STERLING CONSTRUCTION CO INC
Form 424B3
December 04, 2009

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The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-152371

SUBJECT TO COMPLETION
PRELIMINARY PROSPECTUS SUPPLEMENT DATED DECEMBER 3, 2009

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus dated August 4, 2008)

2,400,000 Shares

Sterling Construction Company, Inc.

Common Stock

We are offering to sell 2,400,000 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 2, 2009 was $17.07.

We have granted the underwriters the right to purchase up to 360,000 additional shares of common stock to cover any over-allotments. The underwriters can exercise this right at any time within 30 days after the offering.

Investing in our common stock involves risks, including those described under Risk Factors on page S-8 of this prospectus supplement.

	Per Share	Total
Offering price	$	$
Discounts to underwriters	$	$
Offering proceeds to us, before expenses	$	$

The underwriters expect to deliver the shares of common stock to investors on or about , 2009.

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

D.A. Davidson & Co.

BB&T Capital Markets

The date of this prospectus supplement is , 2009

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement, which describes the terms of this offering of shares of our common stock, supplements the accompanying prospectus, which provides more general information. Generally, when we refer to the prospectus, we are referring to this prospectus supplement and the accompanying prospectus combined. If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. This prospectus supplement contains information about the shares of our common stock offered in this offering and may add to, update or change the information in the accompanying prospectus. Before you invest in shares of our common stock, you should carefully read this prospectus supplement, along with the accompanying prospectus, in addition to the information contained in the documents incorporated by reference into this prospectus supplement and referred to under the heading Where You Can Find More Information.

You should rely only on the information contained or incorporated by reference in this prospectus supplement 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 supplement is accurate only as of the date of this prospectus supplement, 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 supplement and the accompanying 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 supplement and the accompanying prospectus were prepared on our or our affiliates behalf, and none of the sources cited in this prospectus supplement and the accompanying 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 supplement and the accompanying prospectus. This summary does not contain all of the information that may be important to you. You should read this entire prospectus supplement and the accompanying prospectus carefully, including the risks discussed under Risk Factors, Cautionary Comment Regarding Forward-Looking Statements and the consolidated financial statements and notes thereto included elsewhere in this prospectus supplement and the accompanying prospectus and incorporated by reference herein and therein. In this prospectus, all references to Sterling, Sterling Construction, we, us, our and the Company refer to Sterling Construction Company, Inc. and its subsidiaries, unless otherwise stated or indicated by the context. Beginning December 3, 2009, our subsidiaries include Ralph L. Wadsworth Construction Company, LLC, or RLW (including Ralph L. Wadsworth Construction Company, Inc., its predecessor prior to a statutory conversion).

Our Company

We are a leading heavy civil construction company that specializes in the building, reconstruction and repair of transportation and water infrastructure. Transportation infrastructure projects include highways, roads, bridges, light rail and commuter rail. Water infrastructure projects include water, wastewater and storm drainage systems. Sterling provides general contracting services primarily to public sector clients, 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 and commuter rail infrastructure; and concrete batch plant operations, concrete crushing and aggregates operations. We perform the majority of the work required by our contracts with our own crews and equipment.

Our business 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 concrete operations and design-build project delivery capabilities, in order to capture a greater percentage of available work in current and potential markets. It also involves strategically expanding operations, either by establishing an 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 operate principally in Texas, Utah and Nevada, which are three states that management believes benefit from both positive long-term demographic trends as well as an historical commitment to funding transportation and water infrastructure projects. From 2000 to 2008, the populations of Texas, Utah and Nevada grew 17%, 23% and 30%, respectively, compared to approximately 8% for the national average. Spending on highways and bridges in 2010 is budgeted or proposed at $4.2 billion by the Texas Department of Transportation, or TXDOT, at $618 million by the Utah Department of Transportation, or UDOT, and up to $400 million by the Nevada Department of Transportation, or NDOT. Management anticipates that continued population growth and increased spending for infrastructure in these markets will positively affect business opportunities over the coming years.

Prior to our acquisition of RLW, as discussed below, we had revenues of $319 million for the nine months ended September 30, 2009, 4.4% higher than the same period in 2008. Over the same period, we had net income attributable to Sterling common stockholders of $22.9 million, 61.2% higher than results for the same period in 2008. As of September 30, 2009, Sterling and RLW had aggregate backlogs totaling approximately $569 million.

Ralph L. Wadsworth Construction Company Acquisition

On December 3, 2009, we completed the acquisition of privately-owned Ralph L. Wadsworth Construction Company, LLC, or RLW, which is headquartered in Draper, Utah, near Salt Lake City. RLW is a heavy civil construction business focused on the construction of bridges and other structures, roads and highways, and light and commuter rail projects, primarily in Utah, with licenses to do business in surrounding states. We paid approximately $64.7 million to acquire 80% of the equity interests in RLW, and, in 2013, we have the

option to purchase, and the RLW sellers could require us to purchase, the remaining 20% of RLW from four related individuals who continue to manage the operations of RLW.

RLW s largest customer is UDOT, which is responsible for planning, constructing, operating and maintaining the more than 6,000 miles of highway and over 1,700 bridges that make up the Utah state highway system. RLW strives to provide efficient, timely and profitable execution of construction projects, with a particular emphasis on structures and innovative construction methods. RLW has significant experience in obtaining and profitably executing design-build and CM/GC (construction manager/general contractor) projects. We believe that design-build, CM/GC and other alternative project delivery methods are increasingly being used by public sector customers as alternatives to the traditional fixed unit price low bid process. Approximately 89% of RLW s backlog at September 30, 2009 was attributable to design-build and CM/GC projects. Since its founding in 1975, RLW has experienced profitable growth, capitalizing on high-quality execution of projects and strong customer relationships.

For the nine months ended September 30, 2009, RLW generated revenue, income before tax and EBITDA (earnings before interest, taxes, depreciation and amortization) of $112 million, $25 million and $26 million, respectively. We purchased RLW based on an assumed sustainable annual EBITDA in the range of $15 million to $20 million. EBITDA is not a financial measure calculated in accordance with generally accepted accounting principles in the U.S. (GAAP). See Summary Historical and Pro Forma Financial and Operating Data for a definition of EBITDA and a reconciliation of RLW s net income, the most directly comparable GAAP financial measure, to RLW s EBITDA for the nine months ended September 30, 2009. As of September 30, 2009, RLW had a backlog of approximately $198 million. See Selected Historical Financial and Operating Data for information regarding how backlog is calculated.

Among other reasons, we acquired RLW because we believe that it offers us opportunities to:

- expand on RLW s significant experience in design-build, CM/GC and other project delivery methods;
- utilize RLW s significant structural construction expertise;
- expand into an attractive market with good long-term growth dynamics;
- complement our existing market locations and advance our strategy of geographical diversification;
- partner with a strong and innovative management team with a similar corporate culture; and
- benefit from RLW s strong financial results and immediate accretion to our earnings per share.

Our Business Strategy

Key features of our business strategy include:

Continue to Add Construction Capabilities. By adding capabilities that augment our core contracting and 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.

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

Apply Core Competencies Across our Markets. We will seek to capitalize on opportunities to export our Texas experience constructing water infrastructure projects and our Nevada earthmoving, aggregates and asphalt paving experience into Utah markets. Similarly, we believe that RLW s experience with design-build, CM/GC and other alternative project delivery methods in Utah can enhance opportunities for us in our Texas and Nevada markets.

Increase our Market Leadership in our Core Markets. We have a strong presence in a number of markets in Texas, Utah and Nevada and intend to expand our presence in these states and other states where we believe contracting opportunities exist.

Position our Business for Future Infrastructure Spending. As evidenced by the federal government s recently enacted economic stimulus legislation, we believe that there is a growing awareness of the need to build, reconstruct and repair our country s infrastructure, including transportation infrastructure, such as bridges, highways and mass transit systems, and water infrastructure, such as water, wastewater and storm drainage systems. We will continue to build our expertise and seek to capture this infrastructure spending.

Continue to Attract, Retain and Develop our Employees. We believe that our employees are 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, Our Strategy, Our Common Stock and this Offering

You should carefully read and consider the information set forth below under Risk Factors and Cautionary Comment Regarding Forward-Looking Statements, together with all of the other information set forth in this prospectus supplement and the accompanying prospectus, before deciding to invest in shares of our common stock.

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 supplement.

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The Offering

Nasdaq Symbol	STRL
Common stock offered by us	2,400,000 shares
Common stock to be outstanding after the offering	15,688,244 shares
Use of proceeds	We will use the net proceeds of approximately $38.5 million from the offering, after deducting underwriting discounts and fees of approximately $2.0 million in the aggregate and estimated offering expenses of approximately $400,000: to repay indebtedness outstanding, if any, under our $75 million revolving credit facility, which we refer to as our credit facility; and to strengthen our balance sheet, including our working capital and tangible net worth, in order to fund our business, provide liquidity for future growth and increase our bonding capacity.

Each $1.00 change in the actual per share offering price from the price assumed in this prospectus supplement would change by approximately $2.3 million the amount of our net proceeds available to strengthen our balance sheet after funding the repayment of indebtedness, if any, referenced above. Each 10% change in the number of shares of common stock sold in this offering would change the net proceeds to us from this offering by approximately $3.9 million, after deducting estimated underwriting discounts 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 1, 2009 and excludes:

- 333,740 shares of common stock reserved for issuance upon the exercise of outstanding stock options at a weighted average exercise price per share of $11.263; and
- 334,046 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 $17.07 per share, which is the last reported sales price per share of our common stock on the Nasdaq on December 2, 2009;
- assumes no exercise by the underwriters of their option to purchase up to 360,000 additional shares of our common stock to cover over-allotments; and
- does not give effect to the use of proceeds of this offering.

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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, 2006, 2007 and 2008, and the summary historical condensed consolidated balance sheet data as of December 31, 2007 and 2008, have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus supplement. The summary historical condensed consolidated balance sheet data as of December 31, 2006, have been derived from our audited consolidated balance sheet as of December 31, 2006, which is not included in this prospectus supplement. The summary historical condensed consolidated financial data as of and for the nine months ended September 30, 2008 and 2009, are derived from our unaudited condensed consolidated financial statements, which are included elsewhere in this prospectus supplement.

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, 2009, 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, 2008 and nine months ended September 30, 2009, gives effect on a pro forma basis to the RLW acquisition as if it had been consummated on January 1, 2008. The summary pro forma condensed combined balance sheet information gives effect on a pro forma basis to the consummation of the RLW acquisition, as if it had been consummated on September 30, 2009.

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 supplement.

	Historical					Pro Forma	
	Year Ended December 31,			Nine Months Ended September 30,		Year Ended December 31,	Nine Months Ended September 30,
	2006	2007	2008	2008	2009	2008	2009
				(Unaudited)		(Unaudited)	
	(In thousands, except per share data)						
Statement of Operations Data:							
Revenues	$ 249,348	$ 306,220	$ 415,074	$ 305,802	$ 319,170	$ 541,196	$ 431,427
Cost of revenues	220,801	272,534	373,102	273,389	272,238	473,588	355,916
Gross profit	28,547	33,686	41,972	32,413	46,932	67,608	75,511
General and administrative expenses,	10,549	12,682	13,844	10,131	10,566	18,920	14,626

and other							
Operating income	17,998	21,004	28,128	22,282	36,366	48,688	60,885
Interest (expense) income, net	1,206	1,392	871	387	252	795	(154)
Income from continuing operations before income taxes and noncontrolling interests	19,204	22,396	28,999	22,669	36,618	49,483	60,731
Income tax expense	6,566	7,890	10,025	7,616	12,154	16,256	19,515
Income from continuing operations	12,638	14,506	18,974	15,053	24,464	33,227	41,216
Income from discontinued operations	682						
Net income	13,320	14,506	18,974	15,053	24,464	33,227	41,216
Net income attributable to noncontrolling interests in subsidiaries		(62)	(908)	(819)	(1,521)	(5,173)	(6,421)
Net income attributable to Sterling common stockholders	$ 13,320	$ 14,444	$ 18,066	$ 14,234	$ 22,943	$ 28,054	$ 34,795
Basic income per share attributable to Sterling common stockholders:							
Continuing operations	$ 1.19	$ 1.31	$ 1.38	$ 1.09	$ 1.73	$ 2.14	$ 2.63
Discontinued operations	0.06						
Net income	$ 1.25	$ 1.31	$ 1.38	$ 1.09	$ 1.73	$ 2.14	$ 2.63
Diluted income per share attributable to Sterling common stockholders:							
Continuing operations	$ 1.08	$ 1.22	$ 1.32	$ 1.04	$ 1.67	$ 2.05	$ 2.53
Discontinued operations	0.06						
Net income	$ 1.14	$ 1.22	$ 1.32	$ 1.04	$ 1.67	$ 2.05	$ 2.53

	Historical					Pro Forma	
	Year Ended December 31,			Nine Months Ended September 30,		Year Ended December 31,	Nine Months Ended September 30,
	2006	2007	2008	2008	2009	2008	2009
				(Unaudited)		(Unaudited)	
	(In thousands, except per share data)						
Weighted average number of shares outstanding used in computing per share amounts:							
Basic	10,583	11,044	13,120	13,102	13,229	13,120	13,229
Diluted	11,714	11,836	13,702	13,703	13,733	13,702	13,733
Balance sheet data (end of period):							
Cash and cash equivalents	$ 28,466	$ 80,649	$ 55,305	$ 62,094	$ 62,239		$ 5,028
Short-term investments	26,169	54	24,379	17,383	41,231		46,041
Working capital	62,874	82,063	95,123	93,561	115,778		62,178
Total assets	167,772	274,515	289,615	296,713	308,871		365,420
Total long-term debt	30,782	65,654	55,556	60,575	40,501		40,501
Total liabilities	76,781	135,903	130,499	142,952	125,803		182,352
Stockholders equity attributable to Sterling common stockholders	90,991	138,612	159,116	153,761	183,068		183,068
Cash flow data from continuing operations:							
Net cash provided by operating activities	$ 23,089	$ 29,542	$ 26,721	$ 18,929	$ 43,032		
Net cash (used in) investing activities	(52,358)	(47,935)	(42,923)	(33,130)	(20,870)		
Net cash provided by (used in) financing activities	35,468	70,576	(9,142)	(4,354)	(15,228)		
Other operating data:							
EBITDA (unaudited)(1)	$ 25,691	$ 30,486	$ 40,388	$ 31,220	$ 45,162	$ 58,075	$ 66,183
Capital expenditures	24,849	26,319	19,896	16,972	4,392	25,241	8,618
Backlog at end of period(2)	395,000	450,000	448,000	511,000	371,000	542,000	569,000

(1) EBITDA is defined as income attributable to Sterling common stockholders before net interest income/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 supplement and the accompanying prospectus and our consolidated financial statements, including the notes thereto, and the other financial information contained in this prospectus supplement and the accompanying prospectus and incorporated herein and therein by reference, and not to rely on any single financial measure to evaluate our business.

A reconciliation of income attributable to Sterling common stockholders 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,
	2006	2007	2008	2008	2009	2008	2009
Net income attributable to Sterling common stockholders	$ 13,320	$ 14,444	$ 18,066	$ 14,234	$ 22,943	$ 28,054	$ 34,795
Depreciation and amortization	7,011	9,544	13,168	9,757	10,317	14,560	11,719
Interest expense (income), net	(1,206)	(1,392)	(871)	(387)	(252)	(795)	154
Income tax expense	6,566	7,890	10,025	7,616	12,154	16,256	19,515
EBITDA	$ 25,691	$ 30,486	$ 40,388	$ 31,220	$ 45,162	$ 58,075	$ 66,183

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 as to which charges should 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

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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 prior to December 31, 2007 or RLW backlog. Pro forma backlog does include RLW backlog of approximately $94 million as of December 31, 2008 and $198 million as of September 30, 2009. Backlog is our estimate of the revenues that we expect to earn in future periods on our construction projects. We generally add the anticipated revenue value of each new project to our backlog when management reasonably determines that we will be awarded the contract and there are no known impediments to being awarded the contract. We deduct from backlog the revenues earned on each project during the applicable fiscal period. As construction on our projects progresses, we also increase or decrease backlog to take into account our estimates of the effects of changes in estimated quantities, changed conditions, change orders and other variations from initially anticipated contract revenues, including completion penalties and bonuses. At September 30, 2009, our pro forma backlog included approximately $142 million of expected revenues for which the contracts had not yet been officially awarded or finalized as to price. Historically, subsequent non-awards of contracts or finalization of price have not materially affected our backlog, results of operations or financial condition.

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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 supplement and the accompanying 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, requirements or costs when we bid on or negotiate a contract that is ultimately awarded to us, we may achieve a lower than anticipated profit or incur a loss on the contract.

The majority of our revenues and backlog are derived from fixed unit price contracts. Some of our revenues are derived from lump sum contracts. Fixed unit price contracts require us to perform the contract for a fixed unit price based on approved quantities irrespective of our actual costs. Lump sum contracts require that the total amount of work be performed for a single price irrespective of our actual costs. We realize a profit on our contracts only if we successfully estimate our costs and then successfully control actual costs and avoid cost overruns, and our revenues exceed actual costs. 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. The final results under these types of contracts could negatively affect our cash flow, earnings and financial position.

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

- onsite conditions that differ from those assumed in the original bid or contract;
- failure to include materials or work in a bid, or the failure to estimate properly the quantities or costs needed to complete a lump sum contract;
- delays caused by weather conditions;
- contract or project 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;

failure by our suppliers, subcontractors, designers, engineers, joint venture partners or customers to perform their obligations;

fraud, theft or other improper activities by our suppliers, subcontractors, designers, engineers, joint venture partners or customers or our own personnel;

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 for alleged damages arising from the design, construction or use and operation of a 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. Public sector customers may seek to impose contractual risk-shifting provisions more aggressively, and we could face increased risks, which may adversely affect our cash flow, earnings and financial position.

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

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 decreased government funding for infrastructure projects, limits on additional growth in our current markets, reduced spending by our customers, an increased number of competitors, less 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. Due to some of these factors, we anticipate that our revenues and net income attributable to Sterling common stockholders for 2010, before including the results of operations of RLW, will be below, and could be substantially below, the results that we expect to achieve for 2009. A substantial decline in our revenue could have a material adverse effect on our financial condition and results of operations if we are unable to reduce our operating expenses at the same rate.

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. The nationwide decline in home sales, the increase in foreclosures and a prolonged recession have resulted in decreases in property taxes and some other local taxes, which are among the sources of funding for municipal road, bridge and water infrastructure construction. 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. We are reliant upon contracts with TXDOT, UDOT and NDOT for a significant portion of our revenues.

Recent reductions in miles driven in the U.S. and more fuel efficient vehicles have reduced federal and state gasoline taxes and tolls collected. In addition, the federal government has not renewed the SAFETEA-LU bill, which provided states with substantial funding for transportation infrastructure projects. Because the SAFETEA-LU bill expired on September 30, 2009, the federal government rescinded a portion of the funding previously committed to be provided to the states in 2009, with interim financial assistance being extended on a month-to-month basis, most recently through December 18, 2009, at approximately 70% of the prior year SAFETEA-LU levels. Reductions in federal funding will negatively impact the states highway and bridge construction expenditures for 2010. We are unable to predict when or on what terms the federal government might renew the SAFETEA-LU bill or enact other similar legislation.

While our business includes only minimal residential and commercial infrastructure work, the severe fall-off in new projects in those markets has resulted in some residential and commercial infrastructure contractors bidding on smaller public sector transportation and water infrastructure projects, sometimes at bid levels below our break-even pricing.

Traditional competitors on larger transportation and water infrastructure projects also appear to have been bidding at less than normal margins in order to replenish their reduced backlogs. These conditions have increased competition and created downward pressure on bid prices in our markets. These and other factors have limited our ability to maintain or increase our backlog through successful bids for new projects and have limited the profitability of new projects that we do obtain through successful bids. These adverse competitive trends may continue or worsen.

We operate in Texas, Utah, Nevada and to a small extent in other states, and adverse changes to the economy and business environment in those states have had an adverse effect on, and could continue to adversely affect, our operations, which could lead to lower revenues and reduced profitability.

We operate primarily in Texas, Utah and Nevada. 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. The stagnant or depressed economy, to varying degrees, in Texas, Utah and Nevada have adversely affected, and could continue to adversely effect, our business and results of operations.

The cancellation of significant contracts or our disqualification from bidding for new 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 cancellation of an unfinished contract or our debarment from the bidding process could cause our equipment and work crews to be 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.

Our acquisition strategy involves a number of risks.

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 enhance our ability 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;
- regulatory requirements that impose restrictions on bidding for certain projects because of historical operations by Sterling or the acquired company;
- the key personnel, customers and project partners of the acquired company may terminate or diminish 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;
- we may not adequately anticipate competitive and other market factors applicable to the acquired company;
- 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.

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 companies competing against 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.

A majority 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. For our design-build, CM/GC and other alternative methods

of delivering projects, reputation, marketing efforts, quality of design and minimizing public inconvenience are also significant factors considered in awarding contracts, in addition to cost. 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 where residential and commercial projects have significantly diminished, the bidding environment in our markets has been much more competitive as construction companies that lack available work in those markets have begun bidding on projects in our markets, sometimes at bid levels below our break-even pricing. In addition, traditional competitors on larger transportation and water infrastructure projects also appear to have been bidding at less than normal margins in order to replenish their reduced backlogs. 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.

In addition, if the use of design-build, CM/GC and other alternative project delivery methods continues to increase and we are not able to further develop our capabilities and reputation in connection with these alternative delivery methods, we will be at a competitive disadvantage, which may have a material adverse effect on our financial position, results of operations, cash flows and prospects. If we are unable to compete successfully in our markets, our relative market share and profits could also 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 or incur other unanticipated costs. 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, cement, asphalt, concrete, steel, pipe, oil and fuel) for our contracts, except in Nevada where we source and produce most of our own aggregates. We do not own or operate any quarries in Texas or Utah. 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 we use in our Nevada 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 required to purchase the materials from another source at a higher price or incur other unanticipated costs. 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, our asphalt plants and suppliers use oil in combination with aggregates to produce asphalt used in our 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.

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We may not accurately assess the quality, and we may not accurately estimate the quality, 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 the quality, quantity, availability and cost 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.

Backlog is our estimate of the revenues that we expect to earn in future periods on our construction projects. We generally add the anticipated revenue value of each new project to our backlog when management reasonably determines that we will be awarded the contract and there are no known impediments to being awarded the contract. We deduct from backlog the revenues earned on each project during the applicable fiscal period. As construction on our projects progresses, we also increase or decrease backlog to take into account our estimates of the effects of changes in estimated quantities, changed conditions, change orders and other variations from initially anticipated contract revenues, including completion penalties and bonuses. Actual results may differ from the expectations and estimates we rely upon in determining backlog.

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. If competition for these employees is intense, 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 operations and future earnings may be negatively impacted.

We rely heavily on immigrant labor. We have taken steps that we believe are sufficient and appropriate to ensure compliance with immigration laws. However, we cannot provide assurance that we have identified, or will identify in the future, all illegal immigrants who work for us. Our failure to identify illegal immigrants who work for us may result in fines or other penalties being imposed upon us, which could have a material adverse effect on our operations, results of operations and financial condition.

In Nevada, a substantial number 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 often 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.

The design-build project delivery method subjects us to the risk of design errors and omissions.

In the event of a design error or omission causing damages with respect to one of our design-build projects, we could be liable. Although we pass design responsibility on to the engineering firms that we engage to perform design services on our behalf for these projects, in the event of a design error or omission causing damages, there is risk that the engineering firm, its professional liability insurance, and the errors and omissions insurance that they and we purchase will not fully protect us from costs or liabilities. Any liabilities resulting from an asserted design defect with respect to our construction projects may have a material adverse effect on our financial position, results of operations and cash flows.

Adverse weather conditions may cause delays, which could slow completion of our contracts and negatively affect our 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 Hurricanes Rita and Ike resulted in our inability to perform work on all Houston-area contracts for several days. Lengthy periods of wet or cold winter 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 the first nine months 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. During the late fall to early spring months of the year, our work on construction projects in Nevada and Utah may also be curtailed because of snow and other work-limiting weather. While revenues can be recovered following a period of bad weather, it is generally impossible to recover the cost of inefficiencies, 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.

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, funding 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

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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, snow, storms or flooding; delays in receiving material and equipment from suppliers and services from subcontractors; 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 participation in construction joint ventures exposes us to liability and/or harm to our reputation for failures of our partners.

As part of our business, we are a party to joint venture arrangements, pursuant to which we typically jointly bid on and execute particular projects with other companies in the construction industry. Success on these joint projects depends upon managing the risks discussed in the various risks described in these Risk Factors and on whether our joint venture partners satisfy their contractual obligations.

We and our joint venture partners are generally jointly and severally liable for all liabilities and obligations of our joint ventures. If a joint venture partner fails to perform or is financially unable to bear its portion of required capital contributions or other obligations, including liabilities stemming from lawsuits, we could be required to make additional investments, provide additional services or pay more than our proportionate share of a liability to make up for our partner s shortfall. Furthermore, if we are unable to adequately address our partner s performance issues, the customer may terminate the project, which could result in legal liability to us, harm our reputation and reduce our profit on a project.

In connection with acquisitions, including the RLW acquisition, certain counterparties to joint venture arrangements, which may include our historical direct competitors, may not desire to continue such arrangements with us and may terminate the joint venture arrangements or not enter into new arrangements. Any termination of a joint venture arrangement could cause us to reduce our backlog and could materially and adversely affect our business, results of operations and financial condition.

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 2008, approximately 54% of our revenue in Texas was generated from three customers, approximately 95% of our revenue in Nevada was generated from one customer and approximately 75% of RLW s revenue in Utah 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 14 contracts in our backlog at December 31, 2008. 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 by customers, 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.

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 our customers 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 adversely 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. Except for RLW, which has workers compensation insurance, we self-insure our workers compensation and health 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 and health 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.

Our aggregate quarry lease in Nevada could subject us to costs and liabilities. As lessee and operator of the quarry, we could be held responsible for any contamination or regulatory violations resulting from

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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.

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; impairment of long-term assets; valuation of assets acquired and liabilities assumed in connection with business combinations; accruals for estimated liabilities, including litigation and insurance reserves; and stock-based compensation. 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 (based on the ratio of costs incurred to total estimated costs of a contract) 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 ability to obtain additional financing in the future will depend in part upon prevailing credit and equity 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 surety, 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.

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

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

- make distributions, pay dividends and buy back shares;
- 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 losses 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.

If we were required to write down all or part of our goodwill, our net earnings and net worth could be materially and adversely affected.

We had $57.0 million of goodwill recorded on our consolidated balance sheet at September 30, 2009. Based on a preliminary allocation of the purchase price, we added approximately $59 million of goodwill to our balance sheet as a result of the RLW acquisition. Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. If our market capitalization drops significantly below the amount of net equity recorded on our balance sheet, it might indicate a decline in our fair value and would require us to further evaluate whether our goodwill has been impaired. We perform an annual review of our goodwill and intangible assets to determine if they have become impaired, which would require us to write down the impaired portion of these assets. If we were required to write down all or a significant part of our goodwill, our net earnings and net worth could be materially and adversely affected.

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 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, including levels of government funding for infrastructure projects;

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;

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 2009 was approximately 143,000 shares. Even if we achieve a wider dissemination by means of the shares offered pursuant to this prospectus supplement and the accompanying 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. Progress on contracts may also be delayed by unanticipated adverse weather conditions. 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.

Various factors described in this prospectus supplement and the documents incorporated herein by reference have adversely affected the levels of transportation and water infrastructure capital expenditures in our markets, reducing bidding opportunities to replace backlog and increasing competition for new projects. Assuming that these factors continue to affect infrastructure capital expenditures in our markets in the near term, and taking into account the amount of backlog we had at September 30, 2009 and the lower anticipated margin bid on some projects that we have recently been awarded and expect to start work on in 2010, we anticipate that our revenues and net income attributable to Sterling common stockholders for 2010, before the results of operations of RLW, will be below, and could be substantially below, the results we expect to achieve for 2009. Decreases in, or failure to attain anticipated levels of, revenues, operating results or backlog could adversely affect the market price of our common stock.

We currently do not intend to pay dividends on our common stock and, consequently, you will achieve a positive return on your investment in our common stock only 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 directors and executive officers will beneficially own approximately 1,069,891 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 these stockholders have entered into with the underwriters. The holders of warrants to purchase 334,046 shares of our common stock at November 30, 2009 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.

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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 and our charter documents may impede or discourage a takeover or change of control.

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.

CAUTIONARY COMMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus include statements that are, or may be considered to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 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 supplement and the accompanying prospectus, including in the sections entitled Business, Risk Factors, and Management s Discussion and Analysis of Financial Condition and Results of Operations 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, can, continue, could, expect, forecast, future, intend, may, plan, potential, predict, project, should, will, would an to identify forward-looking statements in this prospectus supplement and the accompanying prospectus.

Forward-looking statements reflect our expectations as of the date of this prospectus supplement 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, including the current recession, reductions in federal, state and local government funding for infrastructure services and changes in those governments budgets, practices, laws and regulations;

delays or difficulties related to the completion of our projects, including additional costs, reductions in revenues or the payment of liquidated damages, or delays or difficulties related to obtaining required governmental permits and approvals;

actions of suppliers, subcontractors, design engineers, joint venture partners, customers, competitors, banks, surety companies and others which are beyond our control, including suppliers and subcontractors failure to perform;

the effects of estimates inherent in our percentage-of-completion accounting policies, including onsite conditions that differ materially from those assumed in our original bid, contract modifications, mechanical problems with our machinery or equipment and effects of other risks discussed in this prospectus supplement and the accompanying prospectus;

cost escalations associated with our contracts, including changes in availability, proximity and cost of materials such as steel, cement, concrete, aggregates, oil, fuel and other construction materials, and cost escalations associated with subcontractors and labor;

our dependence on a few significant customers;

adverse weather conditions; although we prepare our budgets and bid contracts based on historical rain and snowfall patterns, the incidence of rain, snow, hurricanes, etc., may differ materially from these expectations;

the presence of competitors with greater financial resources or lower margin requirements, and the impact of competitive bidders on our ability to obtain new backlog at reasonable margins acceptable to us;

our ability to successfully identify, finance, complete and integrate acquisitions;

citations issued by any governmental authority, including the Occupational Safety and Health Administration;

the current instability of financial institutions, which could cause losses on our cash and cash equivalents and short-term investments; and

the other factors incorporated by reference as described under Risk Factors.

In reading this prospectus supplement and the accompanying prospectus and the documents incorporated herein and therein by reference, you should consider these factors carefully in evaluating any forward-looking statements, and you are cautioned not to place undue reliance on any 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 supplement and the accompanying prospectus are reasonable, we can provide no assurance that they will be achieved.

The forward-looking statements included in this prospectus supplement and the accompanying prospectus and in the documents incorporated by reference herein and therein are made only as of the date hereof or thereof, and we undertake no obligation to update any information contained in this prospectus supplement or the accompanying prospectus or in the documents incorporated herein or therein 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 supplement, except as may be required by applicable securities laws.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of 2,400,000 shares of our common stock in this offering, assuming an offering price of $17.07 per share, will be approximately $38.5 million ($44.4 million if the underwriters option to purchase additional shares is exercised in full), after deducting estimated underwriting discounts and estimated offering expenses.

We intend to use the net proceeds from this offering:

- to repay indebtedness outstanding, if any, under our $75 million revolving credit facility; and
- to strengthen our balance sheet, including our working capital and tangible net worth, in order to fund our business, provide liquidity for future growth and increase our bonding capacity.

At December 2, 2009, we had $5.0 million of revolving borrowings outstanding 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 3.25%. The credit agreement was entered into on October 31, 2007 and allows us to borrow up to $75 million subject to compliance with the requirements of the credit agreement. 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 the receipt of proceeds from the sale of shares of our common stock in this offering.

Throughout this prospectus supplement, we have assumed an offering price of $17.07 per share, which is equal to the last reported sales price per share of our common stock on the Nasdaq on December 2, 2009. Each $1.00 change in the actual per share offering price from the price assumed in the prospectus supplement would change by approximately $2.3 million the amount of our net proceeds available to strengthen our balance sheet after funding the repayment of indebtedness referenced above. A 10% change in the number of shares of common stock sold in this offering would correspondingly change the net proceeds to us from this offering by approximately $3.9 million, after deducting the estimated underwriting discounts and offering expenses.

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MARKET PRICE OF COMMON STOCK

Our common stock is traded on The NASDAQ Global Select Market under the symbol STRL. The quarterly market high and low sales prices for our common stock for 2007, 2008 and 2009 are summarized below:

	High	Low
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	$ 26.60	$ 20.45
Year Ended December 31, 2008		
First Quarter	$ 21.84	$ 16.37
Second Quarter	$ 21.02	$ 18.70
Third Quarter	$ 20.80	$ 16.16
Fourth Quarter	$ 19.30	$ 9.40
Year Ending December 31, 2009		
First Quarter	$ 19.99	$ 13.80
Second Quarter	$ 20.00	$ 12.52
Third Quarter	$ 18.48	$ 14.06
Fourth Quarter (through December 2, 2009)	$ 20.02	$ 14.76

On December 2, 2009, the closing sale price of our common stock as reported on NASDAQ was $17.07 per share. At November 30, 2009, there were approximately 1,170 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 the Company s financial condition and results of operations, capital requirements, bonding prospects, contractual restrictions (including those under our credit facility), business prospects and other factors that our Board of Directors considers relevant.

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CAPITALIZATION

The following table sets forth our cash, cash equivalents and capitalization as of September 30, 2009:

- on an actual basis;
- on a pro forma basis, assuming the RLW acquisition had been effected on September 30, 2009; and
- on a pro forma as adjusted basis, assuming the RLW acquisition had been effected on September 30, 2009 and reflecting the application of the assumed net proceeds from this offering, after deducting approximately $2.0 million for underwriting discounts payable by us and estimated offering expenses of approximately $400,000, 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 $38.5 million after deducting underwriting discounts 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 $2.3 million, after taking into account corresponding changes in the underwriting discounts payable by us. A 10% change in the number of shares of common stock sold in this offering would correspondingly change the net proceeds to us from this offering by approximately $3.9 million, after deducting the estimated underwriting discounts and offering expenses.

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

	At September 30, 2009		
	Actual	Pro Forma	Pro Forma As Adjusted
	(Amounts in thousands, except share data)		
Debt and put liabilities:			
Current maturities of long-term debt(1)	73	73	73
Long-term debt:			
Revolving credit facility(2)	40,000	40,000	
Mortgages	428	428	428
Total long-term debt	40,501	40,501	501
Put liabilities related to and noncontrolling owners interests in subsidiaries subsidiaries	7,568	23,068	23,068
Total debt and put liabilities	48,069	63,569	23,569
Stockholders equity:			
Preferred stock, $0.01 par value, 1,000,000 shares authorized; no shares issued and outstanding			
Common stock, $0.01 par value, 19,000,000 shares authorized; 13,285,244 shares issued and outstanding, actual; 13,285,244 shares	132	132	156

issued and outstanding, pro forma; 15,685,244 shares issued and outstanding, pro forma as adjusted(3)			
Additional paid-in capital	150,902	150,902	189,415
Retained earnings	32,034	32,034	32,034
Total Sterling common stockholders equity	183,068	183,068	221,605
Total capitalization	$ 231,137	$ 246,637	$ 245,174

(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, 2009 of 3.5% per annum, repayable 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, 2009 provided for revolving loans up to a maximum of $75.0 million with a maturity date of October 31, 2012. The average interest rate on revolving debt outstanding during the nine months ended September 30, 2009 was approximately 3.25%. At December 2, 2009, we had $5.0 million of revolving borrowings outstanding under our credit agreement.

(3) At September 30, 2009, we had 13,285,244 shares of common stock outstanding; 336,740 shares of common stock reserved for issuance upon the exercise of outstanding stock options at a weighted average exercise price per share of $11.188; and 334,046 shares of common stock reserved for issuance upon the exercise of outstanding warrants at an exercise price per share of $1.50.

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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, 2006, 2007 and 2008, and the summary condensed consolidated balance sheet data as of December 31, 2007 and 2008, have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus supplement. The summary condensed consolidated statement of operations and cash flow data for 2004 and 2005, and the condensed consolidated balance sheet data as of December 31, 2004, 2005 and 2006, have been derived from our audited consolidated financial statements, which are not included in this prospectus supplement. The summary condensed consolidated financial data as of and for the nine months ended September 30, 2008 and 2009, are derived from our unaudited consolidated financial statements, which are included elsewhere in this prospectus supplement. 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, 2009, 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 supplement.

	Year Ended December 31,					Nine Months Ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
						(Unaudited)	
	(In thousands, except per share data)						
Statement of Operations Data:							
Revenues	$ 132,478	$ 219,439	$ 249,348	$ 306,220	$ 415,074	$ 305,802	$ 319,170
Cost of revenues	119,217	195,683	220,801	272,534	373,102	273,389	272,238
Gross profit	13,261	23,756	28,547	33,686	41,972	32,413	46,932
General and administrative expenses, net	7,696	9,091	10,549	12,682	13,844	10,131	10,566
Operating income	5,565	14,665	17,998	21,004	28,128	22,282	36,366
Interest expense (income), net	1,456	1,336	(1,206)	(1,392)	(871)	(387)	(252)
Income from continuing operations before income taxes and earnings	4,109	13,329	19,204	22,396	28,999	22,669	36,618

attributable to noncontrolling interest							
Income tax (benefit) expense	(2,134)	2,788	6,566	7,890	10,025	7,616	12,154
Income from continuing operations	6,243	10,541	12,638	14,506	18,974	15,053	24,464
Income from discontinued operations	372	559	682				
Net income	6,615	11,100	13,320	14,506	18,974	15,053	24,464
Net income attributable to the noncontrolling interest in earnings of subsidiary	(962)			(62)	(908)	(819)	(1,521)
Net income attributable to Sterling common stockholders	$ 5,653	$ 11,100	$ 13,320	$ 14,444	$ 18,066	$ 14,234	$ 22,943

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	Year Ended December 31,					Nine Months Ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
						(Unaudited)	
	(In thousands, except per share data)						
Basic income per share attributable to Sterling common stockholders:							
Continuing operations	$ 0.99	$ 1.36	$ 1.19	$ 1.31	$ 1.38	$ 1.09	$ 1.73
Discontinued operations	0.07	0.07	0.06				
Net income	$ 1.06	$ 1.43	$ 1.25	$ 1.31	$ 1.38	$ 1.09	$ 1.73
Diluted income per share attributable to Sterling common stockholders:							
Continuing operations	$ 0.75	$ 1.11	$ 1.08	$ 1.22	$ 1.32	$ 1.04	$ 1.67
Discontinued operations	0.05	0.05	0.06				
Net income	$ 0.80	$ 1.16	$ 1.14	$ 1.22	$ 1.32	$ 1.04	$ 1.67
Weighted average number of shares outstanding used in computing per share amounts:							
Basic	5,343	7,775	10,583	11,044	13,120	13,102	13,229
Diluted	7,028	9,538	11,714	11,836	13,702	13,703	13,733
Balance sheet data (end of period):							
Cash and cash equivalents	$ 3,449	$ 22,267	$ 28,466	$ 80,649	$ 55,305	$ 62,094	$ 62,239
Short-term investments			26,169	54	24,379	17,383	41,231
Working capital	16,052	18,354	62,874	82,063	95,123	93,561	115,778
Total assets	89,544	118,455	167,772	274,515	289,615	296,713	308,871
Total debt	25,445	23,142	30,782	65,654	55,556	60,575	40,501
Total liabilities	54,336	69,842	76,781	135,903	130,499	142,952	125,803
Stockholders equity	35,208	48,612	90,991	138,612	159,116	153,761	183,068
Cash flow data from continuing operations:							
Net cash provided by operating activities	$ 4,171	$ 31,266	$ 23,089	$ 29,542	$ 26,721	$ 18,929	$ 43,032
Net cash used in investing activities	(5,809)	(10,972)	(52,358)	(47,935)	(42,923)	(32,946)	(20,870)
Net cash provided by (used in) financing activities	2,436	(1,476)	35,468	70,576	(9,142)	(4,538)	(15,228)

Other operating data:							
EBITDA (unaudited)(1)	$ 9,520	$ 20,288	$ 25,691	$ 30,486	$ 40,388	$ 31,220	$ 45,162
Capital expenditures	3,555	11,392	24,849	26,319	19,896	16,972	4,392
Backlog at end of period (unaudited)(2)	232,000	307,000	395,000	450,000	448,000	511,006	371,000

(1) EBITDA is defined as income attributable to Sterling common stockholders before net interest income/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 supplement and the accompanying prospectus and our consolidated financial statements, including the notes thereto, and the other financial information contained in this prospectus supplement and the accompanying prospectus and incorporated herein and therein by reference, and not to rely on any single financial measure to evaluate our business.

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

	Year Ended December 31,					Nine Months Ended September 30,	
	2004	**2005**	**2006**	**2007**	**2008**	**2008**	**2009**
Income attributable to Sterling common stockholders	$ 5,565	$ 11,100	$ 13,320	$ 14,444	$ 18,066	$ 14,234	$ 22,943
Depreciation and amortization	4,545	5,064	7,011	9,544	13,168	9,757	10,317
Interest expense (income),net	1,456	1,336	(1,206)	(1,392)	(871)	(387)	(252)
Income tax (benefit) expense	(2,134)	2,788	6,566	7,890	10,025	7,616	12,154
EBITDA	$ 9,520	$ 20,288	$ 25,691	$ 30,486	$ 40,388	$ 31,220	$ 45,162

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 as to which charges should 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 prior to December 31, 2007. Backlog is our estimate of the revenues that we expect to earn in future periods on our construction projects. We generally add the anticipated revenue value of each new project to our backlog when management reasonably determines that we will be awarded the contract and there are no known impediments to being awarded the contract. We deduct from backlog the revenues earned on each project during the applicable fiscal period. As construction on our projects progresses, we also increase or decrease backlog to take into account our estimates of the effects of changes in estimated quantities, changed conditions, change orders and other variations from initially anticipated contract revenues, including completion penalties and bonuses. At September 30, 2009, our backlog included approximately $76 million of expected revenues for which the contracts had not yet been officially awarded or

the contract price had not been finalized. Historically, subsequent non-awards of contracts or finalization of contract price have not materially affected our backlog, results of operations or financial condition.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information gives pro forma effect to our acquisition of an 80% interest in RLW, 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 through December 3, 2009 and the results of operations and other changes through December 31, 2009. 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 RLW as if it occurred on January 1, 2008. The historical results of operations included in the unaudited pro forma condensed combined statement of income for the fiscal year ended December 31, 2008 were derived from the audited financial statements of each entity, included elsewhere in this prospectus supplement. The historical results of operations included in the unaudited pro forma condensed combined statement of income for the nine months ended September 30, 2009 were derived from the unaudited financial statements of each entity, included elsewhere in this prospectus supplement.

The pro forma condensed combined balance sheet reflects the acquisition of RLW as if it occurred on September 30, 2009. The historical balance sheets of Sterling Construction and RLW 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 supplement.

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 RLW been a combined company during the specified periods. The pro forma adjustments reflect, among other things, pre-closing distributions by RLW to its equity holders of certain assets and cash and securities that were not required for operation of the business. In addition, classifications of certain financial accounts of RLW may differ from those of Sterling. The unaudited pro forma condensed combined financial information reflects the acquisition of the interest in RLW, which we financed with a combination of cash and cash equivalents and proceeds from the sale of short-term securities. The proceeds of this offering 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 of Sterling and RLW included elsewhere in this prospectus supplement and incorporated by reference herein.

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STERLING CONSTRUCTION COMPANY, INC.

Unaudited Pro Forma Condensed Combined Balance Sheet
At September 30, 2009

	Sterling	RLW	Pro Forma Adjustments	Pro Forma Combined
ASSETS				
Current Assets				
Cash and cash equivalents	$ 62,239	$ 12,676	$ (69,887)(a)(b)(d)(e)	$ 5,028
Short-term investments	41,231	18,027	(13,217)(b)(c)(d)	46,041
Contracts receivable, including retainage	66,387	37,288		103,675
Costs and estimated earnings in excess of billings on uncompleted contracts	6,196	1,470		7,666
Inventories	1,224	264		1,488
Deposits and other current assets	1,257	128		1,385
Total Current Assets	178,534	69,853	(83,104)	165,283
Property and equipment, net	71,681	11,864	(714)(c)	82,831
Investment in RLW			(e)(f)	
Goodwill	57,232		58,625(f)	115,857
Other assets, net	1,424	25		1,449
Total Assets	$ 308,871	$ 81,742	$ (25,193)	$ 365,420
LIABILITIES AND STOCKHOLDERS EQUITY				
Current Liabilities				
Accounts payable	$ 27,475	$ 20,810	$	$ 48,285
Billings in excess of costs and estimated earnings of uncompleted contracts	25,693	17,911		43,604
Current maturities of long-term debt	73	2,096	(2,096)(a)	73
Income taxes payable	23			23
Other accrued expenses	9,492	1,628		11,120
Total Current Liabilities	62,756	42,445	(2,096)	103,105
Commitments and Contingencies				
Long-term Liabilities				
Long-term debt, net of current maturities	40,428	4,780	(4,780)(a)	40,428
Deferred tax liability, net	15,051			15,051
Put liabilities related to and noncontrolling owners interests in subsidiaries	7,568		16,200(e)	23,768
Total Long-term Liabilities	63,047	4,780	11,420	79,247
Stockholders Equity				
Preferred stock				

Common stock		132		5		(5)(f)	132
Additional paid-in capital		150,902					150,902
Retained earnings		32,034		34,512		(34,512)(b)(c)(f)	32,034
Total Sterling Common Stockholders Equity		183,068		34,517		(34,517)	183,068
Total Liabilities and Stockholders Equity	$	308,871	$	81,742	$	(25,193)	$ 365,420

See Pro Forma Adjustments and Explanatory Notes on next page.

STERLING CONSTRUCTION COMPANY, INC.

Unaudited Pro Forma Condensed Combined Balance Sheet
Pro Forma Adjustments and Explanatory Notes
At September 30, 2009
Amounts in thousands

Pro Forma Adjustments

(a)	*RLW debt reduction payments*	
	Current maturities of long-term debt	$ 2,096
	Long-term debt, net of current maturities	4,780
	Cash and cash equivalents	(6,876)
(b)	*Estimated withdrawals by RLW stockholders to reduce working capital and stockholders equity to amounts required under the Definitive Purchase Agreement*	
	Retained earnings	$ 11,066
	Cash and cash equivalents	(5,800)
	Short-term investments	(5,266)
(c)	*Distributions of assets to RLW stockholders*	
	Retained earnings	$ 1,176
	Property and equipment	(714)
	Short-term investments	(462)
(d)	*Liquidation of Sterling short-term investments to fund part of the purchase price*	
	Cash and cash equivalents	$ 7,489
	Short-term investments	(7,489)
(e)	*Investment in RLW*	
	Investment in RLW	$ (80,900)
	Cash	(64,700)
	Put liability related to and noncontrolling owners interests in RLW	(16,200)
(f)	*Entries in consolidation to reflect goodwill, step-up in basis of property and equipment and noncontrolling interests in RLW*	
	Goodwill	$ 58,625
	Retained earnings	22,270
	Common stock	5
	Investment in RLW	(80,900)

Explanatory Notes

(1)	Summary of Purchase Price -	
	Cash, cash equivalents and cash from sale of short-term investments	$ 64,700
	Total purchase price*	$ 64,700
	Pro Forma Preliminary Allocation of Purchase Price	
	Working capital	$ 11,100
	Property and equipment	11,150
	Other assets	25
	Goodwill	58,625

Noncontrolling interests	(16,200)
Total preliminary purchase price allocation*	$ 64,700

* Pursuant to the terms of the Purchase Agreement, the purchase price is subject to adjustments when RLW s working capital and tangible stockholders equity as of November 30, 2009, and the results of operations for the month of December 2009, are agreed upon by RLW s selling stockholders and Sterling. The purchase price shown in the Pro Forma Condensed Combined Balance Sheet includes management s estimate of such adjustments.

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(2) In 2013, the noncontrolling interest of 20% of RLW retained by the RLW noncontrolling interest holders may be put to Sterling, and Sterling has the right to call such interests. The price to be paid to the Sellers will be 20% of RLW s simple average EBITDA for calendar years 2010, 2011 and 2012 multiplied by a multiple, as defined in the Purchase Agreement, not to be greater than 4.5 or less than 4.0. Such contingent consideration has been recorded in Pro Forma Entry (e) above at its estimated fair value at closing in accordance with GAAP.

(3) The effect of the above pre-acquisition Pro Forma Adjustments of RLW on its historical working capital and stockholders equity is as follows:

	Working Capital	Stockholders Equity
Historical Balances of RLW as of September 30, 2009	$ 27,408	$ 34,517
(a) RLW debt reduction payments	(4,780)	
(b) Estimated withdrawals by RLW stockholders to reduce working capital and stockholders equity to amounts required under the definitive purchase agreement	(11,066)	(11,066)
(c) Distributions of assets to RLW stockholders	(462)	(1,176)
Pro Forma Balances of RLW as of September 30, 2009	$ 11,100	$ 22,275

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STERLING CONSTRUCTION COMPANY, INC.

Unaudited Pro Forma Condensed Combined Statements of Income

	Year Ended December 31, 2008					Nine Months Ended September 30, 2009				
	Sterling	**RLW**	**Pro Forma Adjustments**		**Pro Forma Combined**	**Sterling**	**RLW**	**Pro Forma Adjustments**		**Pr Forr Comb**
ues	$ 415,074	$ 126,122	$		$ 541,196	$ 319,170	$ 112,257	$		$ 431
of earned ct revenues	373,102	100,486			473,588	272,238	83,678			355
profit	41,972	25,636			67,608	46,932	28,579			75
al and istrative ses	(13,763)	(5,041)			(18,804)	(10,536)	(4,081)			(14
income se)	(81)	(35)			(116)	(30)	21			
ting income	28,128	20,560			48,688	36,366	24,519			60
t and nd income in on sale of ments	1,070	1,135	(1,091)	(a)(b)	1,114	406	510	(756)	(a)(b)	
t expense	(199)	(120)			(319)	(154)	(160)			
e before e taxes and gs table to ntrolling ts	28,999	21,575	(1,091)		49,483	36,618	24,869	(756)		60
e tax se	(10,025)		(6,231)	(b)(d)	(16,256)	(12,154)		(7,361)	(b)(d)	(19
come	18,974	21,575	(7,322)		33,227	24,464	24,869	(8,117)		41
Net income table to ntrolling ts in gs of iaries	(908)		(4,265)	(c)	(5,173)	(1,521)		(4,900)	(c)	(6
come table to g common olders	$ 18,066	$ 21,575	$ (11,587)		$ 28,054	$ 22,943	$ 24,869	$ (13,017)		$ 34

come per attributable ling on olders:				
	$ 1.38	$ 2.14	$ 1.73	$
d	$ 1.32	$ 2.05	$ 1.67	$
ted average er of on shares nding used nputing per amounts:				
	13,120	13,120	13,229	13
d	13,702	13,702	13,733	13

See Pro Forma Adjustments and Explanatory Notes on next page.

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STERLING CONSTRUCTION COMPANY, INC.

Unaudited Pro Forma Condensed Combined Statements of Income
Pro Forma Adjustments and Explanatory Notes

Pro Forma Adjustments		Year Ended December 31, 2008	Nine Months Ended September 30, 2009
		(Amounts in thousands)	
(a)	*Reduction in interest/investment income for investments used in pro forma withdrawals of RLW stockholders--See Pro Forma Notes (a), (b) and (c) to Pro Forma Balance Sheet*		
	Interest and dividend income	$ 250	$ 368
	Retained earnings	(250)	(368)
(b)	*Reduction in interest/investment income for investments used by Sterling in purchase of RLW*		
	Interest income	$ 841	$ 388
	Income tax expense	(294)	(136)
	Retained earnings	(547)	(252)
(c)	*Noncontrolling interest in income of RLW, net of its portion of (a) above*		
	Noncontrolling interest income statement	$ 4,265	$ 4,900
	Noncontrolling interest balance sheet	(4,265)	(4,900)
(d)	*Tax effect of Sterling s 80% of RLW s Net Income at federal and Utah net statutory rate of 38.25%*		
	Income tax expense	$ 6,525	$ 7,497
	Income taxes payable	(6,525)	(7,497)

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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 supplement. Except where explicitly stated, this discussion does not include RLW s historical results of operations. 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 supplement and the accompanying prospectus should be read as applying to all forward-looking statements wherever they appear in this prospectus supplement and accompanying 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, Cautionary Common Regarding Forward-Looking Statements and elsewhere in this prospectus supplement and the accompanying prospectus and in the documents incorporated herein and therein by reference.

Overview

We are a leading heavy civil construction company that operates in one segment, heavy civil construction, through its subsidiaries, which specialize in the building, reconstruction and repair of transportation and water infrastructure primarily in large and growing markets in Texas and Nevada. Transportation infrastructure projects include highways, roads, bridges and light rail. Water infrastructure projects include water, wastewater and storm drainage systems. Sterling provides general contracting services primarily to public sector clients, 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. We perform the majority of the work required by our contracts with our own crews and equipment.

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 concrete operations, in order to capture a greater percentage of available work in current and potential markets. It also involves strategically expanding operations, either by establishing an 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. On December 3, 2009, we acquired an 80% interest in Ralph L. Wadsworth Construction Company, LLC, which primarily has performed construction projects in Utah.

Critical Accounting Policies

Our significant accounting policies are described in Note 1 of Notes to Consolidated Financial Statements for the year ended December 31, 2008, included in this prospectus supplement, and conform to the FASB s Accounting Standards Codification (or GAAP).

We operate in one segment and have only one reportable segment and one reporting unit component, heavy civil construction. Even if our local offices were to be considered separate components of our heavy civil construction operating segment, those components could be aggregated into a single reporting unit for purposes of testing goodwill for impairment under Accounting Standards Codification 50-11 and EITF D-101 because our local offices all have similar economic characteristics and are similar in all of the following areas:

- The nature of the products and services each of our local offices perform similar construction projects they build, reconstruct and repair roads, highways, bridges, light and commuter rail and water, waste water and

storm drainage systems.

The nature of the production processes our heavy civil construction services rendered in the construction production process by each of on our construction projects performed by each local office is the same they excavate dirt, remove existing pavement and pipe, lay aggregate or concrete pavement, pipe and rail and build bridges and similar large structures in order to complete our projects.

The type or class of customer for products and services substantially all of our customers are federal and state departments of transportation, cities, counties, and regional water, rail and toll-road

authorities. A substantial portion of the funding for the state departments of transportation to finance the projects we construct is furnished by the federal government.

The methods used to distribute products or provide services the heavy civil construction services rendered on our projects are performed primarily with our own field work crews (laborers, equipment operators and supervisors) and equipment (backhoes, loaders, dozers, graders, cranes, pug mills, crushers, and concrete and asphalt plants).

The nature of the regulatory environment we perform substantially all of our projects for federal, state and municipal governmental agencies, and all of the projects that we perform are subject to substantially similar regulation under U.S. and state department of transportation rules, including prevailing wage and hour laws; codes established by the federal government and municipalities regarding water and waste water systems installation; and laws and regulations relating to workplace safety and worker health of the U.S. Occupational Safety and Health Administration and to the employment of immigrants of the U.S. Department of Homeland Security.

The economic characteristics of our local offices are similar. While profit margin objectives included in contract bids have some variability from contract to contract, our profit margin objectives are not differentiated by our chief operating decision maker or our office management based on local office location. Instead, the projects undertaken by each local office are primarily competitively-bid, fixed-unit price contracts, all of which are bid based on achieving gross profit levels based on margin objectives that reflect the relevant skills required, the contract size and duration, the availability of our personnel and equipment, the makeup and level of our existing backlog, our competitive advantages and disadvantages, prior experience, the contracting agency or customer, the source of contract funding, anticipated start and completion dates, construction risks, penalties or incentives and general economic conditions.

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, different project scopes and specifications, 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 for each project 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 for each project 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 adversely 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 failure of subcontractors to perform as agreed, unusual weather conditions, our failure to achieve expected productivity and efficient use of labor and equipment and the inaccuracies of our original bid estimate. Because we have a large number of projects 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, particularly 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 submitting 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 most of 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. As a result, we have rarely been exposed to material price or availability risk on contracts in our contract backlog. Assuming performance by our suppliers and subcontractors, the principal remaining risks under our fixed price contracts relate to labor and equipment costs and productivity levels. 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. Revenue is recognized as costs are incurred in an amount equal to cost plus the related expected profit based on the percentage of completion method of accounting 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 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 projects 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 projects 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 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 and supplier 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 project 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, including goodwill, 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 fair values and 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 carrying amount of approximately $57 million at December 31,

2008 and, on a pro forma basis with the acquisition of RLW, approximately $116 million at September 30, 2009, which must be reviewed for impairment at least annually. We completed our annual impairment review for historical goodwill during the fourth quarter of 2008, and it did not result in an 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, where necessary, establish a valuation allowance. We are subject to the alternative minimum tax, or AMT, and payments of AMT result in a reduction of our deferred tax liability.

Our deferred tax assets related to prior year NOLs for financial statement purposes were fully utilized during 2007. In addition to the utilization of those NOLs, we had available to us the excess tax benefit resulting from exercise of a significant number of non-qualified in-the-money options, which we utilized in the preparation of our 2008 federal income tax return. Accordingly, because we will no longer have offsets provided by the NOLs, a comparison of our future cash flows to our historic cash flows may not be meaningful.

Results of Operations

Backlog at September 30, 2009

At September 30, 2009, our backlog of construction projects was $371 million, as compared to $344 million at June 30, 2009 and $511 million at September 30, 2008. We were awarded or were the apparent low bidder on $242 million of new contracts in the first nine months of 2009, including $131 million in the third quarter of 2009, compared to $366 million of new contracts in the first nine months of 2008. Our contracts are typically completed in 12 to 36 months. At September 30, 2009, there was approximately $76 million of backlog where we were the apparent low bidder, but had not yet been formally awarded the contract or the contract price had not been finalized. Historically, subsequent non-awards of low bids have not materially affected our backlog or financial condition.

During the last quarter of 2008 and the first nine months of 2009, the bidding environment in our markets has been much more competitive because of the following:

- While our business includes only minimal residential and commercial infrastructure work, the severe fall-off in new projects in those markets has resulted in some residential and commercial infrastructure contractors bidding on smaller public sector transportation and water infrastructure projects, sometimes at bid levels below our break-even pricing, thus increasing competition and creating downward pressure on bid prices in our markets.

- Traditional competitors on larger transportation and water infrastructure projects also appear to have been bidding at less than normal margins in order to replenish their reduced backlogs.

These factors have limited our ability to maintain or increase our backlog through successful bids for new projects and have compressed the profitability on the new projects where we submitted successful bids. While we have recently been more aggressive in reducing the anticipated margins we use to bid on some projects, we have not bid at anticipated loss margins in order to obtain new backlog.

Recent reductions in miles driven in the U.S. and more fuel efficient vehicles have reduced federal and state gasoline taxes and tolls collected. In addition, the federal government has not renewed the SAFETEA-LU bill, which provided states with substantial funding for transportation infrastructure projects. Because the SAFETEA-LU bill expired on

September 30, 2009, the federal government rescinded a portion of the funding previously committed to be provided to the states in 2009, with interim financial assistance being extended on a month-to-month basis, most recently through December 18, 2009, at approximately 70% of the prior year SAFETEA-LU levels. Reductions in federal funding will negatively impact the states highway and bridge construction expenditures for 2010. We are unable to predict when or on what terms the federal government might renew the SAFETEA-LU bill or enact other similar legislation.

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Further, the nationwide decline in home sales, the increase in foreclosures and a prolonged recession have resulted in decreases in property taxes and some other local taxes, which are among the sources of funding for municipal road, bridge and water infrastructure construction.

These and other factors have adversely affected the levels of transportation and water infrastructure capital expenditures in our markets, reducing bidding opportunities to replace backlog and increasing competition for new projects. Assuming that these factors continue to affect infrastructure capital expenditures in our markets in the near term, and taking into account the amount of backlog we had at September 30, 2009 and the lower anticipated margin bid on some projects the Company has recently been awarded and expects to start work on in 2010, we anticipate that the Company s revenues and net income attributable to Sterling common stockholders for 2010, before the results of operations of RLW, will be below, and could be substantially below, the results we expect to achieve for 2009.

We do, however, expect that our markets will ultimately recover from the conditions described above and that our backlog, revenues and income will return to levels more consistent with historical levels. However, we cannot predict the timing of such a return to historical normalcy in our markets. We believe that the Company is in a sound financial condition and has the resources and management experience to weather current market conditions and to continue to compete successfully for projects as they become available at acceptable profit margin levels. See Business Markets and Customers Our Markets for a more detailed discussion of our markets and their funding sources.

Three and Nine Months Ended September 30, 2009 Compared with Three and Nine Months Ended September 30, 2008.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2009	2008	% Change	2009	2008	% Change
	(Dollar amounts in thousands) (Unaudited):					
Revenues	$ 103,929	$ 114,148	(9.0)%	$ 319,170	$ 305,802	4.4%
Gross profit	16,542	12,572	31.6%	46,932	32,413	44.8%
Gross margin	15.9%	11.0%	44.5%	14.7%	10.6%	38.7%
General, administrative and other expenses	(3,578)	(3,140)	13.9%	(10,566)	(10,131)	4.3%
Operating income	12,964	9,432	37.4%	36,366	22,282	63.2%
Operating margin	12.5%	8.3%	50.6%	11.4%	7.3%	56.2%
Interest income, net	77	159	(51.6)%	252	387	(34.9)%
Income before taxes and earnings attributable to the noncontrolling interest	13,041	9,591	36.0%	36,618	22,669	61.5%
Income taxes	(4,214)	(3,245)	29.9%	(12,154)	(7,616)	59.6%
Net income attributable to the noncontrolling interest in earnings of subsidiary	(735)	(368)	99.7%	(1,521)	(819)	85.7%
	$ 8,092	$ 5,978	35.4%	$ 22,943	$ 14,234	61.2%

Net income attributable
to Sterling common
stockholders

Revenues. Revenues increased $13.4 million in the nine months ended September 30, 2009 but decreased $10.2 million for the quarter ended September 30, 2009 over the comparable periods in 2008. The increase in revenue was primarily due to a higher level of crew and equipment resources utilized in the first two quarters of 2009 than in 2008 and better weather in the first nine months of 2009 than 2008. The better weather allowed our crews and equipment to work more productively during 2009 and make more progress towards completion of our contracts than in the comparable 2008 period.

During the third quarter of 2009, we began to reduce the number of our crews as a result of completing certain projects without a comparable increase in backlog. At September 30, 2009, our employees totaled

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1,050 versus 1,172 at June 30, 2009. The lower crew level and equipment utilization in the third quarter of 2009 resulted in lower revenues in that quarter.

While revenues increased during the first nine months of 2009, we anticipate that our full year revenues for 2009 will be lower than our revenues for 2008. The results of our bidding efforts in the fourth quarter of 2009 will affect our revenues and net income for 2010.

Gross profit. During 2008 and 2009, we have had as many as 60 contracts-in-progress at any one time, of various sizes, of different expected profitability and in various stages of completion. The nearer a contract progresses toward completion, the more visibility we have in refining our estimate of total revenues (including incentives, delay penalties and change orders), costs and gross profit. Thus gross profit as a percent of revenues can increase or decrease from comparable and sequential quarters due to variations among contracts and depending upon which contracts are just commencing or are at a more advanced stage of completion. At September 30, 2009, our contracts were on average at a more advanced stage of completion than were those in progress at the comparable 2008 period end.

The increases in gross profit of $4.0 million and $14.5 million for the third quarter and nine months ended September 30, 2009 over the comparable periods in 2008 were due to better execution on contracts-in-progress, and, as discussed above, differences in the mix in the stage of completion and profitability of contracts at September 30, 2009 compared to September 30, 2008. The gross margins of 15.9% and 14.7% in the 2009 periods are not expected to be indicative of the gross margins that the Company will achieve in subsequent periods in 2009 and 2010.

General and administrative expenses, net of other income. General and administrative expenses, net of other income, increased by $438,000 in the third quarter of 2009 from 2008 and increased $435,000 for the nine months ended September 30, 2009 over the comparable period in 2008. The primary reasons for the higher G&A during the three and nine months ended September 30, 2009 versus the comparable periods in 2008 were increases in compensation, related payroll expense and professional fees, partially offset by lower G&A-type depreciation and business promotion expenses. As a percent of revenues, G&A, net of other income, was 3.4% and 3.3% for the three and nine months ended September 30, 2009, respectively, versus 2.8%, and 3.3% of revenues for the comparable three and nine month periods in 2008. General and administrative expenses and other income do not vary directly with the volume of work performed on contracts.

Income taxes. Our effective income tax rates for the third quarter of 2009 and nine months ended September 30, 2009 were 32.3% and 33.2%, respectively, as compared to 33.8% for the third quarter of 2008 and 33.6% for the nine months ended September 30, 2008, and varied from the statutory rate as a result of various permanent differences, including the portion of earnings of a subsidiary taxed to the noncontrolling interest owner and production tax credit offset by the Texas franchise tax.

Fiscal Year Ended December 31, 2008 (2008) Compared with Fiscal Year Ended December 31, 2007 (2007).

	2008	2007	% Change
	(Dollar amounts in thousands)		
Revenues	$ 415,074	$ 306,220	35.5%
Gross profit	41,972	33,686	24.6%
Gross margin	10.1%	11.0%	(8.2)%
General and administrative expenses, net	(13,763)	(13,231)	4.0%
Other income (loss)	(81)	549	(114.8)%
Operating income	28,128	21,004	33.9%
Operating margin	6.8%	6.9%	(1.5)%
Interest income	1,070	1,669	(35.9)%
Interest expense	(199)	(277)	28.2%
Income before taxes and earnings attributable to noncontrolling interest	28,999	22,396	29.5%
Income taxes	(10,025)	(7,890)	27.1%
Net income	18,974	14,506	32.8%
Net income attributable to noncontrolling interest in earnings of subsidiary	(908)	(62)	(1,364.5)%
Net income attributable to Sterling common stockholders	$ 18,066	$ 14,444	25.1%
Backlog, end of year	$ 448,000	$ 450,000	(0.4)%

Revenues. Revenues increased $109 million, or 35.5%, from 2007 to 2008. A majority of the increase was due to the revenues earned by our Nevada operations, acquired on October 31, 2007, which were included in the consolidated results of operations for the full year of 2008 versus only two months in 2007. The remainder of the increase in revenues was the result of an increase in work performed by our Texas operations as a result of better weather throughout 2008 than 2007. Management estimates that revenues would have been $10 to $12 million greater had our Houston operations not been interrupted by Hurricane Ike and its after effects in September 2008. In addition, one of our oil suppliers in Nevada filed for bankruptcy in July 2008 and failed to furnish contracted oil for our production of asphalt on two of our jobs-in-progress, which delayed job performance and deferred approximately $25.0 million of revenue into 2009. Sterling has negotiated with NDOT and the profitability on these contracts was not materially impacted by this matter.

Contract receivables are directly related to revenues and include both amounts currently due and retainage. The increase of $6.2 million in contracts receivable to $60.6 million at December 31, 2008 versus 2007 is due to the increase in revenue for the year 2008. The days revenue in contract receivables is approximately 53 days and 65 days at December 31, 2008 and 2007, respectively. The days revenue in contract receivables would have been similar for the two years if the revenues of our Nevada operations had been included in our revenues for a full year in 2007.

Revenue in the fourth quarter of 2008 increased $21 million to $109 million versus 2007 for the same reasons as discussed above for the full year. See note 17 to the consolidated financial statements for the fiscal year ended December 31, 2008, included in this prospectus supplement, for unaudited quarterly financial information.

Gross profit. Gross profit increased $8.3 million in 2008 over 2007. This was due to the contribution of our Nevada operations in 2008 and better weather in Texas during most of 2008 than during 2007 (other than for the period during Hurricane Ike), which allowed our crews and equipment to be more productive. While Hurricane Ike affected our work in 2008, a hurricane usually does not adversely affect our profitability as much as the consistent rainy periods we had in 2007. Our gross margin decreased in 2008 from 2007 because of operating inefficiencies on certain contracts in Texas, higher fuel costs and lower profit margins on certain

contracts started in the last half of 2008. We expect the trend of lower profit margins on contract awards to continue at least in the first half of 2009.

Gross profit in the fourth quarter of 2008 decreased $2.5 million, or 21%, from the same quarter in 2007. Gross profit was 13.7% of revenues in the 2007 fourth quarter versus 8.7% in the fourth quarter of 2008 as a result of some unusually profitable municipal projects being performed primarily in the 2007 fourth quarter. Without those projects, the gross margins for the 2007 fourth quarter would have been more in line with normal margins, although still somewhat better than that of the fourth quarter of 2008.

Contract Backlog. At December 31, 2008, our backlog of construction projects was $448 million, as compared to $450 million at December 31, 2007. We were awarded approximately $413 million of new projects and change orders and recognized $415 million of earned revenue in 2008. Approximately $69 million of the backlog at December 31, 2008 is expected to be completed after 2009. The decrease in backlog from 2007 was due to increased competition and economic conditions in certain of our markets.

General and administrative expenses, and other income. General and administrative expenses, net, increased by $0.5 million in 2008 from 2007 primarily due to a full year of G&A at our Nevada operations offset by lower stock compensation expense.

Despite the increase in absolute G&A expenses, the percentage of G&A to revenue decreased to 3.3% in 2008 from 4.3% in 2007 as the Nevada operations G&A is not as large a percentage of revenues as Sterling s G&A which includes corporate overhead and expenses associated with being a public company.

Other income decreased $0.6 million and consisted of gains and losses on disposal of equipment which depends on, among other things, age and condition of equipment disposed of, insurance recoveries and the market for used equipment.

Operating income. Operating income increased $7.1 million due to the factors discussed above regarding gross profit and general and administrative expenses and other income.

Interest income and expense. Net interest income was $0.5 million less for 2008 than 2007 due to a decrease in interest rates on cash and short-term investments combined with the imputed interest expense of $0.2 million on the put option related to the minority interest in RHB.

Income taxes. Our effective income tax rate for the year ended December 31, 2008 was 34.6% compared to 35.2% for 2007. The difference between the effective tax rate and the statutory tax rate was due to the portion of earnings of a subsidiary taxed to the noncontrolling interest owner partially offset by the revised Texas franchise tax which became effective July 1, 2007.

Noncontrolling interest in earnings of subsidiary. The increase of the noncontrolling interest in earnings of subsidiary of $0.8 million was due to the noncontrolling interest s share of the results of RHB included in the consolidated results of operations for a full year in 2008 versus two months in 2007.