STERLING CONSTRUCTION CO INC
Form 10-Q/A
March 15, 2005

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

FORM 10-Q/A

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

For the quarterly period ended: September 30, 2004

OR

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

For the transition period from __________ to __________

Commission file number: **0-19450**

STERLING CONSTRUCTION COMPANY, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**25-1655321**
(State of Incorporation)	(I.R.S. Employer Identification No.)

2751 CENTERVILLE ROAD SUITE 3131 WILMINGTON, DELAWARE
19803
(Address of principal executive offices)
(Zip Code)

(281) 821-9091

(Registrant s telephone number, including area code)

(Former name, former address, and former fiscal year, if changed from last report)

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

Indicate by check mark whether the Registrant is an accelerated filer (as described in Rule 12b-2 of the Exchange Act). Yes o No þ

As of November 1, 2004, 5,359,633 shares of the Registrant s Common Stock, $0.01 par value per share were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

EXPLANATORY NOTE

This Amendment No. 1 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 is being filed for the sole purpose of correcting the balance sheet classification of the revolving line of credit for Steel City Products (the SCPI Revolver) pursuant to guidance in the Financial Accounting Standards Board s Emerging Issues Task Force Issue No. 95-22 Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that Include Both a Subjective Acceleration Clause and a Lock-Box Arrangement. The Company has restated borrowings under the SCPI Revolver previously reported as long-term liabilities to current liabilities as of September 30, 2004 and corrected related disclosures accordingly in Note 10. Subsequent Event , Item 2 Managements Discussion and Analysis of Financial Condition and Results of Operations under the sub-heading Financing SHH Revolver and SCPI Revolver and Item 4. Controls and Procedures . All other information in the original filing remains unchanged and has not been updated.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands, except per share data)

	September 30, 2004 (Unaudited) (Restated)	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,352	$ 2,765
Contracts receivable	33,435	26,504
Costs and estimated earnings in excess of billings on uncompleted contracts	5,161	1,281
Trade accounts receivable, less allowance of $971 and $1,013 respectively	2,680	1,919
Inventories	4,789	4,842
Deferred tax asset	1,452	1,452
Other	1,159	1,436
Total current assets	52,028	40,199
Property and equipment, at cost	33,616	31,991
Less accumulated depreciation	(12,285)	(9,611)
	21,331	22,380
Goodwill	7,809	7,809
Deferred tax asset	3,146	4,527
Other assets	588	663
	11,543	12,999
	$ 84,902	$ 75,578
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 18,887	$ 14,439
Accrued interest	5	530
Billings in excess of costs and estimated earnings on uncompleted contracts	4,749	9,742
Revolving line of credit, SCPI (see Item 2)	3,918	2,660
Current maturities of long-term obligations	150	708
Current maturities of long-term debt, related parties	1,520	2,310
Current maturities of obligations related to the Put	953	
Other accrued expenses	3,993	3,322
Total current liabilities	34,175	33,711

Long-term obligations:		
Long-term debt	11,884	6,568
Long-term debt, related parties	7,219	6,758
Long-term obligations related to the Put	10,760	5,578
Other long-term obligations	964	1,054
	30,827	19,958
Minority interest		5,273
Commitments and contingencies		
Stockholders equity:		
Preferred stock, par value $0.01 per share; authorized 1,000,000 shares, none issued		
Common stock, par value $0.01 per share; authorized 14,000,000 shares, 5,347,008 and 5,139,900 shares issued and outstanding	53	51
Additional paid-in capital	67,423	66,400
Deferred compensation expense	(507)	(139)
Deficit	(47,068)	(49,675)
Treasury stock, at cost, 207 common shares	(1)	(1)
Total stockholders equity	19,900	16,636
	$ 84,902	$ 75,578

The accompanying notes are an integral part of these condensed consolidated financial statements

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Three months Ended September 30, 2004	Three months Ended September 30, 2003
Contract revenues	$ 40,221	$ 36,630
Sales	5,453	4,746
	45,674	41,376
Cost of contract revenues earned	36,323	31,501
Cost of goods sold, including occupancy, buying and warehouse expenses	4,710	4,072
Selling and administrative expenses	2,816	2,470
Interest expense, net of interest income	487	444
	44,336	38,487
Income before minority interest and income taxes	1,338	2,889
Minority interest in net earnings of subsidiary	253	454
Income before taxes	1,085	2,435
State income tax expense		17
Federal income tax expense	369	126
Net income tax expense	369	143
Net income	$ 716	$ 2,292
Basic and diluted net income per share:		
Basic	$ 0.13	$ 0.45
Diluted	$ 0.10	$ 0.34
Weighted average number of shares outstanding:		
Basic	5,343,508	5,073,349
Diluted	7,127,758	6,712,633

The accompanying notes are an integral part of these condensed consolidated financial statements

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Nine months Ended September 30, 2004	Nine months Ended September 30, 2003
Contract revenues	$ 95,161	$ 116,167
Sales	17,565	16,218
	112,726	132,385
Cost of contract revenues earned	83,970	102,730
Cost of goods sold, including occupancy, buying and warehouse expenses	15,013	13,836
Selling and administrative expenses	7,681	6,238
Interest expense, net of interest income	1,225	1,736
	107,889	124,540
Income before minority interest and income taxes	4,837	7,845
Minority interest in net earnings of subsidiary	862	1,224
Income before taxes	3,975	6,621
State income tax expense	16	12
Federal income tax expense	1,352	1,549
Net income tax expense	1,368	1,561
Net income	$ 2,607	$ 5,060
Basic and diluted net income per share:		
Basic	$ 0.49	$ 1.00
Diluted	$ 0.37	$ 0.80
Weighted average number of shares outstanding:		
Basic	5,274,730	5,070,084
Diluted	7,158,697	6,308,516

The accompanying notes are an integral part of these condensed consolidated financial statements

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Nine months Ended September 30, 2004	Nine months Ended September 30, 2003
Cash flows from operating activities:		
Net income	$ 2,607	$ 5,060
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,557	3,582
(Gain) loss on sale of property and equipment	(18)	8
Deferred tax expense	1,352	1,549
Deferred compensation expense	314	5
Minority interest in net earnings of subsidiary	862	1,224
Changes in operating assets and liabilities:		
(Increase) decrease in trade accounts receivable	(761)	502
Increase in contracts receivable	(6,931)	(9,226)
Decrease (increase) in inventories	53	(643)
(Increase) decrease in costs and estimated earnings in excess of billings on uncompleted contracts	(3,880)	950
Decrease (increase) in prepaid expenses and other assets	274	(647)
Increase in accounts payable	4,448	5,562
(Decrease) increase in billings in excess of costs and estimated earnings on uncompleted contracts	(4,993)	6,189
Increase in accrued compensation and other liabilities	1,346	1,126
Net cash (used in) provided by operating activities	(1,770)	15,241
Cash flows from investing activities:		
Additions to property and equipment	(2,551)	(3,797)
Proceeds from sale of property and equipment	139	(53)
Net cash used in investing activities	(2,412)	(3,850)
Cash flows from financing activities:		
Borrowings under short-term obligations		250
Borrowings on long-term obligations	4,426	
Reductions in long-term obligations		(6,796)
Cancellation of long term debt		(18)
Cash received from option exercises	392	5
Purchase of minority interest in subsidiary	(49)	

Net cash provided by (used in) financing activities		4,769		(6,559)
Net increase in cash and cash equivalents		587		4,832
Cash and cash equivalents, beginning of period		2,765		2,406
Cash and cash equivalents, end of period	$	3,352	$	7,238

The accompanying notes are an integral part of these condensed consolidated financial statements.

STERLING CONSTRUCTION COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2004 (UNAUDITED)

1. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by Sterling Construction Company, Inc. (Sterling or the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2003. The condensed consolidated financial statements reflect, in the opinion of management, all normal recurring adjustments necessary to present fairly the Company s financial position at September 30, 2004 and the results of operations and cash flows for the periods presented.

The accompanying condensed consolidated financial statements include the accounts of subsidiaries in which the Company has a greater than 50% ownership interest, and all intercompany accounts and transactions have been eliminated in consolidation.

Interim results may be subject to significant seasonal variations and the results of operations for the three and nine months ended September 30, 2004 are not necessarily indicative of the results to be expected for the full year.

The Company reports two operating segments, the Construction segment, which consists of the operations of Sterling Houston Holdings (SHH), a heavy civil construction company based in Houston, Texas, and the Distribution segment, which consists of the operations of Steel City Products, Inc. (SCPI), a wholesale distributor of automotive accessories, non-food pet supplies and lawn and garden products, based in Pittsburgh, Pennsylvania.

The Company has restated its September 30, 2004 balance sheet to correct the balance sheet classification of the SCPI revolving line of credit from a long-term obligation to a current liability, pursuant to guidance in the Financial Accounting Standards Board s Emerging Issues Task Force Issue No. 95-22 Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Arrangement , as reflected below:

	Original 10-Q filing	Adjustment	Adjusted 10-Q filing
Current liabilities:			
Revolving line of credit, SCPI		$ 3,918	$ 3,918
Long-term obligations			
Long-term debt	$ 15,802	($ 3,918)	$ 11,884

2. Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Management s estimates, judgments and assumptions are continually evaluated based on available information and experience; however actual amounts could differ from those estimates. The Company s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

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3. New Accounting Pronouncements

There are no new accounting pronouncements pending adoption as of September 30, 2004 that the Company believes would have a significant impact on its consolidated financial position or results of operations.

4. Property and Equipment

	September 30, 2004 (Unaudited)	December 31, 2003
Construction equipment	$ 25,773	$ 24,367
Transportation equipment	4,406	4,174
Buildings	1,488	1,488
Leasehold improvements	402	402
Office furniture, warehouse equipment and vehicles	1,365	1,378
Land	182	182
	33,616	31,991
Less accumulated depreciation	(12,285)	(9,611)
	$ 21,331	$ 22,380

5. Goodwill

The amounts recorded by the Company for goodwill are as follows (dollars in thousands):

	Construction Segment	Distribution Segment	Total
Balance, January 1, 2004	$ 7,681	$ 128	$ 7,809
Goodwill additions			
Impairment losses			
Balance, September 30, 2004	$ 7,681	$ 128	$ 7,809

The Company performed impairment testing on both segments in the fourth quarter of fiscal 2003. The analysis did not indicate impairment of the Company s recorded goodwill for either segment.

6. Earnings Per Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is the same as basic net income per share but assumes the exercise of convertible subordinated debt securities and includes dilutive stock options and warrants using the treasury stock method. The following table reconciles the numerators and denominators of the basic and diluted per common share computations for net income for the three and nine months ended September 30, 2004 and September 30, 2003 (in thousands, except per share data):

		Three months ended September 30, 2004		Three months ended September 30, 2003
Numerator:				
Net income	$	716	$	2,292
Interest on convertible debt, net of tax		11		11
Net income before interest on convertible debt	$	727	$	2,303
Denominator:				
Weighted average common shares outstanding basic		5,344		5,073
Shares for convertible debt		224		224
Shares for dilutive stock options and warrants		1,560		1,416
Weighted average common shares outstanding and assumed conversions diluted		7,128		6,713
Basic income per common share:	$	0.13	$	0.45
Diluted income per common share:	$	0.10	$	0.34

		Nine months ended September 30, 2004		Nine months ended September 30, 2003
Numerator:				
Net income	$	2,607	$	5,060
Interest on convertible debt, net of tax		33		33
Net income before interest on convertible debt	$	2,640	$	5,093
Denominator:				
Weighted average common shares outstanding basic		5,275		5,070
Shares for convertible debt		224		224
Shares for dilutive stock options and warrants		1,660		1,015
Weighted average common shares outstanding and assumed conversions diluted		7,159		6,309
Basic income per common share:	$	0.49	$	1.00
Diluted income per common share:	$	0.37	$	0.80

7. Stock-Based Compensation

Effective January 1, 2003, the Company adopted FASB No. 148 *Accounting for Stock-Based Compensation Transition and Disclosure* which amends FASB Statement No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Company transitioned utilizing the prospective method for options granted after January 1, 2003. Adoption of SFAS No. 148 did not have a material effect on its financial position or results of operations.

Prior to January 1, 2003, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation* , to stock-based employee compensation prior to January 1, 2003 (dollars in thousands, except per share data).

	Three months ended September 30, 2004	Thee months ended September 30, 2003
Net income, as reported	$ 716	$ 2,292
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	19	5
Add: Variable expense on stock options under APB 25 included in reported net income, net of related tax effect	36	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(32)	(18)
Pro forma net income	$ 739	$ 2,279
Basic and diluted net income per share:		
Basic, as reported	$ 0.13	$ 0.45
Diluted, as reported	$ 0.10	$ 0.34
Pro forma, basic	$ 0.14	$ 0.45
Pro forma, diluted	$ 0.10	$ 0.34

	Nine months ended September 30, 2004	Nine months ended September 30, 2003
Net income, as reported	$ 2,607	$ 5,060
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	35	5
Add: Variable expense on stock options under APB 25 included in reported net income, net of related tax effects	279	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(73)	(43)
Pro forma net income	$ 2,848	$ 5,022
Basic and diluted net income per share:		
Basic, as reported	$ 0.49	$ 1.00

Diluted, as reported	$	0.37	$	0.80
Pro forma, basic	$	0.54	$	0.99
Pro forma, diluted	$	0.40	$	0.80

8. Segment Information

Each of the Construction Segment and the Distribution Segment is managed by its own decision makers and comprises different customers, suppliers and employees. The operating profitability of the Construction Segment is reviewed by its Treasurer, Joseph P. Harper, to determine its financial needs. Terry Allan, Chief Executive Officer of SCPI and Maarten Hemsley, the Company s Chief Financial Officer, review the operating profitability of the Distribution Segment and its working capital needs to allocate financial resources. Allocation of resources among the Company s operating segments is determined by Messrs. Harper and Hemsley.

Three months ended 9/30/2004				Consolidated
Segments	Construction	Distribution	Corporate	Total
Revenues	$ 40,221	$ 5,453		$ 45,674
Operating profit (loss)	1,924	165	(264)	$ 1,825
Interest expense, net	(59)	(62)	(366)	$ (487)
Minority interest			(253)	$ (253)
Pre-tax income				$ 1,085
Segment assets	$ 64,136	$ 8,772	$ 11,993	$ 84,902

Three months ended 9/30/2003				Consolidated
Segments	Construction	Distribution	Corporate	Total
Revenues	$ 36,630	$ 4,746		$ 41,376
Operating profit (loss)	3,431	8	(106)	$ 3,333
Interest expense, net	(79)	(23)	(342)	$ (444)
Minority interest			(454)	$ (454)
Pre-tax income				$ 2,435
Segment assets	$ 64,373	$ 7,811	$ 13,178	$ 85,362

Nine months ended 9/30/2004				Consolidated
Segments	Construction	Distribution	Corporate	Total
Revenues	$ 95,161	$ 17,565		$ 112,726
Operating profit (loss)	6,305	715	(958)	$ 6,062
Interest expense, net	65	(110)	(1,180)	$ (1,225)
Minority interest			(862)	$ (862)
Pre-tax income				$ 3,975

Segment assets	$ 64,136	$ 8,772	$ 11,993	$ 84,902

Nine months ended 9/30/2003 Segments	Construction	Distribution	Corporate	Consolidated Total
Revenues	$ 116,167	$ 16,218		$ 132,385
Operating profit (loss)	9,404	463	(286)	$ 9,581
Interest expense, net	(321)	(70)	(1,345)	$ (1,736)
Minority interest			(1,224)	$ (1,224)
Pre-tax income				$ 6,621
Segment assets	$ 64,373	$ 7,811	$ 13,178	$ 85,362

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9. Privatization of SCPI

In October 2003, the Board of Directors of SCPI approved a 1 for 300,000 reverse split of SCPI s common stock and deregistration of such stock as a listed equity security. The transaction was approved by the Company, SCPI s majority stockholder. Holders of less than one share as a result of the reverse split became entitled to receive cash in lieu of fractional shares at the rate of $0.0168 (one point six eight cents) per pre-split share. The transaction was effective March 29, 2004, with the result that SCPI became a wholly-owned subsidiary of the Company from that date and ceased to have any publicly-listed securities.

10. Exercise of the Put

Effective July 19, 2004, the individual shareholders owning the 19.9% of SHH shares not held by the Company exercised their right to sell (Put) those shares to the Company under the July 2001 agreement pursuant to which the Company purchased 80.1% of SHH (the Sterling Transaction).

Pursuant to the Sterling Transaction, the purchase price of the SHH shares was to be computed as a multiple of SHH s EBITDA for the twelve months preceding the exercise, with a minimum price of $12 million. Accordingly, a compilation of the financial statements of SHH for the period from July 2003 through June 2004 was completed in October 2004 as a result of which the purchase price was determined to be approximately $15.0 million. Closing of the Put transaction is contemplated by the first quarter of fiscal 2005, following which the Company will own 100% of SHH.

The Put price is to be satisfied by cash of approximately $2.4 million (derived from borrowings on available long-term bank facilities), five-year notes of approximately $6.4 million, and the balance through the issuance of approximately 1,569,000 shares of the Company s common stock. The cash payment and notes will accrue interest from November 13, 2004 until the transaction is closed.

The final settlement of the Put transaction is expected to result in an increase of approximately $2.5 million being recognized in the Company s reported amount of goodwill related to SHH.

The settlement of the Put will trigger the payment of approximately $7.9 million of the Company s debt owed to management and others who funded the Sterling Transaction in 2001. The Company will pay this amount as well through a combination of cash of approximately $2.4 million (from borrowings on available long-term bank facilities), issuance of five-year notes of approximately $4.7 million and the balance through the issuance of approximately 225,000 shares of the Company s common stock.

The balance sheet reported for September 30, 2004 reflects the cash and note liabilities, both current and long term, due upon the exercise of the Put, but does not reflect the issuance of shares that will occur when the Put transaction is completed. Minority interest, previously classified as a mezzanine item in the balance sheet, has been included as part of the Put liability.

The following unaudited proforma condensed balance sheet reflects the Put transaction as if it had been completed on September 30, 2004, using the final purchase price of approximately $15.0 million. The condensed statements of operations for the three and nine month periods ended September 30, 2004 reflect the Put transaction as if it had been completed at the beginning of each respective period. The condensed statements of operations for fiscal 2003 reflect the Put transaction as if it had been completed on January 1, 2003, even though, by its terms, the Put was not exercisable before July 19, 2004 (dollar amounts in thousands, except per share data).

STERLING CONSTRUCTION COMPANY, INC.
CONDENSED PROFORMA CONSOLIDATED BALANCE SHEET
(Unaudited, in thousands)

	September 30, 2004 (unaudited)	Proforma Adjustment (unaudited)	Proforma at September 30, 2004 (unaudited)
Assets:			
Current assets	$ 52,028		$ 52,028
Fixed assets, net	21,331		21,331
Goodwill	7,809	2,548(a)	10,357
Other long-term assets	3,734		3,734
Total assets	$ 84,902	$ 2,548	$ 87,450
Liabilities and stockholders equity:			
Accounts payable and other obligations	$ 32,666		$ 32,666
Current portion of long term debt, related party	1,520		1,520
Current portion of the Put liability	953		953
Long-term debt	11,884	4,791(b)	16,675
Long-term debt, related party (including related accrued interest)	7,219	2,123(c)	9,342
Long-term portion Put liability	10,760	(10,760)(d)	
Stockholders equity:			
Common stock	53	18(e)	71
Additional paid in capital	66,916	6,376(e)	73,292
Accumulated deficit	(47,068)		(47,068)
Treasury stock	(1)		(1)
Total stockholders equity	19,900	6,394	26,294
Total liabilities and stockholders equity	$ 84,902	$ 2,548	$ 87,450

Notes:

(a) Reflects increase in goodwill of $2.5 million due to purchase of remaining 19.9% of at a price of approximately $15.0 million.

(b) Put transaction to be funded through availability on long-term bank facilities.

(c) Reflects issuance of $6.4 million in five-year notes related to Put; repayment of $2.4 million of existing $7.9 million notes (the payment of which is triggered by the Put), with the balance of $4.7 million replaced by new five-year, amortizing notes.

(d) Liability related to the Put of $10.8 million is extinguished.

(e) Approximately 1.57 million shares of common stock are issued in part satisfaction of the Put consideration, recorded at fair value of $3.49 at the time of the put exercise. For purposes of the Put transaction these shares were valued at $4.00, a premium of 15% to the fair value. Approximately 0.23 million shares valued at $4.00 are issued in part satisfaction of certain notes.

STERLING CONSTRUCTION COMPANY, INC.
CONDENSED PROFORMA CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited, in thousands)

	Three months ended September 30, 2004 (unaudited)	Proforma adjustment (unaudited)	Three months Proforma at September 30, 2004 (unaudited)
Total revenues	$ 45,674		$ 45,674
Operating profit	1,825		1,825
Interest expense, net of interest income	487	96(a)	583
Minority interest	253	(253)(b)	
Income before tax	1,085	157	1,242
Net income	$ 716	$ 104	$ 820
Weighted average shares, basic	5,344	1,795(c)	7,139
Earnings per share, basic	$ 0.13		$ 0.11
Weighted average shares, diluted	7,128	1,795(c)	8,923
Earnings per share, diluted	$ 0.10		$ 0.09

Notes:

(a) Interest expense of $331 related to issuance of new notes pursuant to the Put transaction, offset by decrease in interest expense of $235 on existing notes that are repaid or replaced as part of the Put transaction.

(b) Minority interest expense of $253 related to the SHH shares acquired is eliminated.

(c) Approximately 1.57 million shares of common stock are issued in part satisfaction of the Put consideration, recorded at fair value of $3.49 at the time of the put exercise. For purposes of the Put transaction these shares were valued at $4.00, a premium of 15% to the fair value. Approximately 0.23 million shares valued at $4.00 are issued in part satisfaction of certain notes.

	Nine months ended Sept. 30, 2004 (unaudited)	Proforma adjustment (unaudited)	Nine months Proforma at Sept. 30, 2004 (unaudited)

Total revenues	$ 112,726		$ 112,726
Operating profit	6,062		6,062
Interest expense, net of interest income	1,225	332(a)	1,557
Minority interest	862	(862)(b)	
Income before tax	3,975	530	4,505

	Nine months ended Sept. 30, 2004 (unaudited)	Proforma adjustment (unaudited)	Nine months Proforma at Sept. 30, 2004 (unaudited)
Net income	$ 2,607	$ 350	$ 2,957
Weighted average shares, basic	5,275	1,795(c)	7,070
Earnings per share, basic	$ 0.49		$ 0.42
Weighted average shares, diluted	7,159	1,795(c)	8,954
Earnings per share, diluted	$ 0.37		$ 0.33

Notes:

(a) Interest expense of $991 related to issuance of new notes pursuant to the Put transaction, offset by decrease in interest expense of $659 on existing notes that are repaid or replaced as part of the Put transaction.

(b) Minority interest expense of $862 related to the shares acquired is eliminated.

(c) Approximately 1.57 million shares of common stock are issued in part satisfaction of the Put consideration, recorded at fair value of $3.49 at the time of the put exercise. For purposes of the Put transaction these shares were valued at $4.00, a premium of 15% to the fair value. Approximately 0.23 million shares valued at $4.00 are issued in part satisfaction of certain notes.

STERLING CONSTRUCTION COMPANY, INC.
CONDENSED PROFORMA CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands)

	Fiscal year ended December 31, 2003	Proforma adjustment (unaudited)	Proforma Fiscal year ended December 31, 2003 (unaudited)
Total revenues	$ 170,093		$ 170,093
Operating profit	10,998	(1,001)(a)	11,999
Interest expense, net of interest income	2,074	359(b)	2,433
Minority interest	1,627	(1,627)(c)	

Income before tax		7,297		2,269		9,566
Net income	$	5,419	$	1,498	$	6,916
Weighted average shares, basic		5,090		1,795(d)		6,885
Earnings per share, basic	$	1.06			$	1.00
Weighted average shares, diluted		6,488		1,795(d)		8,283
Earnings per share, diluted	$	0.84			$	0.83

Notes:

(a) Reverses the increase of $1,001 in the Put liability during fiscal 2003.

(b) Additional interest expense of $1,200 related to the issuance of new notes pursuant to the Put transaction is offset by decrease in interest expense of $897 related to existing notes repaid or replaced as part of the Put transaction.

(c) Minority interest expense of $1,600 related to the SHH shares acquired is eliminated.

(d) Reflects the issuance of 1.8 million shares of common stock in part satisfaction of the Put consideration and certain notes.

The proforma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the Put transaction been consummated as at the times indicated, nor is it intended to be a projection of future results.

The completion of the Put transaction will not result in any charge or credit to results of operations at the date of completion.

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

Forward Looking Statements

From time to time the information provided by the Company or statements made by its employees may contain so-called forward-looking information that involves risks and uncertainties. In particular, statements contained in this Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations, which are not historical facts (including, but not limited to, statements concerning anticipated sales, contracts, profit levels, customers, backlog and cash flows) are forward-looking statements. The Company s actual future results may differ significantly from those stated in any forward-looking statements. Factors that may cause such differences include, but are not limited to, the factors discussed above as well as the accuracy of the Company s internal estimates of revenue and operating expense levels. Each of these factors, and others, are discussed from time to time in the Company s Securities and Exchange Commission filings.

Overview

The Company was formed in 1991 as a result of a merger designed to facilitate capital formation by the Company while permitting the Company and its subsidiary, Steel City Products, Inc. (SCPI or the Distribution Segment) to file consolidated tax returns to utilize existing tax benefits, which at December 31, 2003 included approximately $88 million of net operating tax loss carryforwards. The Distribution Segment is conducted by SCPI under the trade name Steel City Products and involves the distribution of automotive parts and accessories, together with non-food pet supplies and lawn and garden products, from facilities in McKeesport and Glassport, Pennsylvania. SCPI is believed to be one of the largest independent wholesale distributors of automotive accessories in the Northeastern United States.

In January 1999 the Company made a minority investment in Sterling Houston Holdings, Inc. (SHH or the Construction Segment), a heavy civil construction company based in Houston, Texas that specializes in municipal and state highway contracts for paving, bridge, water and sewer, and light rail projects. In July 2001, the Company increased its equity ownership of SHH from 12% to 80.1% (the Sterling Transaction).

Effective July 19, 2004, the individual shareholders owning the 19.9% of SHH shares not held by the Company exercised their right to sell (Put) those shares to the Company pursuant to the Sterling Transaction. The purchase price was determined by the Company in October 2004, with the expectation that the transaction will be closed by early 2005, following which the Company will own 100% of SHH (the Put Transaction).

Liquidity and Capital Resources

At SHH, the level of working capital varies principally as a result of changes in the levels of cost and estimated earnings in excess of billings, of billings in excess of cost and estimated earnings, and of customer receivables and contract retentions. SHH s cash requirements are also affected by its needs for capital equipment, which in the past have generally been financed from cash flow or from borrowings under its line of credit.

At SCPI, the level of working capital needs varies primarily with the amounts of inventory carried, the size and timeliness of payment of receivables from customers and the amount of credit extended by suppliers, all of which can fluctuate seasonally. SCPI s working capital needs not financed by supplier credit have been financed from cash flow, borrowings under its line of credit and other loans.

Put Liability

As part of the Sterling Transaction, the Company granted a Put option for the 19.9% of SHH shares not then acquired by the Company, pursuant to which the selling shareholders were granted the right to sell the remaining SHH shares to the Company at a date of their choosing between July 2004 and July 2005. The price of the Put was to be based on a multiple of EBITDA for the 12 months immediately preceding the Put exercise date.

Pursuant to a Put Restructuring Agreement entered into in September 2003, anticipated terms of settlement of the Put were agreed.

The Put was exercised on July 19, 2004 and a compilation of the results for the 12 months preceding the exercise date was performed, with the result that the purchase price was determined to be approximately $15.0 million. It is expected that the Put transaction will be settled by the first quarter of fiscal 2005.

The September 30, 2004 balance sheet reflects the liabilities incurred as the result of the Put. Minority interest, previously reported as a mezzanine item in the balance sheet, is now included as part of the liability related to the Put.

Financing

At September 30, 2004, the Company s debt consisted of (in thousands):

Related party notes:	
Zero coupon notes	$ 5,679
Convertible subordinated notes	560
Management/director notes	2,500
	8,739
SHH revolver	11,884
SCPI revolver	3,918
Put liability	11,713
Mortgage payable	1,049
Equipment notes & capital leases	65
	$ 37,368

Related Party Notes

Subordinated Zero Coupon Notes

The Sterling Transaction was funded in part through the sale of zero coupon notes and the issuance of zero coupon notes to certain selling shareholders of SHH. Warrants for Sterling common stock were issued in connection with the zero coupon notes. The zero coupon notes are shown at their present value, discounted at a rate of 12% and mature four years from the date of closing of the Sterling Transaction, but became due upon completion of the Put transaction. Warrants issued in connection with the notes are exercisable for ten years from closing and become exercisable four years after issuance at $1.50 per common share. In the Sterling

Transaction, Patrick Manning, Chairman and Chief Executive Officer of the Company, and Joseph P. Harper received zero coupon notes in the face amount of $799,000 and $1.0 million, respectively and warrants for 63,486 shares and 80,282 shares, respectively. In December 2003, a prepayment of $1.3 million was made on the zero coupon note issued to North Atlantic Smaller Companies Investment Trust (NASCIT) in consideration for the forgiveness of six months interest on such notes.

Pursuant to the Sterling Transaction, as modified by the Put Restructuring Agreement, the exercise of the Put on July 19, 2004 triggered payment of the zero coupon notes. Upon completion of the Put transaction approximately $1.5 million of the notes is to be paid in cash utilizing funding from long term borrowings under SHH s line of credit, $765,000 is to be satisfied by the issuance of the Company s shares, and balance will be converted into new five-year obligations.

Convertible Subordinated Notes

In December 2001, in conjunction with an amendment to the SCPI Revolver and in order to strengthen SCPI s working capital position through an advance to SCPI to fund the purchase of additional inventory, Sterling obtained funding, principally from members of management and directors (including Robert Frickel, a director of Sterling, Joseph P. Harper and Maarten Hemsley, who loaned $155,000, $100,000 and $25,000, respectively), aggregating $500,000 (the Convertible Subordinated Notes). In January 2002, two other members of management, including Bernard Frank, Chairman of SCPI, loaned a further $60,000, which was used for general corporate purposes. The notes evidencing these advances are convertible at any time prior to their maturity date into the Company s common stock at a price of $2.50 per share and mature and are payable in full in December 2004. Interest at an annual rate of 12% is payable monthly. The notes are senior to debt issued in connection with the Sterling Transaction.

Management/Director Notes

Notes with an aggregate face amount of $1.3 million issued in connection with the October 1999 purchase of the second equity tranche of shares of SHH were restructured as part of the Sterling Transaction. Of the total, notes for $800,000 were due to members of SHH s management, including Joseph P. Harper, since appointed President of the Company. Notes totaling approximately $550,000 were due to Robert Davies, the Company s former Chairman and Chief Executive Officer, and, through a participation agreement, Maarten Hemsley, formerly the Company s President and now its Chief Financial Officer. In consideration for the extension of the maturity dates of these notes, the face amounts were increased by an aggregate of approximately $342,000. Furthermore, certain accrued amounts due to Messrs. Davies and Hemsley aggregating approximately $355,000 were converted into notes. All such notes mature after four years and carry interest at 12%. Principal and interest may be paid only from defined cash flow of Sterling and SCPI, or from proceeds of any sale of SCPI s business. In December 2003, prepayments of accrued interest and principal were made to certain of these noteholders. Mr. Harper received a prepayment $86,000 and Mr. Davies received a prepayment $411,000. Mr. Hemsley declined any prepayment of his notes.

Pursuant to the Sterling Transaction, exercise of the Put triggered payment of the Management/Director notes. Under the terms of the Put Restructuring Agreement, upon completion of the Put transaction, one half of the notes is to be paid in cash utilizing funding from long term borrowings under the SHH line of credit, with the balance to be converted into new five year obligations.

Short Term Promissory Notes

In January 2003, members of management of the Company and of SHH (including Messrs. Harper and Hemsley) further funded SCPI with a $250,000 short-term loan to reduce

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SCPI s vendor payables. Interest on the notes was payable monthly at the annual rate of 10%. The notes, which are subordinated to the SCPI Revolver, matured in July 2003, but have been extended beyond that date, with the granting of a guarantee by SHH and an increase in the interest rate to 12% per annum, effective January 2004. These notes may be prepaid without penalty.

SHH Revolver and SCPI Revolver

In conjunction with the Sterling Transaction, SHH entered into a three-year bank agreement providing for a revolving line of credit originally with a maximum line of $17.0 million, subject to a borrowing base (the SHH Revolver). The line of credit carries interest at prime, subject to achievement of certain financial targets, is secured by the equipment of SHH and is subject to the maintenance of certain financial covenants. In March 2003, SHH agreed with its bank on a two-year extension of the line of credit, until March 31, 2006, and at the Company s request, reflecting strong cash flow and expected lower borrowing requirements, the maximum amount available was reduced to $14.0 million. At September 30, 2004, the balance on the SHH Revolver was $11.9 million, with interest at 4.0%, and SHH was in compliance with its covenants.

Management believes that the SHH Revolver will provide adequate funding for SHH s working capital, debt service and capital expenditure requirements, including seasonal fluctuations, for at least the next twelve months and for the upstreaming to the Company sufficient to satisfy cash payments for the Put and other debt.

In July 2001, in connection with the Sterling Transaction, SCPI replaced its bank line of credit (the SCPI Revolver). The total amount available under the line is $5.0 million, subject to a borrowing base. The SCPI Revolver carries an interest rate of prime plus 1%, is secured by the assets of SCPI and is subject to the maintenance of financial covenants. At September 30, 2004, the balance on the SCPI Revolver was $3.9 million and the effective rate of interest was 5.0%. SCPI was in compliance with its covenant requirements. In May 2004 the bank agreed to extend the SCPI Revolver to May 2006.

Although the SCPI Revolver expires in May 2006 and the Company has the intent and believes it will have the ability to maintain this debt outstanding for more than one year, the Company has classified borrowings under the SCPI Revolver as a current liability in accordance with the provisions set forth in Emerging Issues Task Force (EITF) 95-22 Balance Sheet Classifications, Borrowings Outstanding Under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Arrangement . As the credit agreement contains these provisions, the accompanying balance sheets have been restated and borrowings under the SCPI Revolver previously reported as a long-term liability have been reclassified as a current liability.

Management believes that the SCPI Revolver and the proceeds from the Convertible Subordinated Notes and short-term notes will provide adequate funding for SCPI s working capital, debt service and capital expenditure requirements, including seasonal fluctuations for at least the next twelve months, assuming no material deterioration in current sales levels or profit margins.

SHH Mortgage

In June 2001, SHH completed the construction of a new headquarters building on land adjacent to its existing equipment repair facility in Houston. The building was financed principally through an additional mortgage of $1.1 million on the land and facilities, at an interest rate of 7.75% per annum, repayable over 15 years. The new mortgage is cross-collateralized with an existing mortgage on the land and facilities, which was obtained in 1998 in the amount of $500,000, repayable over 15 years with an interest rate of 9.3% per annum.

Cash Flows

(in thousands)	September 30, 2004	September 30, 2003
Cash and cash equivalents	$ 3,352	$ 7,238
Net cash (used in) provided by:		
Operating activities	(1,770)	15,241
Investing activities	(2,412)	(3,850)
Financing activities	4,769	(6,559)
Capital expenditures	(2,551)	(3,797)
Working capital	21,771	13,138

For the nine months ended September 30, 2004, the Company s consolidated operations used $1.8 million in cash, as compared with cash provided by operations in the prior year period of $15.2 million. Cash flow from operating activities in the current year was $8.7 million, a decrease of $2.8 million compared with last year, due to lower net income. In the current year net working capital components increased by $10.4 million, whereas in the prior year there was a net decrease in working capital requirements of $3.8 million.

In the nine months ended September 30, 2004, cash used in investing activities decreased by $1.4 million compared with the prior year period, due to fewer capital expenditures for construction equipment.

Cash provided by financing activities increased by $11.3 million in the first nine months, compared with the same period last year, due to higher borrowings on the SHH and SCPI revolvers and by cash received from the exercise of options. In the prior year, SHH reduced its line of credit significantly.

The increase of $10.0 million in the level of working capital at the end of the third quarter, compared with such level at the end of the prior year period, reflects changes in several components of working capital as detailed in the Condensed Consolidated Statements of Cash Flows.

Inflation

Management does not believe that inflation has had a material negative impact on the Company s operations or financial results during recent years. However, increases in oil prices may have an adverse effect on the Construction Segment and recent fluctuations in the price of steel have affected the prices at which the Construction Segment has bid certain contracts, and potential gross profits on contracts.

Risk Factors

SHH measures its performance within the construction industry through the bidding process and the number, size and expected profitability of contracts obtained throughout the year. The Company is subject to various risks and uncertainties. Many factors affect the bidding climate, including, but not limited to, fluctuations in the local economy, the amount of local, state and federal government funds available for infrastructure upgrade and new construction, as well as the number of bidders in the market and the prices at which they are prepared to bid, which are in turn affected by such bidders profitability, financial strength and contract backlogs. Factors outside the bidding climate include: (a) weather conditions, such as precipitation and temperature, which can result in significant variability in quarterly revenues and earnings, particularly in the first and fourth quarters; (b) the availability of bonding, the absence of which would adversely affect the Company s ability to obtain new contracts; (c) the price of oil products, which can fluctuate significantly impacting operating expenses, and (d) the availability and price of steel and of cement and other raw materials for the production of concrete. While in fiscal 2003, the Company reported significant growth in Construction Segment revenues and profitability, there can be no assurance that it will be able to continue to do so. In the first nine months of fiscal 2004 the Construction Segment s revenues and profitability were lower than in the prior year period, as described under Results of Operations below.

The distribution industry has been adversely affected by some suppliers that offer products directly to retailers, avoiding the need for a distributor. SCPI has been able to maintain its presence in the distribution industry by offering new product lines and by competing through product selection, distribution services, order fill rates, short turnaround times and breadth of merchandise offered, but there can be no assurance that it will be able to continue to do so.

The Company is in the process of documenting and testing internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of internal controls over financial reporting and a report by the Company s independent auditors addressing these assessments. During the course of testing, the Company may identify deficiencies which may not be able to be remediated in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if the Company fails to maintain the adequacy of internal controls, as such standards are modified, supplemented or amended from time to time, the Company may not be able to ensure that it can conclude on an ongoing basis that it has effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment may have a material adverse effect on the Company s stock price.

Certification

This Form 10-Q has been certified by Patrick T. Manning, Chief Executive Officer of the Company, and by Maarten D. Hemsley, Chief Financial Officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and the certification is attached as Exhibit 32.0.

Material Changes in Financial Condition

At September 30, 2004, there had been no material changes in the Company s financial condition since December 31, 2003, as discussed in Item 7 of the Company s Annual Report on Form 10-K for the year ended December 31, 2003.

Results of Operations

Operations include the Company s investment in SHH, net of minority interest, (the Construction Segment) and the consolidated results for SCPI (the Distribution Segment).

<u>Three months ended September 30, 2004 compared with three months ended September 30, 2003</u>

Construction

Contract revenues in the third quarter of fiscal 2004 increased by $3.6 million, due to the commencement of several new projects during the quarter, and to better weather, which allowed for more work days.

Despite the increase in revenues compared with the prior year period, the Construction Segment s gross profit for the quarter was $3.9 million, or 9.7% of contract revenues, compared

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with gross profit in the third quarter last year of $5.1 million, or 14.0% of contract revenues. The decrease in margin was attributable to differences in the mix of contracts in progress.

Operating profit at the Construction Segment for the third quarter totaled $1.9 million, a decrease of $1.5 million, principally due to the lower gross profits and to increases in administrative expenses, including the hiring of additional project managers in the current year.

Distribution

Sales at the Distribution Segment increased by approximately $700,000 compared with the third quarter of the prior year. Sales of automotive supplies increased by approximately $560,000, due to increased sales during the summer road show and to resets of certain customer s stores. Sales of pet supplies increased by $123,000 due to increased promotional activity by one customer. Lawn and garden sales remained generally unchanged compared with the third quarter of the prior year.

Gross profit for Distribution was approximately $740,000, or 13.6% of sales, compared with gross profit in the prior year of approximately $670,000, or 14.2% of sales. Margins increased on lawn and garden and pet products, but declined on automotive accessories due to more volume purchases by customers.

The Distribution Segment reported an operating profit of $165,000 in the third quarter, compared with an operating profit of $8,000 in the third quarter of the prior year. The increase was primarily the result of the increased sales and to lower bad debt expense in the current year.

Corporate

Operating expenses at the corporate level increased by approximately $160,000 due to a non-cash charge of about $36,000 related to variable option plan accounting (in March 2004, the Company discontinued variable option plans) and for additional legal, audit and accounting fees.

Nine months ended September 30, 2004 compared with nine months ended September 30, 2003

Construction

Contract revenues in the nine months of fiscal 2004 reflected a decrease compared with the prior year of $21.0 million, due to particularly poor weather in the second quarter, which significantly reduced the days available for construction on many of the Segment s contracts. Favorable weather in the prior year first six months had allowed the Construction Segment to complete contracts more quickly and efficiently.

Construction Segment gross profit for the first nine months was $11.1 million, or 11.8% of contract revenues, compared with gross profit in the prior year period of $13.4 million, or 11.6% of contract revenues. Although gross profit decreased by approximately $2.3 million due to the reduction in revenues and higher fixed cost absorption rates, margins remained relatively unchanged due to favorable results on a number of contracts in the second quarter of the current year.

Operating profit at the Construction Segment decreased by $3.0 million, principally due to the lower gross profits compared with the prior year and to increases in administrative expenses, including the addition of personnel and increases in employee benefit expenses.

Distribution

The sales increase of approximately $1.3 million at the Distribution Segment was due primarily to increased sales to existing customers of automotive and pet products. Sales of automotive accessories increased by approximately $990,000 due to more severe winter weather in SCPI s market area, resulting in higher sales of winter-related products in the first quarter and to resets of stores to certain customers in the third quarter. Sales of pet supplies increased by approximately $360,000 due to the addition of new product lines and increased promotional activity to certain customers, which replaced slower moving items. For the first nine months of fiscal 2004, sales of lawn and garden products were unchanged compared with the prior year, due to the bankruptcy filing in the prior year of two lawn and garden customers being offset by sales to a new customer added in the current year.

Gross profit for Distribution was $2.6 million, or 14.5% of sales, compared with gross profit in the prior year of $2.4 million, or 14.7% of sales.

The Distribution Segment reported an operating profit of $715,000 in the first nine months, compared with an operating profit of $463,000 in the first nine months of the prior year. The increase of $252,000 was primarily related to the increased sales and to lower operating expenses, including a reduction in bad debt expense in the current year.

Corporate

Operating expenses at the corporate level increased by approximately $690,000 due primarily to a non-cash charge of $280,000 related to variable option expense for option grants after June 2000 and before adoption of SFAS 123 in January 2003. In March 2004, the Company discontinued variable option plans. In addition, the Company experienced higher administrative expenses in connection with the listing of its common shares on the American Stock Exchange in February 2004, for corporate insurance, for additional audit and accounting fees and for fees related to the Put transaction.

Company Website

The Company maintains a website at www.sterlingconstructionco.com. The Company makes available free of charge on or through its website, access to its latest Annual Report on Form 10-K, recent Quarterly Reports on Form 10-Q, any amendments to those filings, recent press releases, its Code of Ethics, Audit Committee Charter and Compensation Committee Charter, together with other filings related to shareholdings.

Item 3. Qualitative and Quantitative Disclosure about Market Risk

The Company is exposed to certain market risks from transactions that are entered into during the normal course of business. Sterling s primary market risk exposure is related to interest rate risk. The Company manages its interest rate risk by balancing in part its exposure between fixed and variable rates while attempting to minimize its interest costs.

Financial derivatives are used as part of the overall risk management strategy. These instruments are used to manage risk related to changes in interest rates. The portfolio of derivative financial instruments consists of interest rate swap agreements, which are used to modify variable rate obligations to fixed rate obligations, thereby reducing the exposure to higher interest rates. Amounts paid or received under interest rate swap agreements are accrued as interest rates change with the offset recorded in interest expense.

An increase of 1% in the market rate of interest would have increased the Company s net interest expense for the nine months ended September 30, 2004 by approximately $22,000.

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The Company applies Statement of Financial Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities* pursuant to which the Company s interest rate swaps have not been designated as hedging instruments; therefore changes in fair value are recognized in current earnings.

Because the Company derives no revenues from foreign countries or otherwise has no obligations in foreign currency, the Company experiences no foreign currency exchange rate risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures , as such term is defined in Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act), that are designed to ensure that information required to be disclosed in the Company s reports, pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer, President and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosures. In designing and evaluation the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluation the cost benefit relationship of possible controls and procedures.

The Company s Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of the Company s disclosure controls and procedures as of March 31, 2004. Based on their evaluation, excepted as noted below, the principal executive officer and principal financial officer concluded that the Company s controls and procedures are effective.

Changes in Internal Controls

Subsequent to the issuance of the Company s financial statement for the quarter ended September 30, 2004, the Company s management determined that borrowings under the SCPI Revolver should have been classified as short-term on the consolidated balance sheets. As a result, the accompanying condensed balance sheets as of September 30, 2004 have been restated and related disclosures have been added in Item 2 Managements Discussion and Analysis of Financial Condition and Results of Operations under the sub-heading Financing SHH Revolver and SCPI Revolver . The Company will perform a thorough review of all new loan agreements to specifically identify proper classification of debt.

PART II OTHER INFORMATION

Item 1. Legal Proceedings
There are no material legal proceedings outstanding against the Company.

Item 2. Changes in Securities and Use of Proceeds
None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Stockholders on August 11, 2004 during which the items detailed in the proxy statement dated July 16, 2004 were approved, including the re-election of three members of its Board of Directors.

Nominee	Votes For Nominee
Robert M. Davies	3,510,735
Maarten D. Hemsley	3,509,736
Christopher H.B. Mills	3,433,640

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K
(a) Exhibits
*31.1 Certification of Patrick T. Manning, Chief Executive Officer pursuant to Rule 13a-14(a)

*31.2 Certification of Maarten D. Hemsley, Chief Financial Officer, pursuant to Rule 13a-14(a)

*32.0 Certification of Patrick T. Manning, Chief Executive Officer and Maarten D. Hemsley, Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K
Report on Form 8-K announcing the intention to purchase of the remaining minority interest in SHH dated July 16, 2004

Report on Form 8-K announcing the exercise of the Put by the selling shareholders of SHH dated July 19, 2004

Report on Form 8-K announcing new contract wins dated July 28, 2004

Report on Form 8-K announcing results of operations for the second quarter ended June 30, 2004 and new contract wins dated August 13, 2004

Report on Form 8-K announcing a new contract award dated August 27, 2004

Report on Form 8-K announcing the awarding of a construction contract dated September 10, 2004

Report on Form 8-K announcing the Company was the low bidder on a $58.5 million construction contract dated September 13, 2004.

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*filed herewith

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STERLING CONSTRUCTION COMPANY, INC.

Date: March 14, 2005	By: /s/ Patrick T. Manning. Patrick T. Manning. Chief Executive Officer
Date: March 14, 2005	By: /s/ Maarten D. Hemsley Maarten D. Hemsley Chief Financial Officer