carefully read and consider the information set forth below under Risk Factors, together with all of the other information set forth in this prospectus, before deciding to invest in shares of our common stock.

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The Offering

Nasdaq symbol	STRL
Common stock offered by us	1,600,000 shares
Common stock to be outstanding after the offering	12,762,942 shares
Use of proceeds	We will use the net proceeds of approximately $34.9 million from the offering, after deducting underwriting discounts and fees of approximately $1.9 million in the aggregate and estimated offering expenses of approximately $775,000: to repay indebtedness outstanding under our new $75 million revolving credit facility, which we refer to as our credit facility; and to strengthen our balance sheet, including our working capital, in order to fund our business operations and provide liquidity for future growth.

Each $1.00 change in the actual per share offering price from the price assumed in this prospectus would change by approximately $1.5 million the amount of our net proceeds available to strengthen our balance sheet after funding the repayment of indebtedness referenced above. A 10% decrease in the number of shares of common stock sold in this offering would decrease the net proceeds to us from this offering by approximately $3.6 million, after deducting estimated underwriting discounts and commissions and offering expenses.

The number of shares of common stock outstanding before and after this offering is based on the number of shares outstanding as of December 5, 2007 and excludes:

- 552,516 shares of common stock reserved for issuance upon the exercise of outstanding stock options at a weighted average exercise price per share of $7.802; and

- 356,266 shares of common stock reserved for issuance upon the exercise of outstanding warrants at an exercise price per share of $1.50.

Unless we indicate otherwise, the number of shares of common stock shown to be outstanding after the offering, as well as share, per share, holders of record, and financial information in this prospectus:

- assumes a public offering price of $23.49 per share, which is the last reported sales price per share of our common stock on the Nasdaq on December 6, 2007;

- assumes no exercise by the underwriter of its option to purchase up to 240,000 additional shares of our common stock to cover over-allotments; and

- does not give effect to the use of proceeds of this offering.

Our Executive Offices

Our principal executive offices are located at 20810 Fernbush Lane, Houston, Texas 77073, and our telephone number at this address is (281) 821 9091. Our website is www.sterlingconstructionco.com. Information on, or accessible through, this website is not a part of, and is not incorporated into, this prospectus.

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Summary Historical and Pro Forma Financial and Operating Data

The following table sets forth our summary historical and pro forma financial and operating data for the periods indicated. The summary historical condensed consolidated statement of operations and cash flow data for the years ended December 31, 2004, 2005 and 2006, and the summary historical condensed consolidated balance sheet data as of December 31, 2005 and 2006, have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The summary historical condensed consolidated balance sheet data as of December 31, 2004, have been derived from our audited consolidated balance sheet as of December 31, 2004, which is not included in this prospectus. The summary historical condensed consolidated financial data as of and for the nine months ended September 30, 2006 and 2007, are derived from our unaudited condensed consolidated financial statements, which are included elsewhere in this prospectus.

The unaudited condensed consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and include all adjustments, consisting of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the unaudited periods. The summary financial and operating data as of and for the nine months ended September 30, 2007, are not necessarily indicative of the results that may be obtained for a full year.

The summary pro forma condensed combined statement of operations data for the year ended December 31, 2006 and nine months ended September 30, 2007, gives effect on a pro forma basis to the RHB acquisition as if it had been consummated on January 1, 2006. The summary pro forma condensed combined balance sheet information gives effect on a pro forma basis to the consummation of the RHB acquisition, as if it had been consummated on September 30, 2007.

The information presented below should be read in conjunction with Selected Historical Financial and Operating Data, Unaudited Pro Forma Condensed Combined Financial Information, Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the notes thereto included elsewhere in this prospectus.

	Historical					Pro Forma(1)	
	Year Ended December 31,			Nine Months Ended September 30,		Year Ended December 31,	Nine Months Ended September 30,
	2004	2005	2006	2006	2007	2006	2007
				(Unaudited)		(Unaudited)	
	(in thousands, except per share data)						
Statement of Operations Data:							
Revenues	$ 132,478	$ 219,439	$ 249,348	$ 185,233	$ 217,877	$ 286,511	$ 282,797
Cost of revenues	119,217	195,683	220,801	163,358	196,284	252,268	240,399
Gross profit	13,261	23,756	28,547	21,875	21,593	34,243	42,398
General and administrative expenses and other	7,696	9,091	10,549	7,928	8,292	10,462	8,691

Operating income	5,565	14,665	17,998	13,947	13,301	23,781	33,707
Interest expense (income), net	1,456	1,336	(1,206)	(803)	(1,366)	1,576	908
Income from continuing operations before minority interest and income taxes	4,109	13,329	19,204	14,750	14,667	22,205	32,799
Minority interest	(962)					(518)	(1,734)
Income from continuing operations before income taxes	3,147	13,329	19,204	14,750	14,667	21,687	31,065
Income tax (benefit) expense	(2,134)	2,788	6,566	5,027	4,890	7,410	10,465
Net income from continuing operations	5,281	10,541	12,638	9,723	9,777	14,277	20,600
Net income (loss) from discontinued operations	372	559	682	444	(25)	682	(25)
Net income	$ 5,653	$ 11,100	$ 13,320	$ 10,167	$ 9,752	$ 14,959	$ 20,575
Basic income per share:							
Continuing operations	$ 0.99	$ 1.36	$ 1.19	$ 0.93	$ 0.89	$ 1.34	$ 1.87
Discontinued operations	0.07	0.07	0.06	0.04	0.00	0.06	0.00
Net income	$ 1.06	$ 1.43	$ 1.25	$ 0.97	$ 0.89	$ 1.40	$ 1.87
Diluted income per share:							
Continuing operations	$ 0.75	$ 1.11	$ 1.08	$ 0.84	$ 0.83	$ 1.21	$ 1.74
Discontinued operations	0.05	0.05	0.06	0.04	0.00	0.06	0.00
Net income	$ 0.80	$ 1.16	$ 1.14	$ 0.88	$ 0.83	$ 1.27	$ 1.74

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	Historical					Pro Forma(1)	
	Year Ended December 31,			Nine Months Ended September 30,		Year Ended December 31,	Nine Months Ended September 30,
	2004	2005	2006	2006	2007	2006	2007
				(Unaudited)		(Unaudited)	
	(in thousands, except per share data)						
Weighted average number of shares outstanding used in computing per share amounts:							
Basic	5,343	7,775	10,583	10,455	10,963	10,623	11,002
Diluted	7,028	9,538	11,714	11,640	11,765	11,754	11,805
Balance sheet data (end of period):							
Cash and cash equivalents	$ 3,449	$ 22,267	$ 28,466	$ 18,996	$ 14,894		$ 23,924
Short-term investments			26,169	22,585	32,630		
Working capital	16,052	18,354	62,874	58,369	59,691		31,354
Total assets	89,544	118,455	167,772	171,293	187,107		222,903
Total debt	25,445	23,142	30,782	28,812	30,689		53,257
Total liabilities	54,336	69,843	76,781	83,950	85,172		125,383
Stockholders equity	35,208	48,612	90,991	87,343	101,935		97,520
Cash flow data from continuing operations:							
Net cash provided by operating activities	$ 4,171	$ 31,266	$ 23,089	$ 9,846	$ 14,648		
Net cash used in investing activities	(5,809)	(10,972)	(52,358)	(46,567)	(28,586)		
Net cash provided by (used in) financing activities	2,436	(1,476)	35,468	33,450	366		
Other operating data:							
EBITDA(unaudited) (2)	$ 9,520	$ 20,288	$ 25,691	$ 19,965	$ 20,040	$ 30,626	$ 39,842
Capital expenditures	3,555	11,392	27,055	24,706	23,033	27,268	27,394
Backlog at end of period (unaudited)(3)	232,000	307,000	395,000	418,000	367,000		494,000

(1) The high level of profitability for the nine months ended September 30, 2007 reflects the exceptional profitability of specific ongoing RHB prospects, and we do not expect the high level of profitability to be normal for RHB going forward.

(2) EBITDA is defined as net income before net interest expense, income tax expense, and depreciation and amortization. EBITDA is a non-GAAP financial measure that we use for our internal budgeting process, which excludes the effects of financing costs, income taxes and non-cash depreciation and amortization. Although EBITDA is a common alternative measure of performance used by investors, financial analysts and rating agencies to assess operating performance for companies in our industry, it is not a substitute for other GAAP financial measures such as net income or operating income as calculated and presented in accordance with GAAP. Furthermore, we believe that the non-GAAP EBITDA financial measure is useful to investors in providing greater transparency to the information used by management in its operational and investment decision making. Our non-GAAP financial measures may be different from such measures used by other companies. We urge you to review the GAAP financial measures included in this prospectus and our consolidated financial statements, including the notes thereto, and the other financial information contained in this prospectus and incorporated herein by reference, and not to rely on any single financial measure to evaluate our business.

A reconciliation of net income to EBITDA for each of the historical and pro forma fiscal periods indicated is as follows (in thousands):

	Historical					Pro Forma	
	Year Ended December 31,			Nine Months Ended September 30,		Year Ended December 31,	Nine Months Ended September 30,
	2004	2005	2006	2006	2007	2006	2007
Net income	$ 5,653	$ 11,100	$ 13,320	$ 10,167	$ 9,752	$ 14,959	$ 20,575
Depreciation and amortization	4,545	5,064	7,011	5,574	6,764	6,681	7,894
Interest expense (income), net	1,456	1,336	(1,206)	(803)	(1,366)	1,576	908
Income tax (benefit) expense	(2,134)	2,788	6,566	5,027	4,890	7,410	10,465
EBITDA	$ 9,520	$ 20,288	$ 25,691	$ 19,965	$ 20,040	$ 30,626	$ 39,842

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Use of non-GAAP financial measures is subject to inherent limitations because they do not include all the expenses that must be included under GAAP and because they involve the exercise of judgment of which charges should properly be excluded from the non-GAAP financial measure. EBITDA has material limitations as a performance measure because it excludes (1) interest expense, which is a necessary element of our costs and ability to generate revenues because we borrow money to finance our operations, (2) depreciation, which is a necessary element of our costs and ability to generate revenues because we use capital assets, and (3) income taxes, which we are required to pay. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from EBITDA and by presenting comparable GAAP measures more prominently in our disclosures.

(3) Historical information does not include RHB backlog; pro forma backlog does include RHB backlog of approximately $127 million as of September 30, 2007, based on our methodology of calculating backlog. Backlog is our estimate of the billings that we expect to make in future periods on our construction contracts. We add the revenue value of new contracts to our backlog, typically when we are the low bidder on a public sector contract and management determines that there are no apparent impediments to award of the contract. At September 30, 2007, historical and pro forma backlog included approximately $12 million of low bids where the contracts had not been officially awarded. RHB had no such backlog at that date. Historically, subsequent non-awards to us of contracts relating to such low bids have not materially affected our backlog or financial condition. As construction on our contracts progresses, we increase or decrease backlog to take account changes in estimated quantities under fixed unit price contracts, as well as to reflect changed conditions, change orders and other variations from initially anticipated contract revenues and costs, including completion penalties and bonuses. We subtract from backlog the amounts we bill on contracts.

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RISK FACTORS

An investment in our common stock involves various risks. Before making an investment in our common stock, you should carefully consider the following risks, as well as the other information contained in this prospectus, including our consolidated financial statements and the notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations. The risks described below are those we believe to be the material risks we face. Any of the risk factors described below could significantly and adversely affect our business, prospects, financial condition and results of operations. As a result, the trading price of our common stock could decline, and you could lose a part or all of your investment.

Risks Relating to Our Business

If we are unable to accurately estimate the overall risks or costs when we bid on a contract that is ultimately awarded to us, we may achieve a lower than anticipated profit or incur a loss on the contract.

Substantially all of our revenues and backlog are typically derived from fixed unit price contracts. Fixed unit price contracts require us to perform the contract for a fixed unit price irrespective of our actual costs. As a result, we realize a profit on these contracts only if we successfully estimate our costs and then successfully control actual costs and avoid cost overruns. If our cost estimates for a contract are inaccurate, or if we do not execute the contract within our cost estimates, then cost overruns may cause us to incur losses or cause the contract not to be as profitable as we expected. This, in turn, could negatively affect our cash flow, earnings and financial position.

The costs incurred and gross profit realized on such contracts can vary, sometimes substantially, from the original projections due to a variety of factors, including, but not limited to:

- onsite conditions that differ from those assumed in the original bid;
- delays caused by weather conditions;
- contract modifications creating unanticipated costs not covered by change orders;
- changes in availability, proximity and costs of materials, including steel, concrete, aggregates and other construction materials (such as stone, gravel, sand and oil for asphalt paving), as well as fuel and lubricants for our equipment;
- inability to predict the costs of accessing and producing aggregates, and purchasing oil, required for asphalt paving projects;
- availability and skill level of workers in the geographic location of a project;
- our suppliers or subcontractors failure to perform;
- fraud or theft committed by our employees;
- mechanical problems with our machinery or equipment;
- citations issued by any governmental authority, including the Occupational Safety and Health Administration;

- difficulties in obtaining required governmental permits or approvals;
- changes in applicable laws and regulations; and
- claims or demands from third parties alleging damages arising from our work or from the project of which our work is part.

Many of our contracts with public sector customers contain provisions that purport to shift some or all of the above risks from the customer to us, even in cases where the customer is partly at fault. Our experience has often been that public sector customers have been willing to negotiate equitable adjustments in the contract compensation or completion time provisions if unexpected circumstances arise. If public sector customers seek to impose contractual risk-shifting provisions more aggressively, we could face increased risks, which may adversely affect our cash flow, earnings and financial position.

Economic downturns or reductions in government funding of infrastructure projects could reduce our revenues and profits and have a material adverse effect on our results of operations.

Our business is highly dependent on the amount and timing of infrastructure work funded by various governmental entities, which, in turn, depends on the overall condition of the economy, the need for new or replacement infrastructure, the priorities placed on various projects funded by governmental entities and federal, state or local government spending levels. Spending on infrastructure could decline for numerous reasons, including decreased revenues received by state and local governments for spending on such projects, including federal funding. For example, state spending on highway and other projects can be adversely affected by decreases or delays in, or uncertainties regarding, federal highway funding, which could adversely affect us, particularly in Texas. We are reliant upon contracts with the Texas Department of Transportation, or TXDOT, and the Nevada Department of Transportation, or NDOT, for a significant portion of our revenues. Recent public statements by TXDOT officials indicate potential TXDOT funding shortfalls and reductions in spending. In addition, the recent nationwide declines in home sales and increases in foreclosures could adversely affect expenditures by state and local governments, particularly in Nevada. Decreases in government funding of infrastructure projects could decrease the number of civil construction contracts available and limit our ability to obtain new contracts, which could reduce our revenues and profits.

The cancellation of significant contracts could reduce our revenues and profits and have a material adverse effect on our results of operations.

Contracts that we enter into with governmental entities can usually be canceled at any time by them with payment only for the work already completed. In addition, we could be prohibited from bidding on certain governmental contracts if we fail to maintain qualifications required by those entities. A sudden cancellation of a contract or our debarment from the bidding process could cause our equipment and work crews to remain idled for a significant period of time until other comparable work became available, which could have a material adverse effect on our business and results of operations.

We operate in Texas and Nevada, and any adverse change to the economy or business environment in Texas or Nevada could significantly affect our operations, which would lead to lower revenues and reduced profitability.

We operate in Texas and Nevada, and our Texas operations are particularly concentrated in the Houston area. Because of this concentration in specific geographic locations, we are susceptible to fluctuations in our business caused by adverse economic or other conditions in these regions, including natural or other disasters. A stagnant or depressed economy in Texas or Nevada generally, or in Houston specifically, or in any of the other markets that we serve, could adversely affect our business, results of operations and financial condition.

Our acquisition strategy involves a number of risks.

In addition to organic growth of our construction business, we intend to continue pursuing growth through the acquisition of companies or assets that may enable us to expand our project skill-sets and capabilities, enlarge our geographic markets, add experienced management and increase critical mass to enable us to bid on larger contracts. However, we may be unable to implement this growth strategy if we cannot reach agreements for potential acquisitions on acceptable terms or for other reasons. Moreover, our acquisition strategy involves certain risks, including:

difficulties in the integration of operations and systems;

difficulties applying our expertise in one market into another market;

the key personnel and customers of the acquired company may terminate their relationships with the acquired company;

- we may experience additional financial and accounting challenges and complexities in areas such as tax planning and financial reporting;

- we may assume or be held liable for risks and liabilities (including for environmental-related costs and liabilities) as a result of our acquisitions, some of which we may not discover during our due diligence;

- our ongoing business may be disrupted or receive insufficient management attention; and

- we may not be able to realize cost savings or other financial benefits we anticipated.

These risks apply to our recent acquisition and integration of RHB.

Future acquisitions may require us to obtain additional equity or debt financing, as well as additional surety bonding capacity, which may not be available on terms acceptable to us or at all. Moreover, to the extent that any acquisition results in additional goodwill, it will reduce our tangible net worth, which might have an adverse effect on our credit and bonding capacity.

Our industry is highly competitive, with a variety of larger companies with greater resources competing with us, and our failure to compete effectively could reduce the number of new contracts awarded to us or adversely affect our margins on contracts awarded.

Essentially all of the contracts on which we bid are awarded through a competitive bid process, with awards generally being made to the lowest bidder, but sometimes recognizing other factors, such as shorter contract schedules or prior experience with the customer. Within our markets, we compete with many national, regional and local construction firms. Some of these competitors have achieved greater market penetration than we have in the markets in which we compete, and some have greater financial and other resources than we do. In addition, there are a number of national companies in our industry that are larger than we are and that, if they so desire, could establish a presence in our markets and compete with us for contracts. In some markets, such as Nevada, where home building projects have slowed, construction companies that lack available work in the home building market have begun bidding on highway construction contracts. As a result, we may need to accept lower contract margins in order to compete against competitors that have the ability to accept awards at lower prices or have a pre-existing relationship with a customer. If we are unable to compete successfully in our markets, our relative market share and profits could be reduced.

Our dependence on subcontractors and suppliers of materials (including petroleum-based products) could increase our costs and impair our ability to complete contracts on a timely basis or at all, which would adversely affect our profits and cash flow.

We rely on third-party subcontractors to perform some of the work on many of our contracts. We generally do not bid on contracts unless we have the necessary subcontractors committed for the anticipated scope of the contract and at prices that we have included in our bid, except for trucking arrangements needed for our Nevada operations. Therefore, to the extent that we cannot engage subcontractors, our ability to bid for contracts may be impaired. In addition, if a subcontractor is unable to deliver its services according to the negotiated terms for any reason, including the deterioration of its financial condition, we may suffer delays and be required to purchase the services from another source at a higher price. This may reduce the profit to be realized, or result in a loss, on a contract.

We also rely on third-party suppliers to provide most of the materials (including aggregates, concrete, steel and pipe) for our contracts, except in Nevada where RHB sources and produces most of its own aggregates. We do not own or operate any quarries in Texas, and there are no naturally occurring sources of aggregates in the Houston metropolitan area. We normally do not bid on contracts unless we have commitments from suppliers for the materials required to complete the contract and at prices that we have included in our bid, except for some aggregates that RHB uses in its construction projects. Thus, to the extent that we cannot obtain commitments from our suppliers for materials, our ability to bid for contracts may be impaired. In addition, if a supplier is unable to deliver materials according to the negotiated terms of a supply agreement for any reason, including the deterioration of its financial condition, we may suffer delays and be

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required to purchase the materials from another source at a higher price. This may reduce the profit to be realized, or result in a loss, on a contract.

Diesel fuel and other petroleum-based products are utilized to operate the plants and equipment on which we rely to perform our construction contracts. In addition, RHB uses oil in combination with aggregates to produce asphalt used in its road and highway construction projects. Decreased supplies of such products relative to demand, unavailability of petroleum supplies due to refinery turnarounds, and other factors can increase the cost of such products. Future increases in the costs of fuel and other petroleum-based products used in our business, particularly if a bid has been submitted for a contract and the costs of such products have been estimated at amounts less than the actual costs thereof, could result in a lower profit, or a loss, on a contract.

We may not accurately assess the quality, and we may not accurately estimate the quantity, availability and cost, of aggregates we plan to produce, particularly for projects in rural areas of Nevada, which could have a material adverse effect on our results of operations.

Particularly for projects in rural areas of Nevada, we typically estimate these factors for anticipated aggregate sources that we have not previously used to produce aggregates, which increases the risk that our estimates may be inaccurate. Inaccuracies in our estimates regarding aggregates could result in significantly higher costs to supply aggregates needed for our projects, as well as potential delays and other inefficiencies. As a result, our failure to accurately assess the quality, quantity, availability and cost of aggregates could cause us to incur losses, which could materially adversely affect our results of operations.

We may not be able to fully realize the revenue anticipated by our reported backlog.

Almost all of the contracts included in backlog are awarded by public sector customers through a competitive bid process, with the award generally being made to the lowest bidder. We add new contracts to our backlog, typically when we are the low bidder on a public sector contract and management determines that there are no apparent impediments to award of the contract. As construction on our contracts progresses, we increase or decrease backlog to take account of changes in estimated quantities under fixed unit price contracts, as well as to reflect changed conditions, change orders and other variations from initially anticipated contract revenues and costs, including completion penalties and bonuses. We subtract from backlog the amounts we bill on contracts.

Most of the contracts with our public sector customers can be terminated at their discretion. If a customer cancels, suspends, delays or reduces a contract, we may be reimbursed for certain costs but typically will not be able to bill the total amount that had been reflected in our backlog. Cancellation of one or more contracts that constitute a large percentage of our backlog, and our inability to find a substitute contract, would have a material adverse effect on our business, results of operations and financial condition.

If we are unable to attract and retain key personnel and skilled labor, or if we encounter labor difficulties, our ability to bid for and successfully complete contracts may be negatively impacted.

Our ability to attract and retain reliable, qualified personnel is a significant factor that enables us to successfully bid for and profitably complete our work. This includes members of our management, project managers, estimators, supervisors, foremen, equipment operators and laborers. The loss of the services of any of our management could have a material adverse effect on us. Our future success will also depend on our ability to hire and retain, or to attract when needed, highly-skilled personnel. Competition for these employees is intense, and we could experience difficulty hiring and retaining the personnel necessary to support our business. If we do not succeed in retaining our current employees and attracting, developing and retaining new highly-skilled employees, our reputation may be harmed and our future earnings may be negatively impacted.

In Texas, we rely heavily on immigrant labor. Any adverse changes to existing laws and regulations, or changes in enforcement requirements or practices, applicable to employment of immigrants could negatively impact the availability and cost of the skilled personnel and labor we need, particularly in Texas. We may not be able to continue to attract and retain sufficient employees at all levels due to changes in immigration enforcement practices or compliance standards or for other reasons.

In Nevada, a substantial portion of our equipment operators and laborers are unionized. Any work stoppage or other labor dispute involving our unionized workforce would have a material adverse effect on our operations and operating results in Nevada.

Our contracts may require us to perform extra or change order work, which can result in disputes and adversely affect our working capital, profits and cash flows.

Our contracts generally require us to perform extra or change order work as directed by the customer even if the customer has not agreed in advance on the scope or price of the extra work to be performed. This process may result in disputes over whether the work performed is beyond the scope of the work included in the original project plans and specifications or, if the customer agrees that the work performed qualifies as extra work, the price that the customer is willing to pay for the extra work. These disputes may not be settled to our satisfaction. Even when the customer agrees to pay for the extra work, we may be required to fund the cost of such work for a lengthy period of time until the change order is approved by the customer and we are paid by the customer.

To the extent that actual recoveries with respect to change orders or amounts subject to contract disputes or claims are less than the estimates used in our financial statements, the amount of any shortfall will reduce our future revenues and profits, and this could have a material adverse effect on our reported working capital and results of operations. In addition, any delay caused by the extra work may adversely impact the timely scheduling of other project work and our ability to meet specified contract milestone dates.

Our failure to meet schedule or performance requirements of our contracts could adversely affect us.

In most cases, our contracts require completion by a scheduled acceptance date. Failure to meet any such schedule could result in additional costs, penalties or liquidated damages being assessed against us, and these could exceed projected profit margins on the contract. Performance problems on existing and future contracts could cause actual results of operations to differ materially from those anticipated by us and could cause us to suffer damage to our reputation within the industry and among our customers.

Unanticipated adverse weather conditions may cause delays, which could slow completion of our contracts and negatively affect our current and future revenues and cash flow.

Because all of our construction projects are built outdoors, work on our contracts is subject to unpredictable weather conditions, which could become more frequent or severe if general climatic changes occur. For example, evacuations in Texas due to Hurricane Rita resulted in our inability to perform work on all Houston-area contracts for several days. Lengthy periods of wet weather will generally interrupt construction, and this can lead to under-utilization of crews and equipment, resulting in less efficient rates of overhead recovery. For example, during much of 2007, we experienced an above-average number of days and amount of rainfall across our Texas markets, which impeded our ability to work on construction projects and reduced our gross profit. While revenues can be recovered following a period of bad weather, it is generally impossible to recover the efficiencies, and significant periods of bad weather typically reduce profitability of affected contracts both in the current period and during the future life of affected contracts. Such reductions in contract profitability negatively affect our results of operations in current and future periods until the affected contracts are completed.

Timing of the award and performance of new contracts could have an adverse effect on our operating results and cash flow.

At any point in time, a substantial portion of our revenues may be derived from a limited number of large construction contracts. It is generally very difficult to predict whether and when new contracts will be offered for tender, as these contracts frequently involve a lengthy and complex design and bidding process, which is affected by a number of factors, such as market conditions, financing arrangements and governmental approvals. Because of these factors, our results of operations and cash flows may fluctuate from quarter to quarter and year to year, and the fluctuation may be substantial.

The uncertainty of the timing of contract awards may also present difficulties in matching the size of our equipment fleet and work crews with contract needs. In some cases, we may maintain and bear the cost of more equipment and ready work crews than are currently required, in anticipation of future needs for existing contracts or expected future contracts. If a contract is delayed or an expected contract award is not received, we would incur costs that could have a material adverse effect on our anticipated profit.

In addition, the timing of the revenues, earnings and cash flows from our contracts can be delayed by a number of factors, including adverse weather conditions such as prolonged or intense periods of rain, storms or flooding, delays in receiving material and equipment from suppliers and changes in the scope of work to be performed. Such delays, if they occur, could have adverse effects on our operating results for current and future periods until the affected contracts are completed.

Our dependence on a limited number of customers could adversely affect our business and results of operations.

Due to the size and nature of our construction contracts, one or a few customers have in the past and may in the future represent a substantial portion of our consolidated revenues and gross profits in any one year or over a period of several consecutive years. For example, in 2006, approximately 84% of our revenue was generated from three customers, and approximately 90% of RHB s revenue was generated from one customer. Similarly, our backlog frequently reflects multiple contracts for individual customers; therefore, one customer may comprise a significant percentage of backlog at a certain point in time. An example of this is TXDOT, with which we had 21 contracts representing an aggregate of approximately 69% of our backlog at September 30, 2007. Similarly, seven contracts with NDOT represented 100% of RHB s backlog at September 30, 2007. The loss of business from any one of such customers could have a material adverse effect on our business or results of operations. Because we do not maintain any reserves for payment defaults, a default or delay in payment on a significant scale could materially adversely affect our business, results of operations and financial condition.

We may incur higher costs to lease, acquire and maintain equipment necessary for our operations, and the market value of our owned equipment may decline.

We have traditionally owned most of the construction equipment used to build our projects. To the extent that we are unable to buy construction equipment necessary for our needs, either due to a lack of available funding or equipment shortages in the marketplace, we may be forced to rent equipment on a short-term basis, which could increase the costs of performing our contracts.

The equipment that we own or lease requires continuous maintenance, for which we maintain our own repair facilities. If we are unable to continue to maintain the equipment in our fleet, we may be forced to obtain third-party repair services, which could increase our costs. In addition, the market value of our equipment may unexpectedly decline at a faster rate than anticipated. Such a decline would reduce the borrowing base under our credit facility, thereby reducing the amount of credit available to us and impeding our ability to continue to expand our business.

An inability to obtain bonding could limit the aggregate dollar amount of contracts that we are able to pursue.

As is customary in the construction business, we are required to provide surety bonds to secure our performance under construction contracts. Our ability to obtain surety bonds primarily depends upon our capitalization, working capital, past performance, management expertise and reputation and certain external factors, including the overall capacity of the surety market. Surety companies consider such factors in relationship to the amount of our backlog and their underwriting standards, which may change from time to time. Events that affect the insurance and bonding markets generally may result in bonding becoming more difficult to obtain in the future, or being available only at a significantly greater cost. Our inability to obtain adequate bonding, and, as a result, to bid on new contracts, could have a material adverse effect on our future revenues and business prospects.

Our operations are subject to hazards that may cause personal injury or property damage, thereby subjecting us to liabilities and possible losses, which may not be covered by insurance.

Our workers are subject to the usual hazards associated with providing construction and related services on construction sites, plants and quarries. Operating hazards can cause personal injury and loss of life, damage to or destruction of property, plant and equipment and environmental damage. We self-insure our workers compensation claims, subject to stop-loss insurance coverage. We also maintain insurance coverage in amounts and against the risks that we believe are consistent with industry practice, but this insurance may not be adequate to cover all losses or liabilities that we may incur in our operations.

Insurance liabilities are difficult to assess and quantify due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, the number of incidents not reported and the effectiveness of our safety program. If we were to experience insurance claims or costs above our estimates, we might also be required to use working capital to satisfy these claims rather than to maintain or expand our operations. To the extent that we experience a material increase in the frequency or severity of accidents or workers compensation claims, or unfavorable developments on existing claims, our operating results and financial condition could be materially and adversely affected.

Environmental and other regulatory matters could adversely affect our ability to conduct our business and could require expenditures that could have a material adverse effect on our results of operations and financial condition.

Our operations are subject to various environmental laws and regulations relating to the management, disposal and remediation of hazardous substances and the emission and discharge of pollutants into the air and water. We could be held liable for such contamination created not only from our own activities but also from the historical activities of others on our project sites or on properties that we acquire or lease. Our operations are also subject to laws and regulations relating to workplace safety and worker health, which, among other things, regulate employee exposure to hazardous substances. Immigration laws require us to take certain steps intended to confirm the legal status of our immigrant labor force, but we may nonetheless unknowingly employ illegal immigrants. Violations of such laws and regulations could subject us to substantial fines and penalties, cleanup costs, third-party property damage or personal injury claims. In addition, these laws and regulations have become, and enforcement practices and compliance standards are becoming, increasingly stringent. Moreover, we cannot predict the nature, scope or effect of legislation or regulatory requirements that could be imposed, or how existing or future laws or regulations will be administered or interpreted, with respect to products or activities to which they have not been previously applied. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of the regulatory agencies, could require us to make substantial expenditures for, among other things, pollution control systems and other equipment that we do not currently possess, or the acquisition or modification of permits applicable to our activities.

RHB s lease of an aggregate quarry in Nevada could subject us to costs and liabilities. A limited environmental assessment report that we received in connection with the RHB acquisition was inconclusive about potential environmental contamination at the quarry resulting from various mining activities and landfill operations that may have occurred on or near the property. Due to the limited nature of the report, we are unable to assess the extent of our liability, if any, at the quarry. As lessee and operator of the quarry, RHB could be held responsible for any contamination or regulatory violations resulting from activities or operations at the quarry. Any such costs and liabilities could be significant and could materially and adversely affect our business, operating results and financial condition.

We may be unable to sustain our historical revenue growth rate.

Our revenue has grown rapidly in recent years. However, we may be unable to sustain these recent revenue growth rates for a variety of reasons, including limits on additional growth in our current markets, less

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success in competitive bidding for contracts, limitations on access to necessary working capital and investment capital to sustain growth, limitations on access to bonding to support increased contracts and operations, inability to hire and retain essential personnel and to acquire equipment to support growth, and inability to identify acquisition candidates and successfully acquire and integrate them into our business. A decline in our revenue growth could have a material adverse effect on our financial condition and results of operations if we are unable to reduce the growth of our operating expenses at the same rate.

Terrorist attacks have impacted, and could continue to negatively impact, the U.S. economy and the markets in which we operate.

Terrorist attacks, like those that occurred on September 11, 2001, have contributed to economic instability in the United States, and further acts of terrorism, violence or war could affect the markets in which we operate, our business and our expectations. Armed hostilities may increase, or terrorist attacks, or responses from the United States, may lead to further acts of terrorism and civil disturbances in the United States or elsewhere, which may further contribute to economic instability in the United States. These attacks or armed conflicts may affect our operations or those of our customers or suppliers and could impact our revenues, our production capability and our ability to complete contracts in a timely manner.

Risks Related to Our Financial Results and Financing Plans

Actual results could differ from the estimates and assumptions that we use to prepare our financial statements.

To prepare financial statements in conformity with GAAP, management is required to make estimates and assumptions, as of the date of the financial statements, which affect the reported values of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Areas requiring significant estimates by our management include: contract costs and profits and application of percentage-of-completion accounting and revenue recognition of contract change order claims; provisions for uncollectible receivables and customer claims and recoveries of costs from subcontractors, suppliers and others; valuation of assets acquired and liabilities assumed in connection with business combinations; and accruals for estimated liabilities, including litigation and insurance reserves. Our actual results could differ from, and could require adjustments to, those estimates.

In particular, as is more fully discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies, we recognize contract revenue using the percentage-of-completion method. Under this method, estimated contract revenue is recognized by applying the percentage of completion of the contract for the period to the total estimated revenue for the contract. Estimated contract losses are recognized in full when determined. Contract revenue and total cost estimates are reviewed and revised on a continuous basis as the work progresses and as change orders are initiated or approved, and adjustments based upon the percentage of completion are reflected in contract revenue in the accounting period when these estimates are revised. To the extent that these adjustments result in an increase, a reduction or an elimination of previously reported contract profit, we recognize a credit or a charge against current earnings, which could be material.

We may need to raise additional capital in the future for working capital, capital expenditures and/or acquisitions, and we may not be able to do so on favorable terms or at all, which would impair our ability to operate our business or achieve our growth objectives.

Our growth has been funded in part by our utilization of net operating loss carry-forwards, or NOLs, to reduce the amounts that we have paid for income taxes, and we expect our NOLs to be fully utilized in 2007. Paying taxes will reduce cash flows from operations compared to prior periods, as we will be required to fund the payment of taxes in 2008 and future periods. To the extent that cash flow from operations is insufficient to fund future investments, make acquisitions or provide needed additional working capital, we may require additional financing from other sources of funds.

Our ability to obtain such additional financing in the future will depend in part upon prevailing capital market conditions, as well as conditions in our business and our operating results; such factors may adversely affect our efforts to arrange additional financing on terms satisfactory to us. We have pledged the proceeds and other rights under our construction contracts to our bond sureties, and we have pledged substantially all of our other assets as collateral in connection with our credit facility and mortgage debt. As a result, we may have difficulty in obtaining additional financing in the future if such financing requires us to pledge assets as collateral. In addition, under our credit facility, we must obtain the consent of our lenders to incur any amount of additional debt from other sources (subject to certain exceptions). If future financing is obtained by the issuance of additional shares of common stock, our stockholders may suffer dilution. If adequate funds are not available, or are not available on acceptable terms, we may not be able to make future investments, take advantage of acquisitions or other opportunities, or respond to competitive challenges.

We are subject to financial and other covenants under our credit facility that could limit our flexibility in managing our business.

We have a revolving credit facility that restricts us from engaging in certain activities, including restrictions on the ability (subject to certain exceptions) to:

- make distributions and dividends;
- incur liens or encumbrances;
- incur indebtedness;
- guarantee obligations;
- dispose of a material portion of assets or otherwise engage in a merger with a third party;
- make acquisitions; and
- incur negative income for two consecutive quarters.

Our credit facility contains financial covenants that require us to maintain specified fixed charge coverage ratios, asset ratios and leverage ratios, and to maintain specified levels of tangible net worth. Our ability to borrow funds for any purpose will depend on our satisfying these tests. If we are unable to meet the terms of the financial covenants or fail to comply with any of the other restrictions contained in our credit facility, an event of default could occur. An event of default, if not waived by our lenders, could result in the acceleration of any outstanding indebtedness, causing such debt to become immediately due and payable. If such an acceleration occurs, we may not be able to repay such indebtedness on a timely basis. Acceleration of our credit facility could result in foreclosure on and loss of our operating assets. In the event of such foreclosure, we would be unable to conduct our business and forced to discontinue operations.

Risks Related to Our Common Stock and This Offering

Market prices of our common stock have changed significantly and could change further.

The market price of our common stock has substantially increased since January 2005, at a rate exceeding our growth in earnings generally. The market price may decline from its current levels in response to various factors and events beyond our control, including the following:

- a shortfall in operating revenue or net income from that expected by securities analysts and investors;

changes in securities analysts estimates of our financial performance or the financial performance of our competitors or companies in our industry generally;

general conditions in our industry;

announcements of significant contracts by us or our competitors;

the passage of legislation or other regulatory developments that affect us adversely;

general conditions in the securities markets;

the limited trading volume of our common stock;

investor expectations resulting from the filing of the registration statement of which this prospectus is a part;

our seeking stockholder approval to increase the number of shares of common stock that we are authorized to issue, which we anticipate we may do in connection with our next annual meeting of stockholders;

our issuance of a significant number of shares of our common stock, including upon exercise of employee stock options or warrants; and

the other risk factors described herein.

Limited trading volume of our common stock may contribute to its price volatility.

The average daily trading volume for our common stock as reported by the Nasdaq during the first eleven months of 2007 was approximately 100,000 shares. Even if we achieve a wider dissemination by means of the shares offered pursuant to this prospectus, we are uncertain as to whether a more active trading market in our common stock will develop. As a result, relatively small trades may have a significant impact on the price of our common stock.

Fluctuations in our revenues, operating results and backlog may lead to reduced prices for our common stock.

Because our operating results are primarily generated from a limited number of significant construction contracts, operating results in any given fiscal quarter can vary depending on the progress achieved and changes in the estimated profitability of those particular contracts being reported. We anticipate that the exceptionally high profitability achieved by RHB on certain contracts in 2007 is unlikely to be achievable in future periods on a sustainable basis. Progress on contracts may also be delayed by unanticipated adverse weather conditions, as occurred in Texas during much of 2007. Such delays, if they occur, may result in fluctuating quarterly operating results and reduced profitability, which may in turn lead to reduced prices for our common stock.

We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment will be if the market price of our common stock appreciates above the price that you pay for it.

We currently do not plan to declare dividends on shares of our common stock for the foreseeable future. Furthermore, the payment of dividends by us is restricted by our credit facility. See Dividend Policy for more information. Consequently, your only opportunity to achieve a return on your investment in our company will be if the market price of our common stock appreciates and you are able to sell your shares at a profit.

Future sales of our common stock in the public market could lower our stock price.

Our principal stockholders, directors and executive officers will beneficially own approximately 1.9 million shares of our common stock after completion of this offering. These stockholders will be free to sell those shares, subject to the limitations of Rule 144 or Rule 144(k) under the Securities Act of 1933, as amended, or the Securities Act (which are discussed under Shares Eligible for Future Sale), and, subject to certain exceptions, the 90-day lock-up agreements that certain of these stockholders have entered into with the underwriter. The holders of warrants to purchase 356,266 shares of our common stock have registration rights that allow them to participate in any future public offering of our shares (with certain exceptions). Registration of these restricted shares of common stock or shares purchasable under these warrants would permit their sale into the public market immediately. We cannot predict when these stockholders may sell their shares or in what volumes. However, the market price of our common stock could decline significantly if these stockholders sell a large number of shares into the public market after this offering or if the market believes that these sales may occur.

We may also issue our common stock from time to time as consideration for future acquisitions and investments. In the event that any such acquisition or investment is significant, the number of shares of our common stock that we may issue could in turn be significant. In addition, we may also grant registration rights covering those shares in connection with any such acquisition and investment.

Delaware law, our charter documents and our rights agreement may impede or discourage a takeover or change of control.

Our rights agreement, certain provisions of our restated and amended certificate of incorporation, as amended, our bylaws and the provisions of Delaware law, individually or collectively, may impede a merger, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer for our common stock, which could affect the market price of our common stock.

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CAUTIONARY COMMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes statements that are, or may be considered to be, forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are included throughout this prospectus and in the materials incorporated by reference into this prospectus and relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. We have used the words anticipate, assume, believe, budget, continue, could, estimate, expect, goal, seek, forecast, intend, may, should, predict, project, will, future and similar terms and phrases to identify forward-looking statements in this prospectus

Forward-looking statements reflect our current expectations regarding future events, results or outcomes. These expectations may or may not be realized. Some of these expectations may be based upon assumptions or judgments that prove to be incorrect. In addition, our business and operations involve numerous risks and uncertainties, many of which are beyond our control, that could result in our expectations not being realized or otherwise could materially affect our financial condition, results of operations and cash flows.

Actual events, results and outcomes may differ materially from our expectations due to a variety of factors. Although it is not possible to identify all of these factors, they include, among others, the following:

- changes in general economic conditions and resulting reductions or delays in, or uncertainties regarding, governmental funding for infrastructure services;
- adverse economic conditions in our markets;
- delays or difficulties related to the commencement or completion of contracts, including additional costs, reductions in revenues or the payment of completion penalties or liquidated damages;
- actions of suppliers, subcontractors, customers, competitors and others which are beyond our control;
- the estimates inherent in our percentage-of-completion accounting policies;
- possible cost increases;
- our dependence on a few significant customers;
- adverse weather conditions;
- the presence of competitors with greater financial resources than we have and the impact of competitive services and pricing;
- our ability to successfully identify, complete and integrate acquisitions; and
- the other factors incorporated by reference as described under Risk Factors.

In reading this prospectus, you should consider these factors carefully in evaluating any forward-looking statements, and you are cautioned not to place undue reliance on forward-looking statements. Although we believe that our plans, intentions and expectations reflected in, or suggested by, the forward-looking statements that we make in this prospectus and in the documents incorporated by reference into this prospectus are reasonable, we can provide no assurance that they will be achieved.

The forward-looking statements included herein and in the documents incorporated by reference into this prospectus are made only as of the date hereof or thereof, and we undertake no obligation to update any information contained in this prospectus or in the documents incorporated herein by reference or to publicly release the results of any revisions to any forward-looking statements to reflect events or circumstances that occur, or that we become aware of after the date of this prospectus, except as may be required by applicable securities laws.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of 1,600,000 shares of our common stock in this offering, assuming an offering price of $23.49 per share, will be approximately $34.9 million ($40.3 million if the underwriter s option to purchase additional shares is exercised in full), after deducting estimated underwriting discounts and commissions and estimated offering expenses.

We intend to use the net proceeds from this offering:

- to repay indebtedness outstanding under our credit facility; and
- to strengthen our balance sheet, including our working capital, in order to fund our business operations and provide liquidity for future growth.

The indebtedness to be repaid consists of revolving borrowings under our credit agreement with Comerica Bank, as a lender and as agent for the lenders from time to time party thereto. Borrowings under our credit agreement currently bear interest at an average rate of 7.75%. The credit agreement was entered into October 31, 2007, when approximately $22.4 million was borrowed to fund a portion of our costs in completing the acquisition of RHB. The amount of borrowings under our credit facility fluctuates from time to time. The actual amount of net proceeds from the offering used to repay our indebtedness under our credit facility will depend on the amounts that are outstanding at the time of repayment.

Throughout this prospectus, we have assumed an offering price of $23.49 per share, which is equal to the last reported sales price per share of our common stock on the Nasdaq on December 6, 2007. Each $1.00 change in the actual per share offering price from the price assumed in the prospectus would change by approximately $1.5 million the amount of our net proceeds available to strengthen our balance sheet after funding the repayment of indebtedness referenced above. A 10% decrease in the number of shares of common stock sold in this offering would decrease the net proceeds to us from this offering by approximately $3.6 million, after deducting the estimated underwriting discounts and commissions and offering expenses.

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MARKET PRICE OF COMMON STOCK

Our common stock traded on AMEX under the symbol STV through January 19, 2006 and began trading on the Nasdaq under the symbol STRL on January 20, 2006. The quarterly market high and low sales prices for our common stock for 2005, 2006 and 2007 are summarized below:

	High	Low
Year Ended December 31, 2005		
First Quarter	$ 7.97	$ 5.16
Second Quarter	$ 9.00	$ 6.70
Third Quarter	$ 28.35	$ 7.25
Fourth Quarter	$ 26.98	$ 16.06
Year Ended December 31, 2006		
First Quarter	$ 24.85	$ 15.05
Second Quarter	$ 33.00	$ 21.25
Third Quarter	$ 30.99	$ 16.51
Fourth Quarter	$ 25.34	$ 18.91
Year Ended December 31, 2007		
First Quarter	$ 22.74	$ 17.42
Second Quarter	$ 23.86	$ 18.90
Third Quarter	$ 23.97	$ 18.64
Fourth Quarter (through December 7, 2007)	$ 26.98	$ 22.00

On December 7, 2007, the closing sale price of our common stock as reported on the Nasdaq was $23.49 per share. At November 30, 2007, there were approximately 1,255 holders of record of our common stock.

DIVIDEND POLICY

We have never paid any cash dividends on our common stock. For the foreseeable future, we intend to retain any earnings in our business, and we do not anticipate paying any cash dividends. Whether or not we declare any dividends will be at the discretion of our board of directors, considering then-existing conditions, including our financial condition and results of operations, capital requirements, bonding prospects, contractual restrictions (including those under our revolving credit agreements), business prospects and other factors that our board of directors considers relevant.

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CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2007:

on an actual basis;

on a pro forma basis, assuming the RHB acquisition and the borrowing under our credit facility in connection therewith had been effected on September 30, 2007; and

on a pro forma as adjusted basis, assuming the RHB acquisition and the borrowing under our credit facility in connection therewith had been effected on September 30, 2007 and reflecting the application of the net proceeds from this offering, after deducting approximately $1.9 million for the underwriting discounts and commissions payable by us and estimated offering expenses of approximately $775,000, as set forth under Use of Proceeds.

For purposes of the pro forma as adjusted column of the capitalization table below, we have assumed the net proceeds from this offering will be $34.9 million after deducting underwriting discounts and commissions and estimated offering expenses payable by us. A $1.00 increase or decrease in the offering price would change each of the total stockholders equity and total capitalization line items by approximately $1.5 million, after taking into account corresponding changes in the underwriting discounts and commissions payable by us. A 10% decrease in the number of shares of common stock sold in this offering would decrease the net proceeds to us from this offering by approximately $3.6 million, after deducting the estimated underwriting discounts and commissions and offering expenses.

You should read this table in conjunction with Use of Proceeds, Selected Historical Financial and Operating Data, Unaudited Pro Forma Condensed Combined Financial Information, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	At September 30, 2007		
	Actual	Pro Forma	Pro Forma As Adjusted
	(Amounts in thousands, except share data)		
Debt:			
Current maturities of long-term debt(1)	$ 123	$ 190	$ 190
Long-term debt:			
Revolving credit facility(2)	30,000	52,400	17,470
Mortgages(1)	566	667	667
Other indebtedness			
Total debt	30,689	53,257	18,327
Stockholders equity:			
Common stock, $0.01 par value, 14,000,000 shares authorized; 11,017,310 shares issued and outstanding, actual; 11,058,012 shares issued and outstanding, pro forma;	110	111	127

12,760,692 shares issued and outstanding, pro forma as adjusted(3)			
Preferred stock, $0.01 par value, 1,000,000 shares authorized; no shares issued and outstanding			
Accumulated deficit	(13,996)	(13,996)	(13,996)
Additional paid-in capital	115,821	111,405	146,319
Total stockholders equity	101,935	97,520	132,450
Total capitalization	$ 132,624	$ 150,777	$ 150,777

(1) The mortgage in the original principal amount of $1.1 million on land and facilities where our headquarters is located had a floating rate of interest at September 30, 2007 of 8.0% per annum, repayable

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over 15 years commencing in 2001. This mortgage is cross-collateralized with a prior mortgage on the land and equipment repair facilities, which were purchased in 1998, in the original amount of $500,000, repayable over 15 years with an interest rate of 9.3% per annum.

(2) The revolving credit facility in place on September 30, 2007 provided for revolving loans up to a maximum of $35.0 million with a maturity date of May 10, 2009. The average interest rate on revolving debt outstanding during the nine months ended September 30, 2007 was approximately 8.25%.

(3) At September 30, 2007, we had 11,017,310 shares of common stock outstanding; 657,446 shares of common stock reserved for issuance upon the exercise of outstanding stock options at a weighted average exercise price per share of $6.99; and 356,266 shares of common stock reserved for issuance upon the exercise of outstanding warrants at an exercise price per share of $1.50. The issuance of shares in this offering will reduce the total number of remaining authorized and unissued shares, 415,650 of which will be available for future awards under our stock option plan (78,276 if the underwriter s over-allotment option is exercised in full).

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SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The following tables set forth our summary historical financial and operating data for the periods indicated. The summary condensed consolidated statement of operations and cash flow data for the years ended December 31, 2004, 2005 and 2006, and the summary condensed consolidated balance sheet data as of December 31, 2005 and 2006, have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The summary condensed consolidated statement of operations and cash flow data for 2002 and 2003, and the condensed consolidated balance sheet data as of December 31, 2002, 2003 and 2004, have been derived from our audited consolidated financial statements, which are not included in this prospectus. The summary condensed consolidated financial data as of and for the nine months ended September 30, 2006 and 2007, are derived from our unaudited consolidated financial statements, which are included elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and include all adjustments, consisting of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the unaudited periods. The summary historical financial and operating data as of and for the nine months ended September 30, 2007, are not necessarily indicative of the results that may be obtained for a full year.

The information presented below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the notes thereto included elsewhere in this prospectus.

	Year Ended December 31,					Nine Months Ended September 30,	
	2002	2003	2004	2005	2006	2006	2007
						(Unaudited)	
	(in thousands, except per share data)						
Statement of Operations Data:							
Revenues	$ 111,747	$ 149,006	$ 132,478	$ 219,439	$ 249,348	$ 185,233	$ 217,877
Cost of revenues	98,935	131,181	119,217	195,683	220,801	163,358	196,284
Gross profit	12,812	17,825	13,261	23,756	28,547	21,875	21,593
General and administrative expenses, and other	6,862	7,400	7,696	9,091	10,549	7,928	8,292
Operating income	5,950	10,425	5,565	14,665	17,998	13,947	13,301
Interest expense (income), net	2,427	1,842	1,456	1,336	(1,206)	(803)	(1,366)
Income from continuing operations before minority interest and income taxes	3,523	8,583	4,109	13,329	19,204	14,750	14,667
Minority interest	(873)	(1,627)	(962)				

Income from continuing operations before income taxes	2,650	6,956	3,147	13,329	19,204	14,750	14,667
Income tax (benefit) expense	(174)	1,752	(2,134)	2,788	6,566	5,027	4,890
Net income from continuing operations	2,824	5,204	5,281	10,541	12,638	9,723	9,777
Net income (loss) from discontinued operations	528	215	372	559	682	444	(25)
Net income	$ 3,352	$ 5,419	$ 5,653	$ 11,100	$ 13,320	$ 10,167	$ 9,752
Basic income per share:							
Continuing operations	$ 0.56	$ 1.02	$ 0.99	$ 1.36	$ 1.19	$ 0.93	$ 0.89
Discontinued operations	0.10	0.04	0.07	0.07	0.06	0.04	0.00
Net income	$ 0.66	$ 1.06	$ 1.06	$ 1.43	$ 1.25	$ 0.97	$ 0.89
Diluted income per share:							
Continuing operations	$ 0.46	$ 0.80	$ 0.75	$ 1.11	$ 1.08	$ 0.84	$ 0.83
Discontinued operations	0.09	0.03	0.05	0.05	0.06	0.04	0.00
Net income	$ 0.55	$ 0.83	$ 0.80	$ 1.16	$ 1.14	$ 0.88	$ 0.83

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	Year Ended December 31,					Nine Months Ended September 30,	
	2002	2003	2004	2005	2006	2006	2007
						(Unaudited)	
	(in thousands, except per share data)						
Weighted average number of shares outstanding used in computing per share amounts:							
Basic	5,062	5,090	5,343	7,775	10,583	10,455	10,963
Diluted	6,102	6,488	7,028	9,538	11,714	11,640	11,765
Balance sheet data (end of period):							
Cash and cash equivalents	$ 2,111	$ 2,651	$ 3,449	$ 22,267	$ 28,466	$ 18,996	$ 14,894
Short-term investments					26,169	22,585	32,630
Working capital	9,556	6,834	16,052	18,354	62,874	58,369	59,691
Total assets	72,757	75,578	89,544	118,455	167,772	171,293	187,107
Total debt	32,784	20,058	25,445	23,142	30,782	28,812	30,689
Total liabilities	61,931	58,942	54,336	69,843	76,781	83,950	85,172
Stockholders equity	10,825	16,636	35,208	48,612	90,991	87,343	101,935
Cash flow data from continuing operations:							
Net cash provided by operating activities	$ 5,004	$ 18,185	$ 4,171	$ 31,266	$ 23,089	$ 9,846	$ 14,648
Net cash used in investing activities	(6,801)	(4,270)	(5,809)	(10,972)	(52,358)	(46,567)	(28,586)
Net cash provided by (used in) financing activities	1,288	(13,376)	2,436	(1,476)	35,468	33,450	366
Other operating data:							
EBITDA (unaudited)(1)	$ 9,360	$ 13,703	$ 9,520	$ 20,288	$ 25,691	$ 19,965	$ 20,040
Capital expenditures	4,245	4,340	3,555	11,392	27,055	24,706	23,033
Backlog at end of period (unaudited)(2)	138,000	120,000	232,000	307,000	395,000	418,000	367,000

(1) EBITDA is defined as net income before net interest expense, income tax expense, and depreciation and amortization. EBITDA is a non-GAAP financial measure that we use for our internal budgeting process, which excludes the effects of financing costs, income taxes and non-cash depreciation and amortization. Although EBITDA is a common alternative measure of performance used by investors, financial analysts and rating agencies to assess operating performance for companies in our industry, it is not a substitute for other GAAP financial measures such as net income or operating income as calculated and presented in accordance with GAAP. Furthermore, we believe that the non-GAAP EBITDA financial measure is useful to investors in providing greater transparency to the information used by management in its operational and investment decision making. Our non-GAAP financial measures may be different from such measures used by other

companies. We urge you to review the GAAP financial measures included in this prospectus and our consolidated financial statements, including the notes thereto, and the other financial information contained in this prospectus and incorporated herein by reference, and not to rely on any single financial measure to evaluate our business.

A reconciliation of net income to EBITDA for each of the fiscal periods indicated is as follows (in thousands):

	Year Ended December 31,					Nine Months Ended September 30,	
	2002	2003	2004	2005	2006	2006	2007
Net income	$ 3,352	$ 5,419	$ 5,653	$ 11,100	$ 13,320	$ 10,167	$ 9,752
Depreciation and amortization	3,755	4,690	4,545	5,064	7,011	5,574	6,764
Interest expense (income), net	2,427	1,842	1,456	1,336	(1,206)	(803)	(1,366)
Income tax (benefit) expense	(174)	1,752	(2,134)	2,788	6,566	5,027	4,890
EBITDA	$ 9,360	$ 13,703	$ 9,520	$ 20,288	$ 25,691	$ 19,965	$ 20,040

Use of non-GAAP financial measures is subject to inherent limitations because they do not include all the expenses that must be included under GAAP and because they involve the exercise of judgment of which charges should properly be excluded from the non-GAAP financial measure. EBITDA has material limitations as a performance measure because it excludes (1) interest expense, which is a necessary element of our costs and ability to generate revenues because we borrow money to finance our operations, (2) depreciation, which is a necessary element of our costs and ability to generate revenues because we use capital assets, and (3) income taxes, which we are required to pay. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from EBITDA and by presenting comparable GAAP measures more prominently in our disclosures.

(2) Historical information does not include RHB backlog, which was approximately $127 million at September 30, 2007, based on our methodology of calculating backlog, Backlog is our estimate of the billings that we expect to make in future periods on our construction contracts. We add the revenue value of new contracts to our backlog, typically when we are the low bidder on a public sector contract and management determines that there are no apparent impediments to award of the contract. At September 30, 2007, backlog included approximately $12 million of low bids where the contracts had not been officially awarded. RHB had no such backlog at that date. Historically, subsequent non-awards to us of contracts relating to such low bids have not materially affected our backlog or financial condition. As construction on our contracts progresses, we increase or decrease backlog to take account changes in estimated quantities under fixed unit price contracts, as well as to reflect changed conditions, change orders and other variations from initially anticipated contract revenues and costs, including completion penalties and bonuses. We subtract from backlog the amounts we bill on contracts.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information gives effect to our acquisition of a 91.67% interest in RHB, accounted for as a business combination using the purchase method of accounting. The preliminary allocation of the purchase price used in the unaudited pro forma condensed combined financial information is based on management s preliminary valuation. The estimates and assumptions are subject to change upon the finalization of valuations, which are contingent upon final appraisals of plant and equipment, identifiable intangible assets, adjustments to contract-related and other accounts and the results of operations in October 2007. Revisions to the preliminary purchase price allocation could result in significant deviations from the accompanying pro forma information.

The pro forma condensed combined statements of income reflect the acquisition of RHB as if it occurred on January 1, 2006. The historical results of operations included in the unaudited pro forma condensed combined statement of income for the fiscal year ended December 31, 2006 were derived from the audited financial statements of each entity, included elsewhere in this prospectus. The historical results of operations included in the unaudited pro forma condensed combined statement of income for the nine months ended September 30, 2007 were derived from the unaudited financial statements of each entity, included elsewhere in this prospectus.

The pro forma condensed combined balance sheet reflects the acquisition of RHB as if it occurred on September 30, 2007. The historical balance sheets of Sterling Construction and RHB included in the unaudited pro forma condensed combined balance sheet were derived from the unaudited financial statements of each entity, included elsewhere in this prospectus.

This unaudited pro forma condensed combined financial information has been prepared by management for illustrative purposes only. The unaudited pro forma condensed combined financial information is not intended to represent or be indicative of the financial position or results of operations in future periods or the results that actually would have been realized had Sterling Construction and RHB been a combined company during the specified periods. Additionally, classifications of certain financial accounts of the acquired company may differ from those of Sterling Construction. The unaudited pro forma condensed combined financial information reflects the acquisition of the interest in RHB, which we financed with a combination of proceeds from the sale of short-term investments, repayment of an amount receivable, borrowings under our new credit facility and 40,702 shares of common stock issued in the acquisition. The proceeds of this offering, a portion of which will be used to repay our credit facility borrowings, have not been reflected in the pro forma results. The unaudited pro forma condensed combined financial information, including the notes thereto, is qualified in its entirety by reference to, and should be read in conjunction with, the historical financial statements and notes thereto included elsewhere in this prospectus.

STERLING CONSTRUCTION COMPANY, INC.
Unaudited Pro Forma Condensed Combined Balance Sheet
At September 30, 2007

	Sterling Construction Company, Inc.	Road and Highway Builders, LLC	Pro Forma Adjustments	Pro Forma Combined
	(Amounts in Thousands)			
Current Assets				
Cash	$ 14,894	$ 0	$ 9,030 (a)(b)(d)(e)(f)	$ 23,924
Short-term investments	32,630	0	(32,630) (e)	0
Contract receivables, including retention	52,498	5,434		57,932
Costs and estimated earnings in excess of billings on uncompleted contracts	7,247	553		7,800
Inventories	1,047	449		1,496
Due from related party	0	12,000	(12,000) (a)	0
Deferred tax asset	1,038	0		1,038
Other current assets	1,968	237		2,205
Total Current Assets	111,322	18,673	(35,600)	94,395
Property and Equipment	88,009	17,712	(566) (c)(g)	105,155
Less: Accumulated depreciation	(25,619)	(6,719)	44 (c)	(32,294)
	62,390	10,993	(522)	72,861
Investment in RHB	0	0	0 (f)(g)	0
Goodwill	12,735	0	42,252 (g)	54,987
Other assets	660	0		660
Total Assets	$ 187,107	$ 29,666	$ 6,130	$ 222,903
Current Liabilities				
Excess of outstanding checks over bank balance	$ 0	$ 1,756	$	$ 1,756
Current maturities of long term debt	123	67		190
Accounts payable	22,257	5,886		28,143
Billings in excess of costs and estimated earnings on uncompleted contracts	21,979	3,035		25,014
Accrued expenses	7,272	666		7,938
Total Current Liabilities	51,631	11,410		63,041
Long term debt, less current maturities	30,566	101	(22,400) (d)	53,067

Deferred tax liability	2,975	0		2,975
Minority interest in RHB	0	0	(6,300) (g)	6,300
Total Liabilities	85,172	11,511	(28,700)	125,383
Equity				
Common stock	110	0	(1) (f)	111
Additional paid-in capital	115,821	0	(4,416) (f)(g)	111,405
Accumulated deficit	(13,996)	0		(13,996)
Members equity	0	18,155	18,155 (b)(c)(g)	0
Total Equity	101,935	18,155	22,570	97,520
Total Liabilities and Equity	$ 187,107	$ 29,666	$ (6,130)	$ 222,903

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STERLING CONSTRUCTION COMPANY, INC.
Unaudited Pro Forma Condensed Combined Balance Sheet
Pro Forma Entries and Explanatory Notes
At September 30, 2007

Pro Forma Entries			**Amounts in Thousands**
(a)	*Collection in October 2007 of receivable due from Fisher Sand & Gravel, a related party of RHB*		
	Cash	$	12,000
	Due from related party		(12,000)
(b)	*October 2007 cash distributions to Members of RHB*		
	Members equity	$	6,000
	Cash		(6,000)
(c)	*October 2007 distribution of land and buildings to Members of RHB*		
	Accumulated depreciation	$	44
	Property and equipment		(1,566)
	Members equity		1,522
(d)	*Cash borrowed under new credit facility to purchase RHB*		
	Cash	$	22,400
	Long-term debt		(22,400)
(e)	*Liquidation of investments to fund a portion of the purchase price of RHB*		
	Cash	$	32,630
	Short-term investments		(32,630)
(f)	*Cash and common stock paid to purchase investment in RHB*		
	Investment in RHB	$	53,000
	Cash		(52,000)
	Common stock		(1)
	Additional paid-in capital		(999)
(g)	*Entries in consolidation to reflect goodwill, step-up in basis of property and equipment and minority interest in RHB*		
	Goodwill	$	42,252
	Property and equipment		1,000
	Additional paid-in capital		5,415
	Members equity		10,633
	Investment in RHB		(53,000)
	Minority interest in RHB (cost basis)		(6,300)

<u>Summary of Purchase Price and Pro Forma Preliminary Allocation of Purchase Price</u>

Summary of Purchase Price		
Cash borrowed under new credit facility	$	22,400
Issuance of common stock		1,000
Cash from sale of short-term investments		29,600

Total purchase price	$	53,000
Pro Forma Preliminary Allocation of Purchase Price		
Working capital	$	1,263
Property and equipment		10,471
Long-term debt, less current maturities		(101)
Goodwill		42,252
Minority interest		(885)
Total preliminary purchase price allocation	$	53,000

STERLING CONSTRUCTION COMPANY, INC.
Unaudited Pro Forma Condensed Combined Statements of Income

	Year Ended December 31, 2006				Nine Months Ended September 30, 2007			
	Sterling Construction Company, Inc.	Road and Highway Builders, LLC	Pro Forma Adjustments	Pro Forma Combined	Sterling Construction Company, Inc.	Road and Highway Builders, LLC	Pro Forma Adjustments	F Fo Con
	(Amounts in thousands, except per share amounts)							
nt of ons Data:								
s	$ 249,348	$ 37,163	$	$ 286,511	$ 217,877	$ 64,920	$	$ 2
earned contract	220,801	31,467		252,268	196,284	44,115		2
ofit	28,547	5,696		34,243	21,593	20,805		
and rative expenses	(10,825)	(462)		(11,287)	(8,725)	(399)		
erating income	276	549		825	433	0		
g income	17,998	5,783		23,781	13,301	20,406		
come ncome	1,426	487	(1,426) (c)	487	1,421	471	(1,421) (c)	
sale of land & s	0	0		0	0	90		
expense	(220)	(52)	(1,792) (a)	(2,064)	(55)	(70)	(1,344) (a)	
rom continuing ns before interest and axes	19,204	6,219	(3,218)	22,205	14,667	20,897	(2,765)	
interest	0	0	(518) (d)	(518)	0	0	(1,734) (d)	
rom continuing ns before income	19,204	6,219	(3,736)	21,687	14,667	20,897	(4,499)	
ax expense	(6,566)	0	(844) (a)(b)(c)	(7,410)	(4,890)	0	(5,575) (a)(b)(c)	(
me from g operations	12,638	6,219	(4,580)	14,277	9,777	20,897	(10,074)	
loss) from ued operations,	682	0		682	(25)	0	0	
me	$ 13,320	$ 6,219	$ (4,580)	$ 14,959	$ 9,752	$ 20,897	$ (10,074)	$

come per share:							
ng operations	$	1.19	$	1.34	$	0.89	$
nued operations		0.06		0.06		0.00	
me	$	1.25	$	1.40	$	0.89	$
d average of shares ing used in ng basic per ounts		10,583		10,623		10,962	
income per							
ng operations	$	1.08	$	1.21	$	0.83	$
nued operations		0.06		0.06		0.00	
me	$	1.14	$	1.27	$	0.83	$
d average of shares ing used in ng diluted per ounts		11,714		11,754		11,765	

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STERLING CONSTRUCTION COMPANY, INC.
Unaudited Pro Forma Condensed Combined Statements of Income
Pro Forma Entries and Explanatory Notes

	Pro Forma Entries(1)	**Year Ended December 31, 2006**	**Nine Months Ended September 30, 2007**
		(Amounts in Thousands)	
(a)	*Interest expense at 8 percent per annum on funds borrowed to purchase interest in RHB*		
	Retained earnings	$ (1,183)	$ (887)
	Interest expense(2)	1,792	1,344
	Income tax expense	(609)	(457)
(b)	*Income taxes on RHB s income*		
	Retained earnings	$ (1,938)	$ (6,515)
	Income tax expense	1,938	6,515
(c)	*Reduction in interest income for investments used in purchase of RHB*		
	Interest income(2)	$ 1,426	$ 1,421
	Income tax expense	(485)	(483)
	Retained earnings	(941)	(938)
(d)	*Minority interest in income of RHB*		
	Minority interest - income statement	$ 518	$ 1,344
	Minority interest - balance sheet	(518)	(1,344)

Explanatory Notes

(1) No depreciation expense on the step up in basis of property and equipment has been reflected in the pro forma condensed combined statements of income as any such expense would be an additional cost of contract revenues and, on the percentage-of-completion method of accounting, would increase revenues by approximately the increase in costs plus the gross profit thereon. As the amount of such depreciation on an annual basis, based on preliminary valuation, and increase in revenues would be approximately $200,000 each, the effect on the pro forma combined results of operations would be immaterial for the periods presented.

(2) A change of 1/8 percent in the per annum interest rate based on pro forma borrowings for the acquisition of RHB would change annual interest expense by $28,000.

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GUIDANCE

On November 8, 2007, we reaffirmed the following guidance for 2007, although we indicated that our expectations for 2007 results were at the lower end of the ranges, set forth below. On December 5, 2007, we issued the initial guidance for 2008.

	Year Ending December 31,										
	2007					2008					
	(in thousands, except per share information)										
Revenues	$	285,000	-	$	310,000	$	428,000	-	$	473,000
Income before income taxes	$	20,300	-	$	22,800	$	27,700	-	$	30,700
Net income	$	13,400	-	$	15,000	$	18,000	-	$	20,000
Net income per diluted share	$	1.13	-	$	1.26	$	1.51	-	$	1.68

Notes:

Our expectations for 2007 actual results are at the lower end of the ranges set forth above.

Guidance for 2007 and 2008 does not reflect any effects from this offering.

We expect that the completion of this offering, assuming full exercise of the over-allotment option, would reduce 2008 net income per diluted share by approximately $0.09.

Guidance reflects the results of operations of RHB and the new credit facility beginning November 1, 2007.

Assumes 11,900,000 weighted average shares of common stock outstanding.

Our current practice is to issue guidance about our expected results of operations on an annual basis, and to update it, as appropriate. Because of the seasonal variations in our business and its susceptibility to adverse weather conditions and other factors, it is not our practice to issue guidance as to quarterly results of operations.

As of September 30, 2007, we estimate that our backlog (not including RHB) was approximately $367 million, reflecting new contracts of approximately $41 million added during our third quarter through September 30, 2007.

The following discussion outlines certain factors applicable to the issuance of guidance by us. Such guidance is forward-looking information that is subject to risks and uncertainties as described in Risk Factors and elsewhere in this prospectus.

The preparation of budgets for a civil construction business such as ours are inherently inaccurate as predictors of the future due to the large number of variables, especially the need to win contracts in a competitive bidding process, and the effects that unusually good or bad weather can have on our project performance.

Guidance is based on our budgets and reforecasts as appropriate. Because our budget process reflects equipment and work crew requirements, production goals and incentive compensation benchmarks, and is subject to many assumptions, risks and uncertainties, when we publish guidance as to expected results of operations, we evaluate the likelihood of achieving those budgets.

Our determination of budgeted revenues and operating profits reflects the following factors, among other things:

- The level and potential profitability of uncompleted contracts in backlog;
- The size of our equipment fleet, its suitability for the contracts in backlog and expected to be added, and the capital expenditures that may be required, or equipment rental costs if such equipment is not required on a permanent basis;
- Forecast depreciation, which is based on our existing fleet and expected additions and disposals;

Our existing work crews, their suitability for the contracts in backlog and expected to be added, and our ability to add further crews if necessary;

The bidding climate, which affects our ability to replace contracts built and also affects the gross margins that may be achieved on new contract wins;

The levels of activity in the various geographic markets in which we operate, and the opportunities available to enter new markets;

Our competitors and their expected impacts on our markets;

Our expectations about efficiency, including the extent to which we can best match our equipment and work crews to the mix of contracts in backlog at any time;

Our expectations about the weather and the effects of weather on our efficiency and project profitability. We assume that we will suffer rain interruptions, particularly in Texas, based on historical averages, and this is inherently inaccurate;

The expected availability and cost of bonding, which depends on levels of working capital and stockholders equity, among other factors;

Our expectations about changes in the availability and costs of materials, subcontract services, fuel, and other expense items;

The extent to which our work-in-progress can absorb the indirect costs of our equipment fleet;

Expectations about changes in the number and compensation of our construction crews;

Expected additions to, and costs of, our supervisory and project management staff;

Expected changes in overhead expense levels to support the level of our business;

Employee incentive compensation, which is generally budgeted at the level expected to be paid if the budget is achieved;

Our expected insurance costs, which are significant and can fluctuate materially;

Other anticipated changes in our expenses; and

Our expectations as to the likelihood of incurring or achieving any contract performance penalties or incentive awards that depend on the timeliness of project completion.

The budgeting of corporate expenses reflects personnel requirements, expected legal and accounting needs (especially changes in the regulatory environment), public company costs, expenses relating to existing and forecast stock option grants, and other expected changes in the overhead structure or costs thereof.

Interest costs are budgeted based on existing and anticipated levels of cash and debt, and the expected costs of borrowing to finance our equipment fleet and working capital needs. Taxation is budgeted based on prevailing and expected federal and state tax rates, and the expected impact of full utilization of our NOLs in 2007.

Unless otherwise indicated, our guidance does not reflect any possible future business acquisitions.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion together with the consolidated financial statements and the notes thereto included elsewhere in this prospectus. This discussion contains forward-looking statements that are based on management s current expectations, estimates and projections about our business and operations. The cautionary statements made in this prospectus should be read as applying to all forward-looking statements wherever they appear in this prospectus. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under Risk Factors and elsewhere in this prospectus.

Overview

We are a leading heavy civil construction company that specializes in the building, reconstruction and repair of transportation and water infrastructure. Our transportation infrastructure projects include highways, roads, bridges and light rail, and our water infrastructure projects include water, wastewater and storm drainage systems. We provide general contracting services primarily to public sector clients utilizing our own employees and equipment for activities, including excavating, concrete and asphalt paving, installation of large-diameter water and wastewater distribution systems, construction of bridges and similar large structures, construction of light rail infrastructure, concrete batch plant operations, concrete crushing and aggregates and asphalt paving operations. We perform the majority of the work required by our contracts with our own crews, and generally engage subcontractors only for ancillary services.

Our business was founded in 1955 and has a history of profitable growth, which we have achieved by expanding both our service profile and our market areas. This involves adding services, such as our concrete operations, in order to capture a greater percentage of available work in our current and potential markets. It also involves strategically expanding our operations, either by establishing a branch office in a new market, often after having successfully bid on and completed a project in that market, or by acquiring a company that gives us an immediate entry into a market. We extended both our service profile and our geographic market reach with our recent acquisition of Road and Highway Builders, LLC, which we refer to as RHB.

Critical Accounting Policies

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements for the fiscal year ended December 31, 2006, included in this prospectus.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our business involves making significant estimates and assumptions in the normal course of business relating to our contracts due to, among other things, the one-of-a-kind nature of most of our contracts, the long-term duration of our contract cycle and the type of contract utilized. Therefore, management believes that Revenue Recognition is the most important and critical accounting policy. The most significant estimates with regard to these financial statements relate to the estimating of total forecasted construction contract revenues, costs and profits in accordance with accounting for long-term contracts. Actual results could differ from these estimates and such differences could be material.

Our estimates of contract revenue and cost are highly detailed. We believe, based on our experience, that our current systems of management and accounting controls allow management to produce reliable estimates of total contract revenue and cost during any accounting period. However, many factors can and do change during a contract performance period, which can result in a change to contract profitability from one financial reporting period to another. Some of the factors that can change the estimate of total contract revenue, cost and profit include differing site conditions (to the extent that contract remedies are unavailable), the failure of major material suppliers to deliver on time, the performance of subcontractors, unusual weather conditions,

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our productivity and efficient use of labor and equipment and the accuracy of the original bid estimate. Because we have a large number of contracts in process at any given time, these changes in estimates can sometimes offset each other without affecting overall profitability. However, significant changes in cost estimates on larger, more complex projects can have a material impact on our financial statements and are reflected in our results of operations when they become known.

When recording revenue from change orders on contracts that have been approved as to scope but not price, we include in revenue an amount equal to the amount that we currently expect to recover from customers in relation to costs incurred by us for changes in contract specifications or designs, or other unanticipated additional costs. Revenue relating to change order claims is recognized only if it is probable that the revenue will be realized. When determining the likelihood of eventual recovery, we consider such factors as evaluation of entitlement, settlements reached to date and our experience with the customer. When new facts become known, an adjustment to the estimated recovery is made and reflected in the current period results.

Revenue Recognition

The majority of our contracts with our customers are fixed unit price. Under such contracts, we are committed to providing materials or services required by a contract at fixed unit prices (for example, dollars per cubic yard of concrete poured or per cubic yard of earth excavated). To minimize increases in the material prices and subcontracting costs used in tendering bids, we obtain firm quotations from our suppliers and subcontractors. After we are advised that our bid is the winning bid, we enter into firm contracts with our materials suppliers and sub-contractors, thereby mitigating the risk of future price variations affecting those contract costs. Such quotations do not include any quantity guarantees, and we therefore have no obligation for materials or subcontract services beyond those required to complete the respective contracts that we are awarded for which quotations have been provided. The principal remaining risks under fixed price contracts relate to labor and equipment costs and productivity levels. As a result, we have rarely been exposed to material price or availability risk on contracts in our backlog, except with respect to fuel and other petroleum products. Most of our state and municipal contracts provide for termination of the contract for the convenience of the owner, with provisions to pay us only for work performed through the date of termination.

We use the percentage of completion accounting method for construction contracts in accordance with the American Institute of Certified Public Accountants Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Revenue and earnings on construction contracts are recognized on the percentage of completion method in the ratio of costs incurred to estimated final costs. Contract cost consists of direct costs on contracts, including labor and materials, amounts payable to subcontractors and equipment expense (primarily depreciation, fuel, maintenance and repairs). Depreciation is computed using the straight-line method for construction equipment. Contract cost is recorded as incurred, and revisions in contract revenue and cost estimates are reflected in the accounting period when known.

The accuracy of our revenue and profit recognition in a given period is dependent on the accuracy of our estimates of the total billings that will be rendered and the cost to finish uncompleted contracts. Our cost estimates for all of our significant contracts use a highly detailed bottom up approach, and we believe our experience allows us to produce reliable estimates. However, our contracts can be highly complex, and in almost every case, the profit margin estimates for a contract will either increase or decrease to some extent from the amount that was originally estimated at the time of bid. Because we have a large number of contracts of varying levels of size and complexity in process at any given time, these changes in estimates can sometimes offset each other without materially impacting our overall profitability. However, large changes in revenue or cost estimates can have a more significant effect on profitability.

There are a number of factors that can contribute to changes in estimates of contract cost and profitability. The most significant of these include the completeness and accuracy of the original bid, recognition of costs associated with scope changes, extended overhead due to customer-related and weather-related delays, subcontractor performance issues, site conditions that differ from those assumed in the original bid (to the extent contract remedies are unavailable), the availability and skill level of workers in the geographic location of the contract and changes in the availability and proximity of materials. The foregoing factors, as well as the stage of completion of contracts in process and the mix of contracts at different margins, may cause fluctuations in gross profit between periods, and these fluctuations may be significant.

Valuation of Long-Term Assets

Long-lived assets, which include property, equipment and acquired identifiable intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment evaluations involve management estimates of useful asset lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management, and this could have a material effect on operating results and financial position. In addition, we had goodwill with a value of approximately $13 million at December 31, 2006, which must be reviewed for impairment at least annually in accordance with Statement of Financial Accounting Standards No. 142, or SFAS 142. The impairment testing required by SFAS 142 requires considerable judgment, and an impairment charge may be required in the future. We completed our last annual impairment review for goodwill as of October 1, 2006, and it did not result in an impairment. While the review for impairment analysis of goodwill for 2007 has not been completed, we do not expect any impairment.

Income Taxes

Deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based upon projected future taxable income and the expected timing of the reversals of existing temporary differences. Because realization of deferred tax assets related to net operating loss carry forwards, or NOLs, is not assured, our valuation allowance at the respective time represents the amount of the deferred tax assets that we determine are more likely than not to expire unutilized. Reflecting management s assessment of expected future operating profitability, we expect to utilize all remaining NOLs; therefore, we eliminated our valuation allowance in 2005. We had previously reduced our valuation allowance in 2004 by $18.9 million. We are subject to the alternative minimum tax (AMT). Because we are still utilizing our NOLs to offset taxable income, payment of AMT results in a reduction of our deferred tax liability.

An ownership change, which may occur if there is a transfer of ownership exceeding 50% of our outstanding shares of common stock in any three-year period, may lead to a limitation in the usability of, or a potential loss of some or all of, the NOLs. In order to reduce the likelihood of an ownership change occurring, our restated and amended certificate of incorporation, as amended, prohibits transfers of our common stock resulting in, or increasing, individual holdings in excess of 4.5% of our common stock, unless such transfer is made by us or with the consent of our board of directors.

Because the regulations governing NOLs are highly complex and may be changed from time to time, and because our attempts to prevent an ownership change from occurring may not be successful, the NOLs could be limited or lost. We believe that the NOLs are currently available in full, however, and intend to take all reasonable and appropriate steps to ensure that they will remain available. To the extent the NOLs become unavailable to us, our future taxable income and that of any consolidated affiliate will be subject to federal taxation, thus reducing funds otherwise available for corporate purposes.

As of December 31, 2006, we had NOLs of approximately $9.8 million, which will expire in 2020, if unused. We expect that our NOLs will be fully utilized during 2007. After the expiration or utilization of our NOLs, we have available to us the excess tax benefit resulting from exercise of a significant number of non-qualified in-the-money options amounting to $4.1 million as of December 31, 2006. However, because we will no longer have the significant offsets provided by the NOLs, a comparison of our future cash flows to our historic cash flows may not be meaningful.

On January 1, 2007, we adopted the provisions of Financial Interpretation No. 48, (FIN 48) which establishes the criteria that an individual tax position must meet for some or all of the benefits of that position to be recognized in our financial statements. Adoption of FIN 48 did not have a material impact on our consolidated financial statements.

Results of Operations

The following compares our results of operations for the nine months ended September 30, 2007 and 2006 and for the fiscal years ended December 31, 2006, 2005 and 2004.

Three months ended September 30, 2007 compared with three months ended September 30, 2006

	2007	2006	% Change
	(Dollar amounts in thousands) (unaudited)		
Revenues	$ 77,714	$ 68,743	13.1%
Gross profit	7,915	7,878	0.5%
Gross margin	10.2%	11.5%	(11.3%)
General and administrative expenses and other	3,257	2,777	17.3%
Operating income	4,658	5,101	(8.7%)
Operating margin	6.0%	7.4%	(18.9%)
Interest income, net	467	253	84.6%
Income from continuing operations, before taxes	5,125	5,354	(4.3%)
Income taxes	1,682	1,809	(7.0%)
Net income from continuing operations	3,443	3,545	(2.9%)
Net income from discontinued operations		65	N/M
Net income	$ 3,443	$ 3,610	(4.6%)

Revenues. Revenues increased approximately $9 million (13%) during the third quarter of 2007 compared with the third quarter of the prior year, reflecting continued growth in our resources. Our workforce increased by approximately 13% during the same period, and we have continued to increase the size of our equipment fleet. However, the increase in revenues in the third quarter of 2007 was less than expected principally because of the above-average number of days and amounts of heavy rainfall experienced across all our Texas markets throughout the quarter.

Backlog. At the end of the third quarter of 2007, our backlog of construction projects was $367 million, which was down by about one month s billings from the $394 million backlog at the beginning of the quarter. We added approximately $41 million of new contracts in the third quarter of 2007. At September 30, 2007, we included in backlog approximately $12 million of contracts on which we were the apparent low bidder and expect to be awarded the contracts, but as of the quarter-end these contracts had not been officially awarded. Historically, subsequent non-awards of such low bids have not materially affected our backlog or financial condition.

Gross profit. Gross profit was flat at $7.9 million for the period-to-period comparison. This represents a decline in gross margins to 10.2% for the three months ended September 30, 2007 from 11.5% in the comparable period of the prior year. The decrease in gross margins was due to, among other things, a lower average gross margin in backlog and work in progress in 2007 compared to the prior year in part because of a higher mix of lower margin highway work, and the downward pressure that rainfall has had on productivity. Due to the geographic diversity of our contracts and their different stages of completion, it is difficult to quantify the effect the rainfall has had. The lower productivity resulted in lower utilization of our equipment during the third quarter of 2007, causing our work-in-progress to bear a higher level of equipment cost than expected.

General and administrative expenses, net of other income. General and administrative expenses, net, increased by $480,000 predominantly due to the hiring of additional personnel and higher salaries.

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Operating income. The decrease in operating income stems from the increase in general and administrative expenses combined with flat gross profit.

Interest income and expense. In the third quarter of 2007, interest income increased by $151,000 compared with the third quarter of the prior year. The increase was due to interest earned on higher cash balances and investment in short-term auction rate securities throughout the period, which resulted principally from proceeds received from operating activities, including proceeds received in the mobilization phase of certain contracts, the unutilized portion of the proceeds of our 2006 equity offering, and higher interest rates. Interest expense in the third quarter of 2007 was approximately $13,000 compared with interest expense of $76,000 in the comparable period of the prior year.

Income taxes. Our effective income tax rate was 33.3% and 34.2% for the three months ended September 30, 2007 and 2006, respectively. The decrease in the effective tax rate resulted from an increase in non-taxable income from investments in municipal instruments. For the periods, our federal income taxes were largely offset by net operating loss carry-forwards.

Nine Months Ended September 30, 2007 Compared to the Nine Months Ended September 30, 2006

	2007	2006	% Change
	(Dollar amounts in thousands)		
Revenues	$ 217,877	$ 185,233	17.6%
Gross profit	21,593	21,875	(1.3%)
Gross margin	9.9%	11.8%	(16.1%)
General and administrative expenses and other	8,292	7,928	4.6%
Operating income	13,301	13,947	(4.6%)
Operating margin	6.1%	7.5%	(18.7%)
Interest income, net	1,366	803	70.1%
Income from continuing operations, before taxes	14,667	14,750	(0.6%)
Income taxes	4,890	5,027	(2.7%)
Net income from continuing operations	9,777	9,723	0.6%
Net (loss) income from discontinued operations	(25)	444	(105.6%)
Net income	$ 9,752	$ 10,167	(4.1%)

Revenues. Revenues increased approximately $32.6 million in the first nine months of 2007 compared with the first nine months of the prior year, reflecting the continued expansion of our construction fleet, addition of a concrete plant and addition of crews. We achieved 45% growth in our state highway construction revenues during the first nine months of 2007 as a result of increased state highway contracts in the past two years. Our ability to be the successful low bidder on these contracts was assisted by an improved bidding climate principally due to a large state highway program which increased total funding in the Houston area. We had a 16% decrease in our municipal construction during the first nine months of 2007 as a result of decreased contract awards in this sector.

Our workforce grew by 13% year-over-year, and we purchased over $25 million in property, plant and equipment within the twelve month period ending September 30, 2007. Both of these increases in resources have allowed us to increase our volume when the poor weather did not restrict us from working on projects.

Backlog. As of September 30, 2007, our backlog of construction projects was $367 million, compared with $395 million at the beginning of fiscal 2007. In the first nine months of 2007, we added approximately $181 million of new contracts.

Gross profit. Gross profits decreased by $0.3 million, despite the higher revenues this year, due to a decrease in gross margins to 9.9% for the nine months ended September 30, 2007 from 11.8% in the prior year period. The decrease in gross margins was due principally to the lower average margin in backlog during

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the nine months ended September 30, 2007 due to the change in mix of construction of transportation versus water infrastructure projects, compared with the comparable period in the prior year, and to the wetter weather in the period, which adversely affected productivity, including higher equipment costs in the third quarter as discussed above.

General and administrative expenses, net of other income. General and administrative expenses, net of other income, increased $0.4 million during the first nine months of 2007 compared with the comparable period in 2006 due to the hiring of additional personnel and higher salaries.

Operating income. There was a decrease in operating income of $0.6 million for the first nine months of 2007 compared to the comparable 2006 period due to the decreased gross profit and an increase in general and administrative expenses.

Interest income and expense. Through the third quarter of 2007, net interest income increased by $0.6 million compared with the comparable prior year s period. The increase was due to interest earned on higher cash balances and investment in short-term auction rate securities throughout the period, which resulted principally from net cash provided by operating activities, including proceeds received in the mobilization phase of certain contracts, the unutilized proceeds of our 2006 equity offering, and higher interest rates. Interest cost in the first nine months of 2007 was approximately $79,000, of which $24,000 was capitalized as part of the expansion of our office and shop facilities, compared with interest expense of $190,000 in the comparable prior year period.

Income taxes. Our effective income tax rate was 33.3% and 34.1% for the nine months ended September 30, 2007 and 2006, respectively. The decrease in the effective tax rate is a result of an increase in non-taxable income from investments in municipal instruments. Through the periods reported, our federal income taxes were largely offset by net operating loss carryforwards.

Fiscal Year Ended December 31, 2006 (2006) Compared with Fiscal Year Ended December 31, 2005 (2005).

	2006	2005	% Change
	(Dollar amounts in thousands)		
Revenues	$ 249,348	$ 219,439	13.6%
Gross profit	28,547	23,756	20.2%
Gross margin	11.4%	10.8%	5.6%
General and administrative expenses and other	10,549	9,091	15.0%
Operating income	17,998	14,665	22.7%
Operating margin	7.2%	6.7%	7.5%
Interest income	1,426	150	850.6%
Interest expense	220	1,486	(85.2)%
Income from continuing operations before taxes	19,204	13,329	44.1%
Income taxes	6,566	2,788	135.5%
Net income from continuing operations	12,638	10,541	19.9%
Net income from discontinued operations, including gain on sale	682	559	22.0%
Net income	$ 13,320	$ 11,100	20.0%
Backlog, end of year	$ 395,000	$ 307,000	28.7%

Revenues. Our revenue increase of $29.9 million, or 14%, from 2005 to 2006 included a substantial increase in revenues from state highway work of $89.0 million, or 114%, to $166.3 million as we took advantage of the very strong bidding climate in this sector and the resultant increase in the proportion of state highway contracts in our backlog. In particular, we saw a near-tripling of revenues in the Dallas market, where we won several major contracts in early 2006, and also good growth in the San Antonio market. State highway contracts generally allow us to achieve greater revenue and gross profit production from our

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equipment and work crews, although on average the gross margins on this work are slightly lower than on our water infrastructure contracts in the municipal markets.

At the same time there was a decrease in our municipal revenues of $59.0 million, or 41.5%, to $83 million.

The overall revenue expansion was facilitated by an increase of over one hundred employees in 2006, and a significant increase in our equipment fleet. The increase was achieved despite a generally wetter year in 2006 in most of our markets than in 2005, which adversely affected production rates, and the impact of some significant delays in starting certain contracts in the first three quarters of 2006, which were due to factors outside our control.

Gross Profit. The improvement in gross profits in 2006 was due principally to the increase in revenues, combined with the higher gross margins. This margin improvement was attributable principally to a better margin mix in backlog resulting from the improved bidding climate since 2004, and to efficiencies resulting from the higher revenue levels achieved in 2006. These factors overcame the negative impact on gross margins of the wetter weather in 2006 and the delay in starting certain contracts, as described above. They also helped offset the downward pressure on gross margins arising from the increased percentage of state highway work, from 39% in 2005 to 67% in 2006. In both years, we achieved a number of incentive awards upon the successful completion of contract milestones.

Backlog. The $88 million increase in backlog in 2006 reflected the on-going broadening of our service platform and the generally good bidding environment in our markets, especially in the Dallas/Fort Worth area where our backlog expanded significantly during the year.

General and Administrative Expenses, Net of Other Income and Expense. The increase in general and administrative expenses, or G&A, in 2006 was principally due to higher employee expenses, including an increase in staff, increased stock-based compensation expense resulting from our higher share price in 2006, and higher legal and accounting fees. Despite these increases in G&A expenses in support of the growing business, our ratio of G&A expenses to revenue remained essentially unchanged from 2005 to 2006, at 4%.

Operating Income. The 2006 increase in operating income resulted principally from the higher revenues and gross margins, which led to an increase in operating margin from 6.7% to 7.2%.

Interest Expense Net of Interest Income. In 2006, we invested cash raised in our public stock offering on which we earned over $1.4 million of interest. In 2005, we incurred $1.5 million of interest expense primarily on related party debt which was repaid in January 2006 from the proceeds of our public offering.

Income Taxes. In 2005, we recorded a reduction in the valuation allowance related to the deferred tax asset following management s review of the likelihood that tax loss carryforwards would be substantially utilized in the future. This resulted in an effective tax rate of 21% in 2005. In 2006, we recorded a more normal tax charge at 34.2% of income.

Net Income From Continuing Operations. The 2006 increase in net income from continuing operations was the result of the various factors discussed above.

Effect of Income Tax Benefits. Although we have the benefit of significant NOLs, which offset most of our income from federal income taxes, we are required to reflect a full tax charge in our financial statements through an adjustment to the deferred tax asset. In addition, certain adjustments resulting from our recovery of the deferred tax asset are recorded in the income statement. Those adjustments resulted in a benefit of $1.4 million in 2005. Assuming an income tax rate of 34%, and disregarding adjustments to our deferred tax asset and other timing differences, net income would have been $8.8 million for 2005 so that, on a comparative basis, the net income level of $13.3 million for 2006 represents an increase of approximately 44%. Similarly, basic and fully diluted earnings from continuing operations per common share for 2005, reflecting an effective tax rate of 34%, would have been $1.13 and $0.92, respectively, for 2005. A

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reconciliation of reported net income for 2006 and 2005 to net income as if a 34% tax rate had been applied is set forth in the table below.

	2006	2005
	(Amounts in thousands, except per share data)	
Income from continuing operations before income taxes, as reported	$ 19,204	$ 13,329
Provision for income taxes (assuming a 34% effective rate)	6,529	4,532
Net income from continuing operations as if a 34% rate had been applied	$ 12,675	$ 8,797
Basic income from continuing operations per common share as if a 34% effective tax rate had been applied	$ 1.20	$ 1.13
Diluted income from continuing operations per common share as if a 34% effective tax rate had been applied	$ 1.08	$ 0.92

Discontinued Operations, Net of Tax. Discontinued operations for 2006 and 2005 represent the results of operations of our distribution business, which was operated by Steel City Products, LLC. The increase in the net income from discontinued operations was primarily due to increases in gross margins from 16% in 2005 to 16.5% in 2006 through the date of sale.

The distribution business was sold on October 27, 2006. We recorded proceeds from the sale of approximately $5.4 million and paid $3.8 million to retire the Steel City Products, LLC revolving line of credit. We recorded a pre-tax gain on the sale of approximately $250,000 and recorded $128,000 in income tax expense related to that gain.

Fiscal Year Ended December 31, 2005 (2005) Compared with Fiscal Year Ended December 31, 2004 (2004).

	2005	2004	% Change
	(Dollar amounts in thousands)		
Revenues	$ 219,439	$ 132,478	65.6%
Gross profit	23,756	13,261	79.1%
Gross margin	10.8%	10.0%	8.2%
General and administrative expenses and other	9,091	7,696	18.3%
Operating income	14,665	5,565	163.5%
Operating margin	6.7%	4.2%	59.1%
Interest income	150	9	1,567%
Interest expense	1,486	1,465	(8.2%)
Income from continuing operations, before minority interest and taxes	13,329	4,109	224.4%
Minority interest		962	(100.0%)
Income taxes	2,788	(2,134)	N/M
Net income from continuing operations	10,541	5,281	99.6%
Net income from discontinued operations	559	372	50.3%

Net income	$ 11,100	$ 5,653	96.4%
Backlog, end of year	$ 307,000	$ 232,000	32.3%

Revenues. The revenue increase from 2004 to 2005, which includes an increase in revenues from state highway work of $39.0 million, or 98%, to $77.4 million and an increase in municipal revenues of $48.7 million, or 52%, to $141.9 million was due to several factors, including:

a growing backlog, which enabled us to expand our equipment fleet and to hire more field crews, especially in the San Antonio and Austin markets;

the continuing expansion of our construction capabilities, which allowed us to bid for and take on larger and more complex work;

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certain water main contracts that included large diameter pipe, facilitating greater revenues to be generated by our crews;

the increase in the proportion of state highway contracts, which generally allow greater revenue production from our equipment and work crews; and

generally better weather during 2005, which allowed for continuous work on construction contracts, compared with one of the wettest years on record in 2004.

Gross Profit. The improvement in gross profits in 2005 was due principally to the 66% revenue increase, combined with the slightly higher gross margins. The margin improvement was attributable to the gradual improvement in gross margins in our backlog during 2005 combined with improved productivity resulting from good weather during the year and the efficiencies arising from having a greater number of larger and longer duration contracts than in the past.

Backlog. The $75 million increase in backlog reflected the on-going broadening of our service platform and the continuation of a favorable bidding climate in our markets, and included the winning of several large contracts, particularly two TXDOT contracts with an aggregate value of $103 million and a $46 million contract with Travelers Casualty and Surety Company of America to complete a TXDOT contract taken over by Travelers after a default by the original contractor.

General and Administrative Expenses, Net of Other Income and Expense. The increase in general and administrative expenses, or G&A, in 2005 was principally due to higher employee expenses, including an increase in staff, increased variable compensation resulting from our improved profits, and higher legal and accounting fees. Despite these increases in G&A expenses in support of the growing business, the significantly higher revenues in 2005 meant that the ratio of G&A expenses to revenue decreased from 6% in 2004 to 4% in 2005.

Operating Income. The 2005 increase in operating income and operating margin resulted from the higher gross margins and lower ratio of G&A expenses to revenues.

Interest Expense Net of Interest Income. The decrease in net interest expense in 2005 resulted from a $141,000 increase in interest income earned on higher cash balances.

Minority Interest. Because we acquired the remaining 19.9% of Sterling Houston Holdings, Inc. in December 2004, no minority interest expense was recorded in 2005.

Income Taxes. In both 2005 and 2004, we recorded a reduction in the valuation allowance related to the deferred tax asset following management s review of the likelihood that tax loss carryforwards would be substantially utilized in the future. This resulted in an effective tax rate of 21% in 2005 and a tax benefit in 2004.

Net Income From Continuing Operations. The 2005 increase in net income from continuing operations was the result of the factors discussed above and resulted in the increase in basic and diluted income per common share from continuing operations.

Effect of Income Tax Benefits. Although we have the benefit of significant NOLs, which offset most of our income from federal income taxes, we are required to reflect a full tax charge in our financial statements through an adjustment to the deferred tax asset. In addition, certain adjustments resulting from our recovery of the deferred tax asset are recorded in the income statement. Those adjustments resulted in a benefit of $1.4 million in 2005 and $1.9 million in 2004. Assuming an income tax rate of 34%, and disregarding adjustments to our deferred tax asset and other timing differences, net income would have been $8.8 million for 2005 and $2.1 million for 2004, and on the same basis, basic and fully diluted earnings from continuing operations per common share would have been $1.13 and $0.92, respectively, for 2005 compared with $0.39 and $0.30, respectively, for 2004. A reconciliation of reported net income for 2005 and 2004 to net income as if a 34% tax rate had been applied is set forth in the table below.

	2005	2004
	(Amounts in thousands, except per share data)	
Income from continuing operations before income taxes, as reported	$ 13,329	$ 3,147
Provision for income taxes (assuming a 34% effective rate)	4,532	1,070
Net income from continuing operations as if a 34% rate had been applied	$ 8,797	$ 2,077
Basic income from continuing operations per common share as if a 34% rate had been applied	$ 1.13	$ 0.39
Diluted income from continuing operations per common share as if a 34% rate had been applied	$ 0.92	$ 0.30

Discontinued Operations, Net of Tax. Discontinued operations for 2005 and 2004 represent the results of operations of our distribution business, which was operated by Steel City Products, LLC. The increase in the net income of discontinued operations was primarily due to a 2% increase in sales in 2005 combined with an improvement in gross margins from 15% to 16%.

Historical Cash Flows

The following table sets forth information about our cash flows for the years ended December 31, 2006, 2005 and 2004 and for the nine months ended September 30, 2007 and 2006.

	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2005	2004	2007	2006
				(unaudited)	
	(Amounts in thousands)				
Cash and cash equivalents (at end of period)	$ 28,466	$ 22,267	$ 3,449	$ 14,894	$ 18,996
Net cash provided by (used in) Continuing operations:					
Operating activities	23,089	31,266	4,171	14,648	9,846
Investing activities	(52,358)	(10,972)	(5,809)	(28,586)	(46,567)
Financing activities	35,468	(1,476)	2,436	366	33,450

Discontinued operations:					
Operating activities	495	(294)	(977)		782
Investing activities	4,739		(34)		(38)
Financing activities	(5,357)	349	964		(743)
Supplementary information:					
Capital expenditures	24,849	11,392	3,555	23,033	24,706
Working capital (at end of period)	62,874	18,354	16,052	59,691	62,874

Operating activities

Significant non-cash items included in operating activities are:

depreciation and amortization, which for the first nine months of 2007 totaled $6.8 million, an increase of $1.2 million from the first nine months of 2006, as a result of the continued increase in the size of our construction fleet in recent years; and

stock-based compensation expense increased by $0.2 million as a result of restricted stock and stock option grants in the first nine months of 2006 and 2007 that were issued at higher grant prices due to increases in our stock price.

The significant components of the changes in working capital are as follows:

contracts receivable increased $9.7 million in the first nine months of 2007, compared with an increase of $18.3 million in the first nine months of 2006, both of which are attributable to revenue increases and to higher levels of customer retentions;

cost and estimated earnings in excess of billings on uncompleted contracts increased by $4.1 million in the first nine months of 2007 compared to the first nine months of 2006 increase of $1.1 million, principally due to the start up of several new jobs;

billings in excess of costs on uncompleted contracts increased by $0.4 million in the first nine months of 2007, compared with the first nine months of 2006 increase of $6.8 million. These changes principally reflect fluctuations in the timing and amount of mobilization payments received for the start-up of certain contracts; and

trade payables, which increased by $4.9 million in the first nine months of 2007, compared with a decrease of $0.9 million in the first nine months of 2006; these variations resulted from changes in the volume of materials and sub-contractors in the respective periods due to the change in the mix of contracts in progress.

Investing activities

Expenditures for the replacement of certain equipment, to expand our construction fleet, and to acquire real estate for materials handling and future shop and office sites in Dallas and San Antonio, totaled $23 million in the first nine months of 2007, compared with a total of $24.7 million of equipment purchases in the same period last year. In 2006, we began investing surplus funds generated by our equity offering into short-term auction rate securities.

Financing activities

Financing activities in the first nine months of 2007 primarily reflected no change in the outstanding revolving line of credit balance. In the prior year period, funds generated by the offering of common stock in January 2006 totaled approximately $27.0 million, net of expenses, and funds generated from the exercise of options and warrants in that period totaled $742,000. In addition, in the first nine months of 2006, $8.5 million of the offering proceeds was used to prepay all of our outstanding 12% five-year promissory notes held by members of management.

Liquidity

The level of working capital for our construction business varies due to fluctuations in:

costs and estimated earnings in excess of billings;

billings in excess of costs and estimated earnings;

the size and status of contract mobilization payments and progress billings;

customer receivables and contract retentions; and

the amounts owed to suppliers and subcontractors.

Some of these fluctuations can be significant.

The significant increase in our working capital in 2006, due in part to our public offering in January 2006, was an important element in enabling us to expand our bonding facilities and therefore to bid on larger and longer-lived projects than in the past.

We believe that we have sufficient liquid financial resources, including the unused portion of our new credit facility described below, to fund our requirements for the next twelve months of operations, including our bonding requirements. We expect no other material changes in our liquidity.

Sources of Capital

Revolving Credit Facility

In addition to cash provided from operations, we use our revolving credit facility within Comerica Bank to finance working capital needs and capital expenditures. Prior to October 31, 2007, our credit facility had a maturity date of May 10, 2009 and was a collateral-based facility with total borrowing capacity, subject to a borrowing base, of up to $35.0 million. At September 30, 2007, $30.0 million in borrowings were outstanding under the credit Facility and we had unused availability of $5.0 million, in addition to cash and cash equivalents of $14.9 million and short-term investment securities available for sale of $32.6 million. We were in compliance with all of the covenants under our credit facility in existence at September 30, 2007.

On October 31, 2007, we entered into a new credit facility with Comerica Bank, which replaced the prior credit facility and will mature on October 31, 2012. The new credit facility is also collateral-based with total borrowing capacity, subject to a borrowing base, of up to $75.0 million. Borrowings under the new credit facility were used to finance the RHB acquisition and refinance indebtedness outstanding under the prior credit facility, and will be used to finance working capital. At October 31, 2007, the aggregate borrowings outstanding under the new credit facility were $22.4 million, and the aggregate amount of letters of credit outstanding under the new credit facility was $1.5 million.

At our election, the loans under the new credit facility bear interest at either a LIBOR-based interest rate or a prime-based interest rate. The unpaid principal balance of each LIBOR-based loan bears interest at a variable rate equal to LIBOR plus an amount ranging from 1.25% to 2.25% depending on the pricing leverage ratio that we achieve. The pricing leverage ratio is determined by the ratio of our average total debt, less cash and cash equivalents, to the EBITDA that we achieve on a rolling four-quarter basis. The pricing leverage ratio is measured quarterly. If we achieve a pricing leverage ratio of (a) less than 1.00 to 1.00; (b) equal to or greater than 1.00 to 1.00 but less than 1.75 to 1.00; or (c) greater than or equal to 1.75 to 1.00, then the applicable LIBOR margins will be 1.25%, 1.75% and 2.25%, respectively. Interest on LIBOR-based loans is payable at the end of the relevant LIBOR interest period, which must be one, two, three or six months. The new credit facility is subject to our compliance with certain covenants, including financial covenants relating to fixed charges, leverage, tangible net worth, asset coverage and consolidated net losses.

The unpaid principal balance of each prime-based loan will bear interest at a variable rate equal to Comerica s prime rate plus an amount ranging from 0% to 0.50% depending on the pricing leverage ratio that we achieve. If we achieve a pricing leverage ratio of (a) less than 1.00 to 1.00; (b) equal to or greater than 1.00 to 1.00 but less than 1.75 to 1.00; or (c) greater than or equal to 1.75 to 1.00, then the applicable prime margins will be 0.0%, 0.25% and 0.50%, respectively.

Mortgages

In 2001, we completed the construction of a new headquarters building on land owned by us adjacent to our equipment repair facility in Houston. The building was financed principally through an additional mortgage of $1.1 million on the land and facilities at a floating interest rate which at September 30, 2007 was 8.0% per annum, repayable over 15 years. This mortgage is cross-collateralized with a prior mortgage on the land and equipment repair facilities, which were purchased in 1998, in the original amount of $500,000, repayable over 15 years with an interest rate of 9.3% per annum. In addition, we have available to us a long-

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term facility of up to $1.5 million repayable over 15 years to finance the expansion of our office building and maintenance facilities.

Uses of Capital

Contractual Obligations

The following table sets forth our fixed, non-cancelable obligations at December 31, 2006.

	Payments due by Period			
	Less Than			More Than