

STERLING CONSTRUCTION CO INC

Form 424B5

December 19, 2007

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PROSPECTUS

File Pursuant to Rule 424(B)(5)
Registration No. 333-147593

1,600,000 Shares

Sterling Construction Company, Inc.

Common Stock

We are offering to sell 1,600,000 shares of our common stock. Our common stock is listed on The NASDAQ Global Select Market, or Nasdaq, under the symbol **STRL**. The last reported sale price on Nasdaq on December 18, 2007 was \$20.83.

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

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

	Per Share	Total
Offering price	\$ 20.00	\$ 32,000,000
Discounts and commissions to underwriter	\$ 1.00	\$ 1,600,000
Offering proceeds to us, before expenses	\$ 19.00	\$ 30,400,000

The underwriter expects to deliver the shares of common stock to investors on or about December 24, 2007.

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

D.A. Davidson & Co.

The date of this prospectus is December 18, 2007

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

MARKET DATA AND FORECASTS

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

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SUMMARY

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

Our Company

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

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

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

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

Road and Highway Builders Acquisition

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

part of our senior management team.

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

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

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

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

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

Our Competitive Strengths

We believe our competitive strengths include:

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

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

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

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

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

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

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Our Business Strategy

Key features of our business strategy include:

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

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

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

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

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

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

Risks Related to Our Business and Strategy

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

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The Offering

Nasdaq symbol	STRL
Common stock offered by us	1,600,000 shares
Common stock to be outstanding after the offering	12,762,942 shares
Use of proceeds	<p>We will use the net proceeds of approximately \$29.6 million from the offering, after deducting underwriting discounts and fees of \$1.6 million in the aggregate and estimated offering expenses of approximately \$775,000:</p> <p style="padding-left: 40px;">to repay indebtedness outstanding under our new \$75 million revolving credit facility, which we refer to as our credit facility; and</p> <p style="padding-left: 40px;">to strengthen our balance sheet, including our working capital, in order to fund our business operations and provide liquidity for future growth.</p>

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

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

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

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

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

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

Our Executive Offices

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

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

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

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

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

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

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

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	Historical					Pro Forma(1) Nine Months	
	Year Ended December 31,			Nine Months Ended		Year	Ended
	2004	2005	2006	2006	2007	Ended December 31, 2006	September 30, 2007
				(Unaudited)		(Unaudited)	
	(in thousands, except per share data)						
Weighted average number of shares outstanding used in computing per share amounts:							
Basic	5,343	7,775	10,583	10,455	10,963	10,623	11,002
Diluted	7,028	9,538	11,714	11,640	11,765	11,754	11,805
Balance sheet data (end of period):							
Cash and cash equivalents	\$ 3,449	\$ 22,267	\$ 28,466	\$ 18,996	\$ 14,894		\$ 23,924
Short-term investments			26,169	22,585	32,630		
Working capital	16,052	18,354	62,874	58,369	59,691		31,354
Total assets	89,544	118,455	167,772	171,293	187,107		222,903
Total debt	25,445	23,142	30,782	28,812	30,689		53,257
Total liabilities	54,336						