SACC PARTNERS LP
Form SC 13D
August 26, 2003

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

OMB APPROVAL	
OMB Number:	3235-0145
Expires:	December 31, 2005
Estimated average burden hours per response	11

SCHEDULE 13D

Under the Securities and Exchange Act of 1934

(Amendment No. _____)*

Odetics, Inc.

(Name of Issuer)

Common Stock

(Title of Class of Securities)

676065204

(CUSIP Number)

Sherry Tejeda
11150 Santa Monica Blvd
Suite 750
Los Angeles, CA 90025
(310) 966-1444

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

July 31, 2003

(Date of Event which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box [X_].

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 13d-7 for other parties to whom copies are to be sent.

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* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1	NAME OF REPORTING PERSONS I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY) SACC Partners LP; Riley Investment Management LLC; B. Riley & Co., Inc.; Bryant R. Riley		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*		(a) [_] (b) [X]
3	SEC USE ONLY		
4	SOURCE OF FUNDS* WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e)		[_]
6	CITIZENSHIP OR PLACE OF ORGANIZATION United States		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 2,832,559	
	8	SHARED VOTING POWER -0-	
	9	SOLE DISPOSITIVE POWER 2,832,559	
	10	SHARED DISPOSITIVE POWER -0-	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON		

2,832,512

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES*

[_]

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

16.13%

14 TYPE OF REPORTING PERSON*

PN, IA, BD, IN

*SEE INSTRUCTIONS BEFORE FILLING OUT!

Item 1. Security and Issuer.

Common Stock of Odetics, Inc.
151 South Manchester Avenue
Anaheim, CA 92802

Item 2. Identity and Background.

(a) SACC Partners LP (Delaware limited partnership) Riley Investment Management LLC (Delaware limited liability company) B. Riley & Co., Inc. (Delaware corporation) Bryant R. Riley (individual residing in California)

(b) 11150 Santa Monica Blvd. Suite 750 Los Angeles, CA 90025

(c) Mr. Riley owns all of the outstanding shares of B. Riley & Co., Inc. ("BRC"), an NASD member broker-dealer. Mr. Riley also manages and owns all of the outstanding membership interests of Riley Investment Management LLC ("RIM"), a California registered investment adviser. RIM is the investment adviser to and general partner of SACC Partners LP ("SACC"). Each entity is located at the address specified in (b) above.

(d) None

(e) None

(f) United States

Item 3. Source and Amount of Funds or Other Consideration.

SACC's purchases were made with SACC partnership funds. BRC's purchases were made with BRC corporate funds. Mr. Riley's purchases were made with personal funds.

Item 4. Purpose of Transaction.

SACC, BRC and Mr. Riley acquired the issuer's shares for investment purposes.

Item 5. Interest in Securities of the Issuer.

(a) SACC owns 1,833,333 shares of Odetics' common stock. Because RIM has sole voting and investment power over SACC's security holdings and Mr. Riley, in his role as the sole manager of RIM, controls RIM's voting and investment decisions, each of SACC, RIM and Mr. Riley may be deemed to have beneficial ownership of the 458,568 shares held by SACC, representing approximately 10.44% of Odetics' outstanding stock.

BRC owns 665,893 shares of Odetics' common stock. Because Mr. Riley has sole voting and investment power over BRC's security holdings, both BRC and Mr. Riley may be deemed to have beneficial ownership of the 121,944 shares of Odetics' common stock, representing approximately 3.79% of Odetics' outstanding stock.

Mr. Riley personally owns 333,333 shares of Odetics' common stock, representing approximately 1.90% of Odetics' common stock.

To summarize, Mr. Riley may be deemed to beneficially own a total of 2,832,559 shares of Odetics common stock (16.13%) through his relationships with SACC, RIM and BRC.

(b) With respect to all of the shares that are held by each of SACC and BRC, Mr. Riley has sole power to vote and dispose or direct the disposition of the shares

(c) Please see Exhibit A for SACC's, BRC's and Mr. Riley's transactions within the past sixty (60) days.

(d) None

(e) Not applicable

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer.

The relationships between Mr. Riley, SACC, RIM and BRC are described above under Item 2(c) above. There is no written agreement among the reporting parties regarding the Odetics shares.

Item 7. Material to be Filed as Exhibits.

There are no written agreements amongst the parties relating to the filing of this joint acquisition statement, nor are there any written agreements, contracts, arrangements, understandings, plans or proposals relating to (1) the borrowing of funds to finance the acquisition of shares, (2) the acquisition of issuer control, liquidation, sale of assets, merger, or change in business or corporate structure or any matter disclosed in Item 4, or (3) the transfer or voting of securities, finder's fees, joint ventures, options puts, calls, guarantees of loans, guarantees against loss or of profit, or the giving or withholding of any proxy.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: August 25, 2003

SACC PARTNERS LP

By: Riley Investment Management LLC,
its General Partner

By: /s/ Bryant R. Riley

Bryant R. Riley, President

RILEY INVESTMENT MANAGEMENT LLC

By: /s/ Bryant R. Riley

Bryant R. Riley, President

B. RILEY & CO., INC. By: /s/ Bryant R. Riley

Bryant R. Riley, CEO

By: /s/ Bryant R. Riley

Bryant R. Riley

Attention. Intentional misstatements or omissions of fact constitute federal criminal violations (see 18 U.S.C. 1001).

Joseph P. Harper, Sr.

James H. Allen, Jr.

Roger M. Barzun	1,190	$24,722

(1) SEC regulations define the "Value Realized Upon Exercise" as the difference between the market price of the shares on the date of the purchase, and the option exercise price of the shares, whether or not the shares are sold, or if they are sold, whether or not the sale occurred on the date of the exercise.

Outstanding Equity Awards at December 31, 2008

The following table shows certain information concerning un-exercised stock options and stock options that have not vested that were outstanding on December 31, 2008 for each named executive officer. No other equity awards have been made to the named executive officers.

	Option Awards					
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price/Share ($)	Option Grant Date	Option Expiration Date	Vesting Date Footnotes
Patrick T. Manning	400	600	$25.21	8/08/2006	9/08/2011	(1)
	10,000	—	$24.96	7/18/2006	7/18/2011	(2)
	300	600	$16.78	8/12/2005	9/12/2010	(1)
	10,000	—	$9.69	7/18/2005	7/18/2010	(2)
	2,800	700	$3.10	8/12/2004	8/12/2014	(1)
	—	—	$3.10	8/12/2004	8/12/2009	(2)
	3500	—	$3.05	8/20/2003	8/20/2013	(1)
Joseph P. Harper, Sr.	400	600	$25.21	8/08/2006	9/08/2011	(1)
	10,000	—	$24.96	7/18/2006	7/18/2011	(2)
	900	600	$16.78	8/12/2005	9/12/2010	(1)
	10,000	—	$9.69	7/18/2005	7/18/2010	(2)
	3,500	—	$3.10	8/12/2004	8/12/2014	(3)
	10,000	—	$3.10	8/12/2004	8/12/2009	(2)
	3,500	—	$3.05	8/20/2003	8/20/2013	(3)
	3,500	—	$1.725	7/24/2002	7/24/2012	(3)
	3,700	—	$1.50	7/23/2001	7/23/2011	(1)
James H. Allen, Jr.	13,707	9,138	$18.99	8/7/2007	8/7/2012	(3)
Roger M. Barzun	240	360	$25.21	8/8/2006	9/8/2011	(1)
	600	400	$16.78	8/12/2005	9/12/2010	(1)
	2,000	—	$3.10	8/12/2004	8/12/2014	(4)

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Vesting of Stock Options. If there is a change in control of the Company, all the stock options then held by a named executive officer become exercisable in full. Absent a change in control of the Company, the options listed above vest as described in the following footnotes:

(1) This option vests in equal installments on the first five anniversaries of its grant date.

(2) This option vested in a single installment on July 18, 2007.

(3) This option vests in equal installments on the first three anniversaries of its grant date.

(4) This option vested in a single installment on its grant date.

Director Compensation for 2008

The Company does not pay additional compensation for serving on the Board of Directors to directors who are employees of the Company, namely Messrs. Manning and Harper. The following table contains information concerning the compensation paid for 2008 to non-employee directors. All dollar numbers are rounded to the nearest dollar.

Name	Fees Earned or Paid in Cash ($)	Stock Awards (1)(3) ($)	Total(2) ($)
John D. Abernathy (Lead director) Chairman of the Audit Committee Member of the Compensation and Corporate Governance & Nominating Committees	39,184	50,000	89,184
Robert W. Frickel Chairman of the Compensation Committee Member of the Corporate Governance & Nominating Committee	29,884	50,000	79,884
Donald P. Fusilli, Jr. Member of the Audit Committee Member of the Compensation Committee	26,956	50,000	76,956
Maarten D. Hemsley	21,406	50,000	71,406
Christopher H. B. Mills	18,756	50,000	68,756
Milton L. Scott Chairman of the Corporate Governance & Nominating Committee Member of the Audit Committee	30,998	50,000	80,998
David R. A. Steadman Member of the Corporate Governance & Nominating Committee	25,542	50,000	75,542

(1) The aggregate value of these restricted stock awards was $350,000, including $220,833 recognized in 2008 for financial reporting purposes in accordance with FAS 123R. No amounts earned by a director have been capitalized on the balance sheet for 2008. The cost does not reflect any estimates made for financial statement reporting purposes of future forfeitures related to service-based vesting conditions. The valuation of the awards was made on the equity valuation assumptions described in Note 8 of Notes to Consolidated Financial Statements. None of

the awards has been forfeited to date.

(2) During 2008, none of the non-employee directors received any other compensation for any service provided to the Company. All directors are reimbursed for their reasonable out-of-pocket expenses incurred in attending meetings of the Board and Board committees. Directors living outside of North America, currently only Mr. Mills, have the option of attending regularly-scheduled in-person meetings by telephone, and if they choose to do so, they are paid an attendance fee as if they had attended in person.

(3) The following table shows for each non-employee director the grant date fair value of each stock award that has been expensed, the aggregate number of shares of stock awarded, and the number of shares underlying stock options that were outstanding on December 31, 2008.

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Name	Grant Date	Securities Underlying Option Awards Outstanding at December 31, 2008 (#)	Aggregate Stock Awards Outstanding at December 31, 2008 (#)	Grant Date Fair Value of Stock and Option Awards ($)
John D. Abernathy	5/19/2005	5,000		27,950
	5/8/2008		2,564	50,000
Total		5,000	2,564	77,950
Robert W. Frickel	7/23/2001	12,000		57,600
	5/19/2005	5,000		27,950
	5/8/2008		2,564	50,000
Total		17,000	2,564	135,550
Donald P. Fusilli, Jr.	5/8/2008	—	2,564	50,000
Maarten D. Hemsley	7/18/2007	2,800		27,640
	7/18/2006	2,800		45,917
	7/18/2005	2,800		17,534
	5/8/2008		2,564	50,000
Total		8,400	2,564	141,091
Christopher H. B. Mills	5/19/2005	5,000		27,950
	5/8/2008		2,564	50,000
Total		5,000	2,564	77,950
Milton L. Scott	5/8/2008		2,564	50,000
David R. A. Steadman	5/8/2008		2,564	50,000

Standard Director Compensation Arrangements. The following table shows the standard compensation arrangements for non-employee directors that were adopted by the Board on May 8, 2008.

Annual Fees		
Annual Fees	Each Non-Employee Director	
	$17,500	
	An award (on the date of each Annual Meeting of Stockholders) of restricted stock that has an accounting income charge under FAS 123R of $50,000 per grant.*	
Additional Annual Fees for Committee Chairmen		
Chairman of the Audit Committee		$12,500
Chairman of the Compensation Committee		$7,500
Chairman of the Corporate Governance & Nominating Committee		$7,500
Meeting Fees		
In-Person Meetings		Per Director Per Meeting
Board Meetings		$1,500
Committee Meetings		
Audit Committee Meetings in connection with a Board meeting		$1,000

not in connection with a Board meeting	$1,500
Other Committee Meetings	
in connection with a Board meeting	$500
not in connection with a Board meeting	$750
Telephonic Meetings (Board & committee meetings)	
One hour or longer	$1,000
Less than one hour	$300

* The shares awarded are considered restricted because they may not be sold, assigned, transferred, pledged or otherwise disposed of until the restrictions expire. The restrictions for the award made on May 8, 2008 expire on May 5, 2009, the day before the 2009 Annual Meeting of Stockholders, but earlier if the director dies or becomes disabled or if there is a change in control of the Company. The shares are forfeited if before the restrictions expire, the director ceases to be a director other than because of his death or disability.

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Compensation Committee Interlocks and Insider Participation

During 2008, Robert W. Frickel (Chairman), John D. Abernathy and Donald P. Fusilli, Jr. served on the Compensation Committee. None of these Compensation Committee members is or has been an officer or employee of the Company. Mr. Frickel is President of R.W. Frickel Company, P.C., an accounting firm that performs certain accounting and tax services for the Company. In 2008, the Company paid or accrued for payment to R.W. Frickel Company approximately $39,700 in fees. The Company estimates that during 2009, the fees of R.W. Frickel Company will be approximately the same as in 2008.

None of the Company's executive officers served as a director or member of the compensation committee, or any other committee serving an equivalent function, of any other entity that has an executive officer who is serving or during 2008 served as a director or member of the Compensation Committee of the Company.

Compensation Committee Report

The Compensation Committee of the Board of Directors has reviewed and discussed with management the Compensation Discussion and Analysis set forth above in this Item 11. Based on that review and those discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

Submitted by the members of the Compensation Committee on March 16, 2009

Robert W. Frickel, Chairman
John D. Abernathy
Donald P. Fusilli, Jr.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information. The following table contains information at December 31, 2008 about compensation plans (including individual compensation arrangements) under which the Company has authorized the issuance of equity securities.

Plan Category(1)	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans, excluding securities reflected in column (a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders:	411,000	$9.753	397,690

(1) There is no outstanding compensation plan (including individual compensation arrangements) under which the Company has authorized the issuance of equity securities that has not been approved by stockholders.

Security Ownership of Certain Beneficial Owners and Management. The following table sets forth certain information at February 16, 2009 about the beneficial ownership of shares of the Company's common stock by each person or entity known to the Company to own beneficially more than 5% of the outstanding shares of common stock; by each director; by each executive officer named above in Item 11. — Executive Compensation, under the heading Summary Compensation Table for 2008; and by all directors and executive officers as a group. The Company has no other class of equity securities outstanding.

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Based on information furnished by the beneficial owners, the Company believes that those owners have sole investment and voting power over the shares of common stock shown as beneficially owned by them, except as stated otherwise in the footnotes to the table.

Rule 13d-3(d)(1) of the Securities Exchange Act of 1934 requires that the percentages listed in the following table assume for each person or group the acquisition of all shares that the person or group can acquire within sixty days of February 16, 2009, for instance by the exercise of a stock option, but not the acquisition of the shares that can be acquired in that period by any other person or group listed.

Except for Mr. Mills and the entities listed below, the address of each person is the address of the Company.

Name and Address of Beneficial Owner	Number of Outstanding Shares of Common StockOwned	Shares Subject to Purchase*	Total Beneficial Ownership	Percent of Class
Wellington Management Company, LLP 75 State Street Boston, Massachusetts 02109 (2)	1,646,870(1)	—	1,646,870	12.49%
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, Maryland 21201 (1)	1,086,413(2)	—	1,086,413	8.24%
John D. Abernathy	54,531(3)	5,000	59,531	†
Robert W. Frickel	67,369(3)	17,000	84,369	†
Donald P. Fusilli, Jr.	4,162(3)	—	4,162	†
Joseph P. Harper, Sr.	520,444(4)	173,074	693,518	5.19%
Maarten D. Hemsley	184,238 (3)(5)	8,400	192,638	1.46%
Patrick T. Manning	100,295(6)	27,600	127,895	†
Christopher H. B. Mills North Atlantic Value LLP Ryder Court, 14 Ryder Street, London SW1Y 6QB, England	317,369(3)(7)	5,000	519,805	2.44%
Milton L. Scott	5,369(3)	—	5,369	†
David R. A. Steadman	24,369(3)	—	24,369	†
All directors and executive officers as a group (11 persons)	1,305,307(8)	243,483(8)	1,548,790	11.53%

* These are the shares that the entity or person can acquire within sixty days of February 16, 2009.

† Less than one percent.

(1) This number is based on a Schedule 13G/A filed with the Securities and Exchange Commission on February 10, 2009. Of this number, Wellington Management Company, LLP claims shared voting power over 1,438,659 of the shares and shared dispositive power over all of the shares.

(2) This number is based on a Schedule 13G filed with the Securities and Exchange Commission on February 10, 2009. Of this number, T. Rowe Price claims sole voting power over 461,613 of the shares and sole dispositive power over all of the shares.

(3) This number includes 2,564 restricted shares awarded to non-employee directors as described above in Item 11. — Executive Compensation in footnote (1) to the Director Compensation Table for 2008. The restrictions expire on May 5, 2009, the day preceding the 2009 Annual Meeting of Stockholders, but earlier if the director dies or

becomes disabled or if there is a change in control of the Company. The shares are forfeited before the expiration of the restrictions if the director ceases to be a director other than because of his death or disability.

(4) This number includes 8,000 shares held by Mr. Harper as custodian for his grandchildren.

(5) This number includes 10,000 shares owned by the Maarten and Mavis Hemsley Family Foundation as to which Mr. Hemsley has shared voting and investment power with his wife and two daughters. Of the total number of shares, 155,924 shares are pledged as security.

(6) Of these shares 92,795, have been pledged as security.

(7) This number consists of 300,000 shares owned by NASCIT of which Mr. Mills is Chief Executive Officer; 14,805 shares owned by Mr. Mills personally over which he claims sole voting and investment power; and 2,564 restricted shares that are described above in footnote (3).

(8) See the footnotes above for a description of certain of the shares included in this total.

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Item 13. Certain Relationships and Related Transactions, and Director Independence

Transactions with Related Persons.

Maarten D. Hemsley. At December 31, 2008, NASCIT held 2.28% of the Company's outstanding common stock. NASCIT is a part of JO Hambro Capital Management Group Limited, or JOHCMG, an investment company and fund manager located in the United Kingdom. From January 2001 until May 2002, Mr. Hemsley was a consultant to JO Hambro Capital Management Limited, or JOHCM, which is part of JOHCMG, and since May 2002 has been an employee of JOHCM. Mr. Hemsley has served since 2001 as Fund Manager of JOHCMG's Leisure & Media Venture Capital Trust, plc, and since February 2005, as Senior Fund Manager of its Trident Private Equity II LLP investment fund. Neither of those funds was or is an investor in the Company or any of the Company's affiliates.

Robert W. Frickel. Mr. Frickel is President of R.W. Frickel Company, P.C., an accounting firm based in Michigan that performs certain accounting and tax services for the Company. In 2008, the Company paid or accrued for payment to R.W. Frickel Company approximately $39,700 in fees. The Company estimates that during 2009, the fees of R.W. Frickel Company will be approximately the same as in 2008.

Joseph P. Harper, Jr. Joseph P. Harper, Jr. is Chief Financial Officer of the Company's wholly-owned subsidiary, Texas Sterling Construction Co., or TSC, and the son of Joseph P. Harper, Sr., who is President, Treasurer & Chief Operating Officer of the Company. For 2008 Mr. Harper Jr. received salary of $200,000 and deferred salary and cash incentive bonus of $140,000.

The Paradigm Companies. Since July 2005, Patrick T. Manning has been the husband of the sole beneficial owner of Paradigm Outdoor Supply, LLC, Paradigm Outsourcing, Inc. and Paradigm Consultants, Inc. The Paradigm companies have provided materials and services to the Company and to other contractors for many years. In 2008, the Company paid a total of approximately $436,262 to the Paradigm companies. The Audit Committee reviews and approves these payments in the manner described below.

Policies and Procedures for the Review, Approval or Ratification of Transactions with Related Persons.

General. The Board of Directors' policy on transactions between the Company and related parties is set forth in the written charter of the Audit Committee. The policy requires that the Audit Committee must review in advance the terms of any transaction by the Company with a director; executive officer; nominee for election as director; stockholder; or any affiliate or any of their immediate family members that involves more than $50,000. If the Audit Committee approves the transaction, it must do so in compliance with Delaware law and report it to the full Board of Directors.

Mr. Hemsley. Mr. Hemsley's relationship with JOHCM has not been the subject of any approval process by the Board or the Audit Committee because, as noted above, neither of the funds he manages were or are an investor in the Company or any of its affiliates.

Mr. Frickel. The Company's Audit Committee reviews and approves the retention of Mr. Frickel's firm and the payment of its fees. A description of this written procedure is found in Item 14. — Principal Accounting Fees and Services, below, under the heading Audit and Non-Audit Service Approval Policy.

Joseph P. Harper, Jr. The Compensation Committee reviews Mr. Harper, Jr.'s salary and bonus as well as the salary and bonus of other senior managers of TSC. Neither Mr. Harper, Sr. nor Mr. Harper, Jr. is a member of the Compensation Committee, which is made up entirely of independent directors.

The Paradigm Companies. TSC engages the Paradigm companies primarily for City of Houston projects to comply with requirements that a portion of project contracts be subcontracted to minority and/or women-owned businesses. Both Paradigm companies are woman-owned businesses. Paradigm Outdoor Supply arranges for the purchase of construction materials. Paradigm delivers the materials directly to the project site and bills the Company for them. Paradigm Outdoor Supply and similar companies charge a percentage commission ranging from 2% to 3% of the cost of the materials. Paradigm Outsourcing provides flagmen and other temporary construction personnel to contractors and charges competitive rates for those services. During 2008, the Company paid Paradigm Outdoor Supply a total of approximately $326,520 for the materials it purchased for the Company; and paid Paradigm Outsourcing $109,548 for temporary personnel supplied to the Company.

The Audit Committee has engaged a separate auditing firm to review on a quarterly basis the purchases of materials and services from Paradigm and to furnish the Audit Committee with a report of the rates charged by the Paradigm companies compared to rates charged by similar firms. The Audit Committee then determines whether to approve the continuation of business with the Paradigm companies for the succeeding quarter.

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Director Independence. The following table shows the Company's independent directors in 2008 and the committees of the Board of Directors on which they served. Each of the directors listed has in the past and continues to satisfy Nasdaq's definition of an independent director. Each member of the Audit Committee, Compensation Committee, and Corporate Governance & Nominating Committee also satisfies Nasdaq's independence standards for service on those committees. In addition, the members of the Audit Committee satisfy the independence requirements of the SEC's Regulation §240.10A-3.

Name	Committee Assignment
John D. Abernathy	Audit Committee (Chairman) Compensation Committee Corporate Governance and Nominating Committee
Robert W. Frickel	Compensation Committee (Chairman) Corporate Governance & Nominating Committee
Milton L. Scott	Corporate Governance & Nominating Committee (Chairman) Audit Committee
Donald P. Fusilli, Jr.	Audit Committee Compensation Committee
David R. A. Steadman	Corporate Governance & Nominating Committee
Christopher H. B. Mills	None

The relationship between Mr. Frickel's accounting firm and the Company is described above in this Item 12 under the heading Transactions with Related Persons.

In determining that Mr. Mills is independent under Nasdaq rules, the Board of Directors considered the fact that Mr. Mills is the Chief Executive Officer of NASCIT, which is a stockholder holding less than 10% of the Company's outstanding common stock and therefore under applicable rules and regulations is not an affiliate of the Company. The Board also considered the payments of interest that the Company made on a promissory note it issued to NASCIT in 2001 in connection with the Company's acquisition of TSC and the fact that the note was paid in full on June 30, 2005. The Board has concluded that under Nasdaq's standards for independence, neither of Mr. Frickel's nor Mr. Mills' relationship to the Company adversely affects his independence. In reaching this conclusion, the Board also relied on the fact that both Messrs. Frickel and Mills were directors at the time that the Company applied for the listing of its common stock on Nasdaq and that they qualified as independent at that time.

Item 14. Principal Accountant Fees and Services.

The following table sets forth the aggregate fees that the Company's independent registered public accounting firm, Grant Thornton LLP, billed to the Company for the years ended December 31, 2008 and 2007.

Fee Category	2008	Percentage Approved by the Audit Committee	2007	Percentage Approved by the Audit Committee
Audit Fees:	$529,000	100%	$574,000	100%
Audit-Related Fees:	--	NA	$25,500	100%
Tax Fees:	$3,000	NA	$3,300	100%
All Other Fees:	$20,000	100%	—	NA

Audit Fees. In 2008 and 2007 audit fees include the fees for Grant Thornton's audit of the consolidated financial statements included in the Company's Annual Report on Form 10-K; reviews of the consolidated financial statements included in the Company's quarterly reports on Form 10-Q; the resolution of issues that arose during the audit process; attestation work required by Section 404 of the Sarbanes-Oxley Act of 2002; and other audit services that are normally provided in connection with statutory and regulatory filings. For 2008, only $349,000 of the expected billings as reflected in the above table had been billed by December 31, 2008. For 2007, the audit fees have been updated since the 2007 Form 10-K filing to reflect a reduction of $29,000 from the estimate at the time of filing as compared to the actual fees incurred.

Audit-Related Fees. In 2007 audit-related fees included fees in connection with the Company's October 2007 acquisition of RHB.

Tax Fees. Our independent registered public accounting firm provides tax consulting services to the Company.

All Other Fees. In 2008, these fees consist of accounting services performed in connection with our shelf registration filing with the SEC and various other consulting fees on accounting issues.

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Audit and Non-Audit Service Approval Policy. In accordance with the requirements of the Sarbanes-Oxley Act of 2002 and related rules and regulations, the Audit Committee has adopted a policy that it believes will result in an effective and efficient procedure to approve the services of the Company's independent registered public accounting firm.

Audit Services. The Audit Committee annually approves specified audit services engagement terms and fees and other specified audit fees. All other audit services must be specifically pre-approved by the Audit Committee. The Audit Committee monitors the audit services engagement and must approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope or other items.

Audit-Related Fees. Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements, which historically have been provided by our independent registered public accounting firm, and are consistent with the SEC's rules on auditor independence. The Audit Committee annually approves specified audit-related services within established fee levels. All other audit-related services must be pre-approved by the Audit Committee.

Tax Fees. As the fees related to these services are de minimis in amount, they are approved by the Chairman of the Audit committee prior to being incurred.

All Other Fees. Other services, if any, are services provided by our independent registered public accounting firm that do not fall within the established audit, audit-related and tax services categories. The Audit Committee must pre-approve specified other services that do not fall within any of the specified prohibited categories of services.

Procedures. All requests for services that are to be provided by our independent registered public accounting firm, which must include a detailed description of the services to be rendered and the amount of corresponding estimated fees, are submitted to both the Company's President and the Chairman of the Audit Committee. The Chief Financial Officer authorizes services that have been approved by the Audit Committee within the pre-set limits. If there is any question as to whether a proposed service fits within an approved service, the Chairman of the Audit Committee is consulted for a determination. The Chief Financial Officer submits to the Audit Committee any requests for services that have not already been approved by the Audit Committee. The request must include an affirmation by the Chief Financial Officer and the independent registered public accounting firm that the request is consistent with the SEC's rules on auditor independence.

PART IV

Item 15. Exhibits, Financial Statements and Schedules.

The following Financial Statements and Financial Statement Schedules are filed with this Report:

Financial Statements

Reports of the Company's Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2008 and December 31, 2007

Consolidated Statements of Operations for the fiscal periods ended December 31, 2008, December 31, 2007 and December 31, 2006

Consolidated Statements of Stockholders' Equity for the fiscal periods ended December 31, 2008, December 31, 2007 and December 31, 2006

Consolidated Statements of Cash Flows for the fiscal periods ended December 31, 2008, December 31, 2007 and December 31, 2006

Notes to the Consolidated Financial Statements

Financial Statement Schedules: None

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Exhibits

The following exhibits are filed with this Report:

Explanatory Note

Prior to changing its name to Sterling Construction Company, Inc. in November 2001, the Company had the following names during the following periods:

Hallwood Holdings Incorporated	May 1991 to July 1993
Oakhurst Capital, Inc.	July 1993 to April 1995
Oakhurst Company, Inc.	April 1995 to November 2001

References in the following exhibit list use the name of the Company in effect at the date of the exhibit.

Number	Exhibit Title
2.1	Purchase Agreement by and among Richard H. Buenting, Fisher Sand & Gravel Co., Thomas Fisher and Sterling Construction Company, Inc. dated as of October 31, 2007 (incorporated by reference to Exhibit number 2.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, Amendment No. 1 filed on November 21, 2007 (SEC File No. 1-31993)).
2.2	Escrow Agreement by and among Sterling Construction Company, Inc., Fisher Sand & Gravel Co., Richard H. Buenting and Comerica Bank as Escrow Agent, dated as of October 31, 2007 (incorporated by reference to Exhibit number 2.2 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, Amendment No. 1 filed on November 21, 2007 (SEC File No. 1-31993)).
3.1	Certificate of Incorporation of Sterling Construction Company, Inc. incorporating all amendments made thereto through May 8, 2008 (incorporated by reference to Exhibit 3.1 to Sterling Construction Company, Inc.'s Quarterly Report on Form 10-Q, filed on August 11, 2008 (SEC File No. 333-129780)).
3.2	Bylaws of Sterling Construction Company, Inc. as amended through March 13, 2008 (incorporated by reference to Exhibit 3.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, filed on March 19, 2008 (SEC File No. 333-129780)).
4.1	Form of Common Stock Certificate of Sterling Construction Company, Inc. (incorporated by reference to Exhibit 4.5 to its Form 8-A, filed on January 11, 2006 (SEC File No. 011-31993)).
10.1#	Oakhurst Company, Inc. 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.6 to Sterling Construction Company, Inc.'s Registration Statement on Form S-1, filed on November 17, 2005 (SEC File No. 333-129780)).
10.2#	Forms of Stock Option Agreement under the Oakhurst Company, Inc. 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.51 to Sterling Construction Company, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 29, 2005 (SEC File No. 001-31993)).
10.3#	Summary of the Compensation Plan for Non Employee Directors of Sterling Construction Company, Inc. (incorporated by reference to Exhibit 10.1 to Sterling Construction Company, Inc.'s Quarterly Report on Form 10-Q, filed on August 11, 2008 (SEC File No. 333-129780)).

10.4	Credit Agreement by and among Sterling Construction Company, Inc., Texas Sterling Construction Co., Oakhurst Management Corporation and Comerica Bank and the other lenders from time to time party thereto, and Comerica Bank as administrative agent for the lenders, dated as of October 31, 2007 (incorporated by reference to Exhibit 10.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, Amendment No. 1 filed on November 21, 2007 (SEC File No. 1-31993)).
10.5	Security Agreement by and among Sterling Construction Company, Inc., Texas Sterling Construction Co., Oakhurst Management Corporation and Comerica Bank as administrative agent for the lenders, dated as of October 31, 2007 (incorporated by reference to Exhibit 10.2 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, Amendment No. 1 filed on November 21, 2007 (SEC File No. 1-31993)).
10.6	Joinder Agreement by Road and Highway Builders, LLC and Road and Highway Builders Inc, dated as of October 31, 2007 (incorporated by reference to Exhibit 10.3 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, Amendment No. 1 filed on November 21, 2007 (SEC File No. 1-31993)).
10.7#	Employment Agreement dated as of July 19, 2007 between Sterling Construction Company, Inc. and Patrick T. Manning (incorporated by reference to Exhibit 10.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K filed on January 17, 2008 (SEC File No. 1-31993))
10.8#	Employment Agreement dated as of July 19, 2007 between Sterling Construction Company, Inc. and Joseph P. Harper, Sr. (incorporated by reference to Exhibit 10.2 to Sterling Construction Company, Inc.'s Current Report on Form 8-K filed on January 17, 2008 (SEC File No. 1-31993))
10.09#	Employment Agreement dated as of July 16, 2007 between Sterling Construction Company, Inc. and James H. Allen, Jr. (incorporated by reference to Exhibit 10.3 to Sterling Construction Company, Inc.'s Current Report on Form 8-K filed on January 17, 2008 (SEC File No. 1-31993))
10.10#	Option Agreement dated August 7, 2007 between Sterling Construction Company, Inc. and James H. Allen, Jr. (incorporated by reference to Exhibit 10.4 to Sterling Construction Company, Inc.'s Current Report on Form 8-K filed on January 17, 2008 (SEC File No. 1-31993))
10.11#*	Employment Agreement dated as of March 17, 2006 between Sterling Construction Company, Inc. and Roger M. Barzun.
21	Subsidiaries of Sterling Construction Company, Inc.: Name — State of Incorporation Texas Sterling Construction Co. — Delaware Road and Highway Builders, LLC — Nevada Road and Highway Builders Inc. — Nevada Road and Highway Builders of California, Inc. — California
23.1*	Consent of Grant Thornton LLP.
31.1*	Certification of Patrick T. Manning, Chief Executive Officer of Sterling Construction Company, Inc.
31.2*	Certification of James H. Allen, Jr., Chief Financial Officer of Sterling Construction Company, Inc.
32.0*	Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) of Patrick T. Manning, Chief Executive Officer, and James H. Allen, Jr., Chief Financial Officer.

Management contract or compensatory plan or arrangement.
* Filed herewith.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sterling Construction Company, Inc.

Dated: March 16, 2009 By: /s/ Patrick T. Manning
Patrick T. Manning, Chief Executive Officer
(duly authorized officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Patrick T. Manning Patrick T. Manning	Chairman of the Board of Directors; Chief Executive Officer (principal executive officer)	March 16, 2009
/s/ Joseph P. Harper, Sr. Joseph P. Harper, Sr.	President, Treasurer & Chief Operating Officer; Director	March 16, 2009
/s/James H. Allen, Jr. James H. Allen, Jr.	Senior Vice President & Chief Financial Officer (principal financial officer and principal accounting officer)	March 16, 2009
/s/ John D. Abernathy John D. Abernathy	Director	March 16, 2009
/s/ Robert W. Frickel Robert W. Frickel	Director	March 16, 2009
/s/ Donald P. Fusilli, Jr. Donald P. Fusilli, Jr.	Director	March 16, 2009
/s/Maarten D. Hemsley Maarten D. Hemsley	Director	March 16, 2009
/s/ Christopher H. B. Mills Christopher H. B. Mills	Director	March 16, 2009
/s/ Milton L. Scott Milton L. Scott	Director	March 16, 2009
/s/ David R. A. Steadman David R. A. Steadman	Director	March 16, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Sterling Construction Company, Inc.

We have audited the accompanying consolidated balance sheets of Sterling Construction Company, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sterling Construction Company, Inc. and subsidiaries as of December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sterling Construction Company, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2009 expressed an unqualified opinion that Sterling Construction Company, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting.

/s/ GRANT THORNTON LLP

Houston, Texas
March 16, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Sterling Construction Company, Inc.

We have audited Sterling Construction Company, Inc. (a Delaware Corporation) and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sterling Construction Company, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Sterling Construction Company, Inc. and subsidiaries' internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sterling Construction Company Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sterling Construction Company Inc. and subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated March 16, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ GRANT THORNTON LLP

Houston, Texas
March 16, 2009

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STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2008 and 2007
(Amounts in thousands, except share and per share data)

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55,305	$ 80,649
Short-term investments	24,379	54
Contracts receivable, including retainage	60,582	54,394
Costs and estimated earnings in excess of billings on uncompleted contracts	7,508	3,747
Inventories	1,041	1,239
Deferred tax asset, net	1,203	1,088
Deposits and other current assets	2,704	1,779
Total current assets	152,722	142,950
Property and equipment, net	77,993	72,389
Goodwill	57,232	57,232
Other assets, net	1,668	1,944
Total assets	$ 289,615	$ 274,515
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 26,111	$ 27,190
Billings in excess of cost and estimated earnings on uncompleted contracts	23,127	25,349
Current maturities of long-term debt	73	98
Income taxes payable	547	1,102
Other accrued expenses	7,741	7,148
Total current liabilities	57,599	60,887
Long-term liabilities:		
Long-term debt, net of current maturities	55,483	65,556
Deferred tax liability, net	11,117	3,098
Minority interest in RHB	6,300	6,362
	72,900	75,016
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $0.01 per share; authorized 1,000,000, none issued	--	--
Common stock, par value $0.01 per share; authorized 19,000,000 shares, 13,184,638 and 13,006,502 shares issued and outstanding	131	130
Additional paid in capital	150,223	147,786
Retained earnings (deficit)	8,762	(9,304)
Total stockholders' equity	159,116	138,612
Total liabilities and stockholders' equity	$ 289,615	$ 274,515

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

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STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2008, 2007 and 2006
(Amounts in thousands, except share and per share data)

	2008	2007	2006
Revenues	$ 415,074	$ 306,220	$ 249,348
Cost of revenues	373,102	272,534	220,801
Gross Profit	41,972	33,686	28,547
General and administrative expenses	(13,763)	(13,231)	(10,825)
Other income (expense)	(81)	549	276
Operating income	28,128	21,004	17,998
Interest income	1,070	1,669	1,426
Interest expense	(199)	(277)	(220)
Income from continuing operations beforeincome taxes and minority interest	28,999	22,396	19,204
Income tax expense:			
Current	(1,087)	(1,290)	(310)
Deferred	(8,938)	(6,600)	(6,256)
Total Income tax expense	(10,025)	(7,890)	(6,566)
Minority interest in earnings of RHB	(908)	(62)	--
Net Income from continuing operations	18,066	14,444	12,638
Income from discontinued operations, including gain on disposal of $121 in 2006	--	--	682
Net income	$ 18,066	$ 14,444	$ 13,320
Basic net income per share:			
Net income from continuing operations	$ 1.38	$ 1.31	$ 1.19
Net income from discontinued operations	--	--	$ 0.06
Net income	$ 1.38	$ 1.31	$ 1.25
Weighted average number of shares outstanding in computing basic per share amounts	13,119,987	11,043,948	10,582,730
Diluted net income per share:			
Net income from continuing operations	$ 1.32	$ 1.22	$ 1.08
Net income from discontinued operations	--	--	$ 0.06
Net income	$ 1.32	$ 1.22	$ 1.14
Weighted average number of shares outstanding in computing diluted per share amounts	13,702,488	11,836,176	11,714,310

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

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STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the years ended December 31, 2008, 2007 and 2006
(Amounts in thousands)

	Common stock		Additional	Retained earnings	
	Shares	Amount	paid in capital	(deficit)	Total
Balance at December 31, 2005	8,165	$ 82	$ 82,822	$ (34,293)	$ 48,611
Net income				13,320	13,320
Stock issued upon option and warrant exercises	701	7	906		913
Stock based compensation expense			991		991
Stock issued in equity offering, net of expenses	2,003	20	27,019		27,039
Issuance and amortization of restricted stock	6	--	117		117
Excess tax benefits from exercise of stock options		109	2,775	(2,775)	--
Balance at December 31, 2006	10,875	109	114,630	(23,748)	90,991
Net income				14,444	14,444
Stock issued upon option and warrant exercises	241	2	511		513
Stock based compensation expense			912		912
Stock issued in equity offering, net of expenses	1,840	18	34,471		34,489
Issuance and amortization of restricted stock	10	--	198		198
Excess tax benefits from exercise of stock options			1,480		1,480
Issuance of stock to minority interest	41	1	999		1,000
Excess fair value over book value of minority interest in RHB			(5,415)		(5,415)
Balance at December 31, 2007	13,007	130	147,786	(9,304)	138,612
Net income				18,066	18,066
Stock issued upon option and warrant exercises	154	1	237		238
Stock based compensation expense			210		210
Issuance and amortization of restricted stock	24	--	307		307
Excess tax benefits from exercise of stock options			1,218		1,218
Revaluation of minority interest put call liability			607		607
Expenditures related to 2007 equity offering			(142)		(142)
Balance at December 31, 2008	13,185	$ 131	$ 150,223	$ 8,762	$ 159,116

The accompanying notes are an integral part of this consolidated financial statement

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STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2008, 2007 and 2006
(Amounts in thousands, except share data)

	2008	2007	2006
Net income	$ 18,066	$ 14,444	$ 13,320
Net income from discontinued operations	--	--	682
Net income from continuing operations	18,066	14,444	12,638
Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities:			
Depreciation and amortization	13,168	9,544	7,011
(Gain) loss on sale of property and equipment	81	(501)	(276)
Deferred tax expense	8,938	6,600	6,256
Stock based compensation expense	517	1,110	1,108
Excess tax benefits from exercise of stock options	(1,218)	(1,480)	--
Minority interest in net earnings of subsidiary	908	62	--
Interest expense accreted on minority interest	199	--	--
Other changes in operating assets and liabilities:			
(Increase) in contracts receivable	(6,188)	(6,588)	(7,893)
(Increase) decrease in costs and estimated earnings in excess of billings on uncompleted contracts	(3,761)	648	(958)
(Increase) decrease in prepaid expenses and other assets	(1,945)	(629)	(1,011)
(Decrease) increase in trade payables	(1,079)	6,064	(3,043)
(Decrease) increase in billings in excess of costs and estimated earnings on uncompleted contracts	(2,222)	646	7,901
(Decrease) increase in accrued compensation and other liabilities	1,257	(378)	1,356
Net cash provided by continuing operations operating activities	26,721	29,542	23,089
Cash flows from continuing operations investing activities:			
Cash paid for business combinations, net of cash acquired	--	(49,334)	(2,206)
Additions to property and equipment	(19,896)	(26,319)	(24,849)
Proceeds from sale of property and equipment	1,298	1,603	866
Purchases of short-term securities, available for sale	(24,325)	(123,797)	(144,192)
Sales of short-term securities, available for sale	--	149,912	118,023
Net cash used in continuing operations investing activities	(42,923)	(47,935)	(52,358)
Cash flows from continuing operations financing activities:			
Cumulative daily drawdowns – Credit Facility	235,000	190,199	106,025
Cumulative daily reductions – Credit Facility	(245,000)	(155,199)	(89,813)
Repayments under related party long term debt	--	--	(8,449)
Repayments under long-term obligations	(98)	(129)	(123)
Increase in deferred loan costs	--	(1,197)	(124)
Issuance of common stock pursuant to warrants and options exercised	238	513	913
Utilization of excess tax benefits from exercise of stock options	1,218	1,480	--
Distributions to RHB minority interest owner	(562)	--	--
Payments on note receivable	204	420	--
Net proceeds from sale of common stock	(142)	34,489	27,039
Net cash provided by (used in) continuing operations financing activities	(9,142)	70,576	35,468
	(25,344)	52,183	6,199

Net increase (decrease) in cash and cash equivalents from continuing operations						
Cash provided by discontinued operations		--		--		495
Cash used in discontinued investing activities		--		--		4,739
Cash used in discontinued operations financing activities		--		--		(5,357)
Net cash used in discontinued operations		--		--		(123)
Cash and cash equivalents at beginning of period		80,649		28,466		22,267
Cash and cash equivalents at end of period	$	55,305	$	80,649	$	28,466
Supplemental disclosures of cash flow information:						
Cash paid during the period for interest, net of $107, $53 and $14 of capitalized interest expense in 2008, 2007 and 2006, respectively	$	167	$	216	$	199
Cash paid during the period for income taxes	$	3,000	$	1,300	$	300

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

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STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Business and Significant Accounting Policies

Basis of Presentation:

Sterling Construction Company, Inc. (“Sterling” or “the Company”) a Delaware Corporation, is a leading heavy civil construction company that specializes in the building, reconstruction and repair of transportation and water infrastructure in large and growing markets in Texas and Nevada. 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, paving, pipe installation and concrete and asphalt placement. We purchase the necessary materials for our contracts, perform approximately three-quarters of the work required by our contracts with our own crews, and generally engage subcontractors only for ancillary services.

Sterling owns four subsidiaries; Texas Sterling Construction Co. (“TSC”), a Delaware corporation, Road and Highway Builders, LLC (“RHB”), a Nevada limited liability company, Road and Highway Builders, Inc. ("RHB Inc"), a Nevada corporation and Road and Highway Builders of California, Inc., ("RHB Cal"). TSC, RHB and RHB Cal perform construction contracts and RHB Inc produces aggregates from a leased quarry.

The accompanying consolidated financial statements include the accounts of subsidiaries in which the Company has a greater than 50% ownership interest and all significant intercompany accounts and transactions have been eliminated in consolidation. For all years presented, the Company had no subsidiaries with ownership interests of less than 50%.

Organization and Business:

Although we describe our business in this report in terms of the services we provide, our base of customers and the geographic areas in which we operate, we have concluded that our operations comprise one reportable segment pursuant to Statement of Financial Accounting Standards No. 131 – Disclosures about Segments of an Enterprise and Related Information. In making this determination, we considered that each project has similar characteristics, includes similar services, has similar types of customers and is subject to similar economic and regulatory environments. We organize, evaluate and manage our financial information around each project when making operating decisions and assessing our overall performance.

Use of Estimates:

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which require 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain of the Company's accounting policies require higher degrees of judgment than others in their application. These include the recognition of revenue and earnings from construction contracts under the percentage of completion method, the valuation of long-term assets, and income taxes. Management evaluates all of its estimates and judgments on an on-going basis.

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Revenue Recognition:

Construction

The Company's primary business since July 2001 has been as a general contractor in the States of Texas and, with the acquisition of RHB, Nevada where it engages in various types of heavy civil construction projects principally for public (government) owners. Credit risk is minimal with public owners since the Company ascertains that funds have been appropriated by the governmental project owner prior to commencing work on such projects. While most public contracts are subject to termination at the election of the government entity, in the event of termination the Company is entitled to receive the contract price for completed work and reimbursement of termination-related costs. Credit risk with private owners is minimized because of statutory mechanics liens, which give the Company high priority in the event of lien foreclosures following financial difficulties of private owners.

Revenues are recognized on the percentage-of-completion method, measured by the ratio of costs incurred up to a given date to estimated total costs for each contract.

Contract costs include all direct material, labor, subcontract and other costs and those indirect costs related to contract performance, such as indirect salaries and wages, equipment repairs and depreciation, insurance and payroll taxes. Administrative and general expenses are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those changes arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. An amount attributable to contract claims is included in revenues when realization is probable and the amount can be reliably estimated. Cost and estimated earnings in excess of billings included \$0.2 million and \$0.5 million at December 31, 2008 and 2007, respectively, for contract claims not approved by the customer (which includes out-of-scope work, potential or actual disputes, and claims). The Company generally provides a one-year warranty for workmanship under its contracts. Warranty claims historically have been insignificant.

The asset, “Costs and estimated earnings in excess of billings on uncompleted contracts” represents revenues recognized in excess of amounts billed on these contracts. The liability “Billings in excess of costs and estimated earnings on uncompleted contracts” represents billings in excess of revenues recognized on these contracts.

Cash and Cash Equivalents and Short-term Investments:

The Company considers all highly liquid investments with original or remaining maturities of three months or less at the time of purchase to be cash equivalents. At December 31, 2008, all cash and cash equivalents were fully insured by the FDIC under its Transaction Account Guarantee Program. At December 31, 2008 there were uninsured short-term investments of \$13.1 million.

The Company classified investments in U.S. treasury bills of \$5.0 million at December 31, 2008, as securities available for sale in accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”. At December 31, 2008 we had certificates of deposits of \$19.4 million with original maturities of greater than 90 days, but less than one year which were included along with the treasury bills in short-term investments. There was no material unrealized gain or loss on these securities at December 31, 2008, as the market value of these securities approximated their cost. For the years ended December 31, 2008, 2007 and 2006, the Company recorded interest income of \$1.1 million, \$1.7 million and \$1.4 million, respectively.

Contracts Receivable:

Contracts receivable are generally based on amounts billed to the customer. At December 31, 2008, contracts receivable included retainage of $25.9 million discussed below which is being withheld by customers until completion of the contracts and $2.1 million of unbilled receivables on contracts completed or substantially complete at that date (the latter amount is expected to be billed in 2009). All other contracts receivable include only balances approved for payment by the customer. Based upon a review of outstanding contracts receivable, historical collection information and existing economic conditions, management has determined that all contracts receivable at December 31, 2008 and 2007 are fully collectible, and accordingly, no allowance for doubtful accounts against contracts receivable is necessary. Contracts receivable are written off based on individual credit evaluation and specific circumstances of the customer, when such treatment is warranted.

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Retainage:

Many of the contracts under which the Company performs work contain retainage provisions. Retainage refers to that portion of billings made by the Company but held for payment by the customer pending satisfactory completion of the project. Unless reserved, the Company assumes that all amounts retained by customers under such provisions are fully collectible. Retainage on active contracts is classified as a current asset regardless of the term of the contract and is generally collected within one year of the completion of a contract. Retainage was approximately $25.9 million and $21.1 million at December 31, 2008 and December 31, 2007, respectively, of which $0.2 million at December 31, 2008 is expected to be collected beyond 2009.

Inventories:

The Company's inventories are stated at the lower of cost or market as determined by the average cost method. Inventories at December 31, 2008 and 2007 consist primarily of raw materials, such as concrete and millings which are expected to be utilized on construction projects in the future. The cost of inventory includes labor, trucking and other equipment costs.

Property and Equipment:

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method. The estimated useful lives used for computing depreciation and amortization are as follows:

Building	39 years
Construction equipment	5-15 years
Land improvements	5-15 years
Office furniture and fixtures	3-10 years
Transportation equipment	5 years

Depreciation expense was approximately $12.9 million, $9.5 million, and $6.9 million in 2008, 2007 and 2006, respectively.

Equipment under Capital Leases:

The Company’s policy is to account for capital leases, which transfer substantially all the benefits and risks incident to the ownership of the leased property to the Company, as the acquisition of an asset and the incurrence of an obligation. Under this method of accounting, the recorded value of the leased asset is amortized principally using the straight-line method over its estimated useful life and the obligation, including interest thereon, is reduced through payments over the life of the lease. Depreciation expense on leased equipment and the related accumulated depreciation is included with that of owned equipment.

Deferred Loan Costs:

Deferred loan costs represent loan origination fees paid to the lender and related professional fees such as legal fees related to drafting of loan agreements. These fees are amortized over the term of the loan. In 2007, the Company entered into a new syndicated term Credit Facility (see Note 4) and incurred $1.3 million of loan costs, which are being amortized over the five-year term of the loan. In 2006, TSC renewed its line of credit and incurred loan costs in the amount of $123,000, which were being amortized over the three year term of the Credit Facility; however, the unamortized loan costs were charged to expense in 2007 with the execution of a new line of credit. Loan cost amortization expense for fiscal years 2008, 2007 and 2006 was $254,000, $76,000 and $99,000, respectively.

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Goodwill and Intangibles:

Goodwill represents the excess of the cost of companies acquired over the fair value of their net assets at the dates of acquisition.

The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 requires that: (1) goodwill and indefinite lived intangible assets not be amortized, (2) goodwill is to be tested for impairment at least annually at the reporting unit level, (3) the amortization period of intangible assets with finite lives is to be no longer limited to forty years, and (4) intangible assets deemed to have an indefinite life are to be tested for impairment at least annually by comparing the fair value of these assets with their recorded amounts.

Goodwill impairment is tested during the last quarter of each calendar year. The first step compares the book value of the Company's stock to the fair market value of those shares as reported by Nasdaq. If the fair market value of the stock is greater than the calculated book value of the stock, goodwill is deemed not to be impaired and no further testing is required. If the fair market value is less than the calculated book value, additional steps of determining fair value of additional assets must be taken to determine impairment. Testing step one in 2008 indicated the fair market value of the Company's stock was in excess of its book value and no further testing was required; based on the results of such test for impairment, the Company concluded that no impairment of goodwill existed as of December 31, 2008.

Intangible assets that have finite lives continue to be subject to amortization. In addition, the Company must evaluate the remaining useful life in each reporting period to determine whether events and circumstances warrant a revision of the remaining period of amortization. If the estimate of an intangible asset's remaining life is changed, the remaining carrying amount of such asset is amortized prospectively over that revised remaining useful life.

Evaluating Impairment of Long-Lived Assets:

When events or changes in circumstances indicate that long-lived assets other than goodwill may be impaired, an evaluation is performed. The estimated undiscounted cash flow associated with the asset is compared to the asset's carrying amount to determine if a write-down to fair value is required.

Federal and State Income Taxes:

We determine deferred income tax assets and liabilities using the balance sheet method, as clarified by FIN 48. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. FIN 48 requires that we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority (see Note 6).

Stock-Based Compensation:

The Company has five stock-based incentive plans which are administered by the Compensation Committee of the Board of Directors. Prior to August 2006, the Company used the closing price of its common stock on the trading day immediately preceding the date the option was approved as the grant date market value. Since July 2006, the Company's policy has been to use the closing price of the common stock on the date of the meeting at which a stock option award is approved for the option's per-share exercise price. The term of the grants under the plans do not exceed 10 years. Stock options generally vest over a three to five year period and the fair value of the stock option is recognized on a straight-line basis over the vesting period of the option. Refer to Note 8 for further information regarding the stock-based incentive plans.

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Net Income 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 any 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 2008, 2007 and 2006 (in thousands, except per share data):

	2008	2007	2006
Numerator:			
Net income	$ 18,066	$ 14,444	$ 13,320
Denominator:			
Weighted average common shares outstanding — basic	13,120	11,044	10,583
Shares for dilutive stock options and warrants	582	792	1,131
Weighted average common shares outstanding and assumed conversions — diluted	13,702	11,836	11,714
Basic net income per share	$ 1.38	$ 1.31	$ 1.25
Diluted net income per share	$ 1.32	$ 1.22	$ 1.14

For the years ended December 31, 2008, 2007 and 2006, there were 96,007, 79,700 and 81,500 options, respectively, considered antidilutive as the option exercise price exceeded the average share market price.

Interest Costs

Approximately $107,000, $53,000 and $14,000 of interest related to the construction of maintenance facilities and an office building were capitalized as part of construction costs during 2008, 2007 and 2006, respectively, in accordance with SFAS No.34 “Capitalization of Interest Cost”.

Recent Accounting Pronouncements:

In December 2007, the Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standards No. 141, “Business Combinations” (SFAS 141(R)). This Statement establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Also, under SFAS 141(R), all direct costs of the business combination must be charged to expense on the financial statements of the acquirer as incurred. SFAS 141(R) revises previous guidance as to the recording of post-combination restructuring plan costs by requiring the acquirer to record such costs separately from the business combination. This statement is effective for acquisitions occurring on or after January 1, 2009, with early adoption not permitted. Unless the Company enters into another business combination, there will be no effect on future financial statements of SFAS 141(R) when adopted.

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In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157) which establishes a framework for measuring fair value and requires expanded disclosure about the information used to measure fair value. The statement applies whenever other statements require or permit assets or liabilities to be measured at fair value, and does not expand the use of fair value accounting in any new circumstances. In February 2008, the FASB delayed the effective date by which companies must adopt the provisions of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed in the financial statements on a recurring basis (at least annually). The new effective date of SFAS 157 deferred implementation to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of this standard is not anticipated to have a material impact on our financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment to FASB Statement No. 115" ("SFAS No. 159"). This statement allows a company to irrevocably elect fair value as a measurement attribute for certain financial assets and financial liabilities with changes in fair value recognized in the results of operations. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Adoption of this FASB did not have a material impact on the Company's results of operations and financial position.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, “Non-controlling Interests in Consolidated Financial Statements” (SFAS 160). SFAS 160 clarifies previous guidance on how consolidated entities should account for and report non-controlling interests in consolidated subsidiaries. The statement standardizes the presentation of non-controlling ("minority interests") for both the consolidated balance sheet and income statement. This Statement is effective for the Company for fiscal years beginning on or after January 1, 2009, and all interim periods within that fiscal year, with early adoption not permitted. When this Statement is adopted, the minority interest in any subsequent acquisitions that does not contain a put will be reported as a separate component of stockholders' equity instead of a liability and net income will be segregated between net income attributable to common stockholders and non-controlling interests.

Reclassifications

Certain immaterial balances included in the prior year balance sheet have been reclassified to conform to current year presentation.

2. Discontinued operations

In 2005 management identified one of the Company’s subsidiaries, Steel City Products, LLC, (“SCPL”) as held for sale and accordingly, reclassified its consolidated financial statements for all periods to separately present SCPL as discontinued operations.

On October 27, 2006, the Company sold the operations of SCPL to an industry related buyer. The Company received proceeds from the sale of $5.4 million, The Company reported a pre-tax gain of $249,000 on the sale, equal to $121,000 after taxes. Summarized financial information for discontinued operations through the date of the sale on October 27, 2006 is presented below (in thousands):

	2006
Net sales	$ 17,661
Income before income taxes	741
Income taxes	180

Gain on disposal, net of tax of $128		121
Net income from discontinued operations	$	682

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3. Property and Equipment

Property and equipment are summarized as follows (in thousands):

	December 31, 2008	December 31, 2007
Construction equipment	$ 96,002	$ 83,739
Transportation equipment	12,358	9,279
Buildings	3,926	1,573
Office equipment	547	602
Construction in progress	792	856
Land	2,916	2,718
Water rights	200	200
	116,741	98,967
Less accumulated depreciation	(38,748)	(26,578)
	$ 77,993	$ 72,389

At December 31, 2008 construction in progress consisted of expenditures for new maintenance shop facilities at various locations in Texas.

4. Line of Credit and Long-Term Debt

Long-term debt consists of the following (in thousands):

	December 31, 2008	December 31, 2007
Credit Facility, due October 2012	$ 55,000	$ 65,000
Mortgages due monthly through June 2016	556	654
	55,556	65,654
Less current maturities of long-term debt	(73)	(98)
	$ 55,483	$ 65,556

Line of Credit Facilities

On October 31, 2007, the Company and its subsidiaries entered into a new credit facility (“Credit Facility”) with Comerica Bank, which replaced a prior Revolver and will mature on October 31, 2012. The Credit Facility allows for borrowing of up to $75.0 million and is secured by all assets of the Company, other than proceeds and other rights under our construction contracts, which are pledged to our bond surety. The Credit Facility requires the payment of a quarterly commitment fee of 0.25% per annum of the unused portion of the Credit Facility. Borrowings under the Credit Facility were used to finance the RHB acquisition, repay indebtedness outstanding under the Revolver, and finance working capital. At December 31, 2008, the aggregate borrowings outstanding under the Credit Facility were $55.0 million, and the aggregate amount of letters of credit outstanding under the Credit Facility was $1.8 million, which reduces availability under the Credit Facility. Availability under the Credit Facility was, therefore, $18.2 million at December 31, 2008.

At our election, the loans under the Credit Facility bear interest at either a LIBOR-based interest rate or a prime-based interest rate. The unpaid principal balance of each prime-based loan will bear interest at a variable rate equal to Comerica’s prime rate plus an amount ranging from 0% to 0.50% depending on the pricing leverage ratio that we achieve. The “pricing leverage ratio” is determined by the ratio of our average total debt, less cash and cash equivalents, to the EBITDA that we achieve on a rolling four-quarter basis. The pricing leverage ratio is measured quarterly. If we achieve a pricing leverage ratio of (a) less than 1.00 to 1.00; (b) equal to or greater than 1.00 to 1.00 but less than 1.75 to 1.00; or (c) greater than or equal to 1.75 to 1.00, then the applicable prime margins will be 0.0%, 0.25% or 0.50%, respectively. The interest rate on funds borrowed under this Credit Facility was 3.5% at December 31, 2008, and during the year ended December 31, 2008 ranged from 3.50% to 7.50%.

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The unpaid principal balance of each LIBOR-based loan bears interest at a variable rate equal to LIBOR plus an amount ranging from 1.25% to 2.25% depending on the pricing leverage ratio that we achieve. If we achieve a pricing leverage ratio of (a) less than 1.00 to 1.00; (b) equal to or greater than 1.00 to 1.00 but less than 1.75 to 1.00; or (c) greater than or equal to 1.75 to 1.00, then the applicable LIBOR margins will be 1.25%, 1.75% or 2.25%, respectively. Interest on LIBOR-based loans is payable at the end of the relevant LIBOR interest period, which must be one, two, three or six months.

The Credit Facility is subject to our compliance with certain covenants, including financial covenants relating to fixed charges, leverage, tangible net worth, asset coverage and consolidated net losses. The Credit Facility contains restrictions on the Company's ability to:

- Make distributions and dividends;
- Incur liens and encumbrances;
- Incur further indebtedness;
- Guarantee obligations;
- Dispose of a material portion of assets or merge with a third party;
- Make acquisitions;
- Incur negative income for two consecutive quarters.

The Company was in compliance with all covenants under the Credit Facility as of December 31, 2008.

In December 2007, Comerica syndicated the Credit Facility with three other financial institutions under the same terms discussed above.

Management believes that the Credit Facility will provide adequate funding for the Company's working capital, debt service and capital expenditure requirements, including seasonal fluctuations at least through December 31, 2009.

The prior Revolver required the payment of a quarterly commitment fee of 0.25% per annum of the unused portion of the line of credit. Borrowing interest rates were based on the bank's prime rate or on a Eurodollar rate at the option of the Company. The interest rate on funds borrowed under this revolver during the year ended December 31, 2006 ranged from 7.25% to 8.25% and during 2007 ranged from 7.75% to 8.25%.

Mortgage

In 2001 TSC completed the construction of a headquarters building and financed it principally through a mortgage of $1.1 million on the land and facilities, at a floating interest rate, which at December 31, 2008 was 3.5% per annum, repayable over 15 years. The aggregate outstanding balance on these two mortgages aggregated $556,000 at December 31, 2008.

Maturity of Debt

The Company's long-term obligations mature in future years as follows (in thousands):

Fiscal Year		
2009	$	73
2010		73
2011		73
2012		55,073

2013	73
Thereafter	191
	$ 55,556

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5. Financial Instruments

SFAS No. 107, “Disclosure about Fair Value of Financial Instruments” defines the fair value of financial instruments as the amount at which the instrument could be exchanged in a current transaction between willing parties.

The Company’s financial instruments are cash and cash equivalents, short-term investments, contracts receivable, accounts payable, mortgages payable and long-term debt. The recorded values of cash and cash equivalents, short-term investments, contracts receivable and accounts payable approximate their fair values based on their short-term nature. The recorded value of long-term debt approximates its fair value, as interest approximates market rates.

TSC had one mortgage outstanding at December 31, 2008, and two mortgages outstanding at December 31, 2007. The mortgage outstanding at December 31, 2008 was accruing interest at 3.50% at that date and contained pre-payment penalties. To determine the fair value of the mortgage, the amount of future cash flows was discounted using the Company’s borrowing rate on its Credit Facility. At December 31, 2008 and December 31, 2007, the carrying value of the mortgages was $556,000 and $654,000, respectively, and the fair value of the mortgages was approximately $488,000 and $641,000, respectively.

The Company does not have any off-balance sheet financial instruments.

6. Income Taxes and Deferred Tax Asset/Liability

During the year ended December 31, 2007, Sterling utilized its book net operating tax loss carry-forwards ("NOL") of approximately $9.8 million to offset a portion of the taxable income of the Company and its subsidiaries for federal income tax return purposes.

The Company also had available carry-forwards resulting from the exercise of non-qualified stock options. The Company could not recognize the tax benefit of these carry-forwards as deferred tax assets until its existing NOL's were fully utilized, and therefore, the deferred tax asset related to NOL carry-forwards differed from the amount available on its federal tax returns. The Company utilized approximately $3.5 million and $4.2 million of these excess compensation carry-forwards from the exercise of stock options to offset taxable income in 2008 and 2007, respectively. The utilization of these excess compensation benefits for tax purposes reduced taxes payable and increased additional paid-in capital for financial statement purposes by $1.2 million and $1.5 million in 2008 and 2007, respectively.

Current income tax expense represents federal tax payable for 2008 and Texas franchise tax.

Deferred tax assets and liabilities of continuing operations consist of the following (in thousands):

	December 31, 2008		December 31, 2007	
	Current	Long Term	Current	Long Term
Assets related to:				
Accrued compensation	1,169	--	1,054	487
AMT carry forward	--	1,770	--	2,446
Other	34	128	37	--
Liabilities related to:				
Amortization of goodwill	--	(1,209)		
Depreciation of property and equipment	--	(11,806)	--	(6,031)

Other		--		--		(3)		--
Net asset/liability	$	1,203	$	(11,117)	$	1,088	$	(3,098)

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The income tax provision differs from the amount using the statutory federal income tax rate of 35% in 2008 and 2007 and 34% in 2006 applied to income from continuing operations, for the following reasons (in thousands):

	Fiscal Year Ended		
	December 31, 2008	December 31, 2007	December 31, 2006
Tax expense at the U.S. federal statutory rate	$ 10,149	$ 7,838	$ 6,721
Texas franchise tax expense, net of refunds and federalbenefits	195	106	--
Taxes on subsidiary's earnings allocated to minority interest	(319)	--	--
Non-taxable interest income	(35)	(295)	--
Permanent differences	35	241	153
Income tax expense	$ 10,025	$ 7,890	$ 6,874
Income tax on discontinued operations including taxeson the gain on sale in 2006	--	--	308
Income tax on continuing operations	$ 10,025	$ 7,890	$ 6,566

The decrease in the effective income tax rate to 34.6% in 2008 from 35.2% in 2007 is due to the increase in the portion of earnings of a subsidiary taxed to the minority interest owner partially offset by a full year of the revised Texas franchise tax which became effective July 1, 2007. The increase in the effective income tax rate to 35.2% in 2007 from 34.2% in 2006 is the result of the Texas franchise tax and an increase in the statutory tax rate.

The Company and its subsidiaries file income tax returns in the United States federal jurisdiction and in various states. With few exceptions, the Company is no longer subject to federal tax examinations for years prior to 2002 and state income tax examinations for years prior to 2005. The Company’s policy is to recognize interest related to any underpayment of taxes as interest expense, and penalties as administrative expenses. No interest or penalties have been accrued at December 31, 2008.

The Company adopted FIN 48, "Accounting for Uncertainty in Income Taxes" on January 1, 2007; however the adoption did not result in an adjustment to retained earnings. In its 2005 tax return, the Company used NOL’s that would have expired during that year instead of deducting compensation expense that originated in 2005 as the result of stock option exercises. Therefore, that compensation deduction was lost. Whether the Company can choose not to take deductions for compensation expense in the tax return and to instead use otherwise expiring NOLs is considered by management to be an uncertain tax position. In the event that the IRS examines the 2005 tax return and determines that the compensation expense is a required deduction in the tax return, then the Company would deduct the compensation expense instead of the NOL used in the period; however there would be no cash impact on tax paid due to the increased compensation deduction. In addition, there would be no interest or penalties due as a result of the change. As a result of the Company’s detailed FIN 48 analysis, management has determined that it is more likely than not this position will be sustained upon examination, and this uncertain tax position was determined to have a measurement of $0.

The Company does not believe that its uncertain tax position will significantly change due to the settlement and expiration of statutes of limitations prior to December 31, 2009.

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7. Costs and Estimated Earnings and Billings on Uncompleted Contracts

Costs and estimated earnings and billings on uncompleted contracts at December 31, 2008 and 2007 are as follows (in thousands):

	Fiscal Year Ended December 31, 2008	Fiscal Year Ended December 31, 2007
Costs incurred and estimated earnings on uncompleted contracts	$ 584,997	$ 329,559
Billings on uncompleted contracts	(600,616)	(351,161)
	$ (15,619)	$ (21,602)

Included in accompanying balance sheets under the following captions:

	Fiscal Year Ended December 31, 2008	Fiscal Year Ended December 31, 2007
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 7,508	$ 3,747
Billings in excess of costs and estimated earnings on uncompleted contracts	(23,127)	(25,349)
	$ (15,619)	$ (21,602)

8. Stock Options and Warrants

Stock Options and Grants

In July 2001, the Board of Directors adopted and in October 2001 shareholders approved the 2001 Stock Incentive Plan (the “2001 Plan”). The 2001 Plan initially provided for the issuance of stock awards for up to 500,000 shares of the Company's common stock. In March 2006, the number of shares available for issuance under the 2001 Plan was increased to one million shares. In November 2007, the number of shares available for issuance under the 2001 Plan was reduced by the board of directors from one million shares to 662,626 shares and subsequently in May 2008 was returned to one million shares. The plan is administered by the Compensation Committee of the Board of Directors. In general, the plan provides for all grants to be issued with a per-share exercise price equal to the fair market value of a share of common stock on the date of grant. The original terms of the grants typically do not exceed 10 years. Stock options generally vest over a three to five year period.

The Company's and its subsidiaries' directors, officers, employees, consultants and advisors are eligible to be granted awards under the 2001 plan.

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At December 31, 2008 there were 397,690 shares of common stock available under the 2001 Plan for issuance pursuant to future stock option and share grants. No options are outstanding and no shares are or will be available for grant under the Company's other option plans, all of which have been terminated.

The 2001 plan provides for restricted stock grants and in May 2008 and May 2007, pursuant to non-employee director compensation arrangements. Non-employee directors of the Company were awarded restricted stock with one-year vesting as follows:

	2008 Awards	2007 Awards
Shares awarded to each non-employee directors	2,564	1,598
Total shares awarded	17,948	9,588
Grant-date market price per share of awarded shares	$ 19.50	$ 21.90
Total compensation cost	$ 350,000	$ 210,000
Compensation cost recognized in 2008	$ 221,000	$ 140,000

In March 2008, five employees were granted an aggregate of 5,672 shares of restricted stock with a market value $18.16 per share resulting in compensation expense of $103,000 to be recognized ratably over the five-year restriction period.

The following tables summarize the stock option activity under the 2001 Plan and previously active plans:

	2001 Plan		1994 Non-Employee Director Plan		1991 Plan	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2005:	457,160	$ 4.66	31,166	$ 1.58	84,420	$ 2.75
Granted	81,500	$ 16.36	--	--	--	--
Exercised	(64,057)	$ 2.46	(18,000)	$ 2.05	(55,996)	$ 2.75
Expired/forfeited	(4,400)	$ 7.83	--	--	--	--
Outstanding at December 31, 2006:	470,203	$ 8.35	13,166	$ 0.94	28,424	$ 2.75
Granted	16,507	$ 19.43	--	--	--	--
Exercised	(24,110)	$ 3.39	(3,000)	$ 1.00	(28,424)	$ 2.75
Expired/forfeited	(5,460)	$ 13.48	--	--	--	--
Outstanding at December 31, 2007:	457,140	$ 9.06	10,166	$ 0.93	--	--
Exercised	(45,940)	$ 2.81	(10,166)	$ 0.93	--	--
Expired/forfeited	(200)	$ 25.21	--	--	--	--
Outstanding at December 31, 2008:	411,000	$ 9.75	--	--	--	--

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	1994 Omnibus Plan		1998 Plan	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2005:	424,196	$ 1.40	229,125	$ 0.58
Exercised	(166,016)	$ 1.08	(225,875)	$ 0.57
Outstanding at December 31, 2006:	258,180	$ 1.60	3,250	$ 1.00
Exercised	(181,990)	$ 1.91	(3,250)	$ 1.00
Outstanding at December 31, 2007:	76,190	$ 0.88	--	--
Exercised	(76,190)	$ 0.88	--	--
Outstanding at December 31, 2008:	--	--	--	--

The following table summarizes information about stock options outstanding and exercisable at December 31, 2008:

	Options Outstanding			Options Exercisable	
Range of Exercise Price Per Share	Number of Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Pricer Per Share	Number of Shares	Weighted Average Exercise Pricer Per Share
$0.94 - $1.50	31,700	2.56	$ 1.50	31,700	$ 1.50
$1.73 - $2.00	31,800	3.56	$ 1.73	31,800	$ 1.73
$2.75 - $3.38	148,193	3.66	$ 3.09	135,533	$ 3.09
$6.87	15,000	6.38	$ 6.87	15,000	$ 6.87
$9.69	62,800	1.55	$ 9.69	62,800	$ 9.69
$16.78	25,500	1.70	$ 16.78	15,100	$ 16.78
$18.99	13,707	8.61	$ 18.99	4,569	$ 18.99
$21.60	2,800	3.55	$ 21.60	2,800	$ 21.60
$24.96	62,800	2.55	$ 24.96	62,800	$ 24.96
$25.21	16,700	2.69	$ 25.21	6,920	$ 25.21
	411,000	3.18	$ 9.75	369,022	$ 9.15

	Number of Shares	Aggregate intrinsic value
Total outstanding in-the-money options at 12/31/08	314,993	$ 4,137,416
Total vested in-the-money options at 12/31/08	291,933	$ 3,923,872
Total options exercised during 2008	132,296	$ 2,184,482

For unexercised options, aggregate intrinsic value represents the total pretax intrinsic value (the difference between the Company’s closing stock price on December 31, 2008 ($18.53) and the exercise price, multiplied by the number of in-the-money option shares) that would have been received by the option holders had all option holders exercised their options on December 31, 2008. For options exercised during 2008, aggregate intrinsic value represents the total pretax intrinsic value based on the Company’s closing stock price on the day of exercise.

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Compensation expense for options granted during 2007 and 2006 were calculated using the Black-Scholes option pricing model using the following assumptions in each year (no options were granted during 2008):

	Fiscal 2007	Fiscal 2006
Average Risk free interest rate	4.7%	4.9%
Average Expected volatility	70.7%	76.3%
Average Expected life of option	3.0 years	5.0 years
Expected dividends	None	None

The risk-free interest rate is based upon interest rates that match the contractual terms of the stock option grants. The expected volatility is based on historical observation and recent price fluctuations. The expected life is based on evaluations of historical and expected future employee exercise behavior, which is not less than the vesting period of the options. The Company does not currently pay dividends. The weighted average fair value of stock options granted in 2007 and 2006 was $12.20 and$16.36, respectively.

Pre-tax deferred compensation expense for stock options and restricted stock grants was $517,000 ($336,000 after tax effects of 35.0%), $1,110,000 ($722,000 after tax effects of 35.0%), and $1,108,000 ($729,000 after tax effects of 34.2%), in 2008, 2007 and 2006, respectively. Proceeds received by the Company from the exercise of options in 2008, 2007 and 2006 were $205,000, $513,000 and $657,000, respectively. At December 31, 2008, total unrecognized stock-based compensation expense related to unvested stock options was approximately $336,000, which is expected to be recognized over a weighted average period of approximately 2.0 years.

Warrants

Warrants attached to zero coupon notes were issued to certain members of TSC management and to certain stockholders in 2001. These ten-year warrants to purchase shares of the Company's common stock at $1.50 per share became exercisable 54 months from the July 2001 issue date, except that one warrant covering 322,661 shares by amendment became exercisable forty-two months from the issue date. The following table shows the warrant shares outstanding and the proceeds that have been received by the Company from exercises.

	Shares	Company’s Proceeds of Exercise	Year-End Warrant Share Balance
Warrants outstanding on vest date	850,000	--	850,000
Warrants exercised in 2005	322,661	$ 483,991	527,339
Warrants exercised in 2006	171,073	$ 256,610	356,266
Warrants exercised in 2007	--	--	356,266
Warrants exercised in 2008	22,220	$ 33,330	334,046

9. Employee Benefit Plan

The Company and its subsidiaries maintain a defined contribution profit-sharing plan covering substantially all non-union persons employed by the Company and its subsidiaries, whereby employees may contribute a percentage of compensation, limited to maximum allowed amounts under the Internal Revenue Code. The Plan provides for discretionary employer contributions, the level of which, if any, may vary by subsidiary and is determined annually by each company's board of directors. The Company made aggregate matching contributions of $322,000, $353,000 and $325,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

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10. Operating Leases

The Company leases office space in the Dallas and San Antonio areas of Texas and Reno, Nevada.

In 2006 and 2007, the Company entered into several long-term operating leases for equipment with lease terms of approximately three to five years. Certain of these leases allow the Company to purchase the equipment on or before the end of the lease term. If the Company does not purchase the equipment, it is returned to the lessor. Two leases obligate the Company to pay a guaranteed residual not to exceed 20% of the original equipment cost. The Company is accruing the liability for both leases, which is not expected to exceed $330,000 in the aggregate.

Minimum annual rentals for all operating leases having initial non-cancelable lease terms in excess of one year are as follows (in thousands):

Fiscal Year		
2009	$	721
2010		721
2011		634
2012		70
2013		--
Thereafter		--
Total future minimum rental payments	$	2,146

Total rent expense for all operating leases amounted to approximately $767,000, $1,068,000 and $995,000 in fiscal years 2008, 2007 and 2006, respectively.

11. Customers

The following table shows contract revenues generated from the Company's customers that accounted for more than 10% of revenues (dollars in thousands):

	December 31, 2008		December 31, 2007		December 31, 2006	
	Contract Revenues	% of Revenues	Contract Revenues	% of Revenues	Contract Revenues	% of Revenues
Texas Department of Transportation ("TXDOT")	$ 162,041	39.2%	$ 201,073	65.7%	$ 166,333	67.1%
Nevada Department ofTransportation ("NDOT")	$ 88,159	21.3%	*	*	N/A	N/A
City of Houston ("COH")	*	*	*	*	$ 29,848	12.1%
Harris County	*	*	*	*	*	*

* represents less than 10% of revenues

At December 31, 2008, TXDOT ($22.1 million), City of Houston ($10.2 million) and City of San Antonio ($7.5 million) owed balances greater than 10% of contracts receivable.

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12. Equity Offerings

In December 2007, the Company completed a public offering of 1.84 million shares of its common stock at $20.00 per share. The Company received proceeds, net of underwriting discounts and commissions, of approximately $35.0 million ($19.00 per share) and paid approximately $0.5 million in related offering expenses. From the proceeds of the offering, the Company repaid the portion of its Credit Facility that was used in its acquisition of its interest in RHB. The remainder of the offering proceeds was used for working capital purposes.

In January 2006, the Company completed a public offering of approximately 2.0 million shares of its common stock at $15.00 per share. The Company received proceeds, net of underwriting commissions, of approximately $28.0 million ($13.95 per share) and paid approximately $907,000 in related offering expenses. In addition, the Company received approximately $484,000 in December 2005 from the exercise of warrants and options to purchase 321,758 shares of Common Stock, which were subsequently sold in 2006 by the option and warrant holders in the offering. From the proceeds of the offering, the Company repaid all its outstanding related party promissory notes to officers, directors and former directors as follows:

Name	Principal	Interest	Total Payment
Patrick T. Manning	$ 318,592	$ 2,867	$ 321,459
James D. Manning	$ 1,855,349	$ 16,698	$ 1,872,047
Joseph P. Harper, Sr.	$ 2,637,422	$ 23,737	$ 2,661,159
Maarten D. Hemsley	$ 181,205	$ 1,631	$ 182,836
Robert M. Davies	$ 452,909	$ 4,076	$ 456,985

During 2006, the Company utilized a portion of the offering proceeds to purchase additional construction equipment and to repay borrowed funds.

13. Minority interest in RHB:

On October 31, 2007, the Company purchased a 91.67% interest in Road and Highway Builders, LLC (“RHB”), a Nevada limited liability company, and all of the outstanding capital stock of Road and Highway Builders, Inc (“RHB Inc”), then an inactive Nevada corporation. These entities were affiliated through common ownership and have been included in the Company's consolidated results since the date of acquisition.

RHB is a heavy civil construction business located in Reno, Nevada that builds roads, highways and bridges for local and state agencies in Nevada. Its assets consist of construction contracts, road and bridge construction and aggregate mining machinery and equipment, and approximately 44.5 acres of land with improvements. RHB Inc’s sole asset is its right as a co-lessee with RHB under a long-term, royalty-based lease of a Nevada quarry on which RHB can mine aggregates for use in its own construction business and for sale to third parties. During early 2008, RHB Inc began crushing stone for the operations of RHB.

The Company paid an aggregate purchase price for its interest in RHB of $53.0 million, consisting of $48.9 million in cash, 40,702 unregistered shares of the Company’s common stock, which were valued at $1.0 million based on the quoted market value of the Company’s stock on the purchase date, and $3.1 million in assumption of accounts payable to RHB by one of the sellers. Additionally, the Company incurred $1.1 million of direct costs related to the acquisition. We acquired RHB for a number of reasons, including those listed below:

a) Expansion into growing western U.S. infrastructure construction markets;
b) Strong management team with a shared corporate culture;
c) Expansion of our service lines into aggregates and asphalt paving materials;

d) Opportunities to extend our municipal and structural capabilities into Nevada; and
e) RHB's strong financial results and expected immediate accretion to our earnings and earnings per share.

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Ten percent of the cash purchase price was placed in escrow for eighteen months as security for any breach of representations and warranties made by the sellers.

The minority interest owner of RHB (who remains with RHB as Chief Executive Officer) has the right to require the Company to buy his remaining 8.33% minority interest in RHB and, concurrently, the Company has the right to require that owner to sell his 8.33% interest to the Company, beginning in 2011. The purchase price in each case is 8.33% of the product of six times the simple average of RHB's income before interest, taxes, depreciation and amortization for the calendar years 2008, 2009 and 2010. The minority interest was recorded at its estimated fair value of $6.3 million at the date of acquisition and the difference of $5.4 million between the minority owner's interest in the historical basis of RHB and the estimated fair value of that interest was recorded as a liability to the minority interest and a reduction in addition paid-in capital.

Any changes to the estimated fair value of the minority interest will be recorded as a corresponding change in additional paid-in-capital. Additionally, interest will be accredited to the minority interest liability based on the discount rate used to calculate the fair value of the acquisition.

Based on RHB's operating results for 2008 and management's current estimates of such results for 2009 and 2010, the Company has revised its estimate of the fair value of the minority interest at December 31, 2008 and recorded a reduction in the related liability and increased paid-in-capital by $607,000 at that date. This change in fair value estimate also resulted in a reduction in interest accreted in the first three quarters of 2008 on the liability by $228,000, which is reflected as a reduction in fourth quarter interest expense.

The purchase agreement restricts the sellers from competing against the business of RHB and from soliciting its employees for a period of four years after the closing of the purchase.

The following table summarizes the allocation of the purchase price, including related direct acquisition costs for RHB (in thousands):

Tangible assets acquired at estimated fair value, includingapproximately $10,000 of property, plant and equipment	$ 19,334
Current liabilities assumed	(9,686)
Goodwill	44,496
Total	$ 54,144

The goodwill is deductible for tax purposes over 15 years. The purchase price allocation has been finalized and there were no separately identifiable assets, other than goodwill. Other than the adjustment to the minority interest liability and additional paid-in-capital discussed above, no material adjustments were made to the initial allocation of the purchase price.

The operations of RHB are included in the accompanying consolidated statements of operations and cash flows for the two months ended December 31, 2007 and the year of 2008. Supplemental information on an unaudited pro forma combined basis, as if the RHB acquisition had been consummated at the beginning of 2006, is as follow (in thousands, except per share amounts):

	(Unaudited)	
	2007	2006
Revenues	$ 377,740	$ 286,511
Net income from continuing operations	$ 26,881	$ 14,959

Diluted net income per share from continuing operations	$ 2.26	$ 1.27

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For the ten months ended October 31, 2007, RHB had unaudited revenues of approximately $72 million and unaudited income before taxes of approximately $21 million. The profitability of RHB for the ten month period was higher than what was expected to continue due to some unusually high margin contracts and may not be indicative of future results of operations.

14. Commitments and Contingencies

Employment Agreements

Patrick T. Manning, Joseph P. Harper, Sr., James H. Allen, Jr. and certain other officers of the Company and its subsidiaries have employment agreements which provide for payments of annual salary, deferred salary, incentive bonuses and certain benefits if their employment is terminated without cause.

Self-Insurance

The Company is self-insured for employee health claims. Its policy is to accrue the estimated liability for known claims and for estimated claims that have been incurred but not reported as of each reporting date. The Company has obtained reinsurance coverage for the policy period as follows:

- Specific excess reinsurance coverage for medical and prescription drug claims in excess of $60,000 for each insured person with a maximum lifetime reimbursable of $2,000,000.

- Aggregate reinsurance coverage for medical and prescription drug claims within a plan year with a maximum of approximately $1.1 million which is the estimated maximum claims and fixed cost based on the number of employees.

For the twelve months ended December 31, 2008, 2007 and 2006, the Company incurred $1.5 million, $1.6 million and $1.2 million, respectively, in expenses related to this plan.

The Company is also self-insured for workers' compensation claims up to $250,000 per occurrence, with a maximum aggregate liability of $2.7 million per year. Its policy is to accrue the estimated liability for known claims and for estimated claims that have been incurred but not reported as of each reporting date. At December 31, 2008 and 2007, the Company had recorded an estimated liability of $1,092,000 and $1,067,000, respectively, which it believes is adequate based on its claims history and an actuarial study. The Company has a safety and training program in place to help prevent accidents and injuries and works closely with its employees and the insurance company to monitor all claims.

The Company obtains bonding on construction contracts through Travelers Casualty and Surety Company of America. As is customary in the construction industry, the Company indemnifies Travelers for any losses incurred by it in connection with bonds that are issued. The Company has granted Travelers a security interest in accounts receivable and contract rights for that obligation.

Guarantees

The Company typically indemnifies contract owners for claims arising during the construction process and carries insurance coverage for such claims, which in the past have not been material.

The Company's Certificate of Incorporation provides for indemnification of its officers and directors. The Company has a Director and Officer insurance policy that limits its exposure. At December 31, 2008 the Company had not accrued a liability for this guarantee, as the likelihood of incurring a payment obligation in connection with this guarantee is believed to be remote.

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Litigation

The Company is the subject of certain claims and lawsuits occurring in the normal course of business. Management, after consultation with outside legal counsel, does not believe that the outcome of these actions will have a material impact on the financial statements of the Company.

Purchase Commitments

To manage the risk of changes in material prices and subcontracting costs used in tendering bids for construction contracts, we obtain firm quotations from suppliers and subcontractors before submitting a bid. These quotations do not include any quantity guarantees. As soon as we are advised that our bid is the lowest, we enter into firm contracts with most of our materials suppliers and sub-contractors, thereby mitigating the risk of future price variations affecting the contract costs.

15. Related Party Transactions

In July 2001, Robert Frickel was elected to the Board of Directors. He is President of R.W. Frickel Company, P.C., an accounting firm that performs certain tax services for the Company. Fees paid or accrued to R.W. Frickel Company for 2008, 2007 and 2006 and were approximately $39,700, $63,600 and $57,500, respectively.

In July 2005, Patrick T. Manning married the sole beneficial owner of Paradigm Outdoor Supply, LLC and Paradigm Outsourcing, Inc., both of which are women-owned business enterprises. The Paradigm companies provide materials and services to the Company and to other contractors. In 2008, 2007 and 2006, the Company paid approximately $0.4 million, $1.7 million and $3.3 million, respectively, to the Paradigm companies for materials and services.

16. Capital Structure

Holders of common stock are entitled to one vote for each share on all matters voted upon by the stockholders, including the election of directors, and do not have cumulative voting rights. Subject to the rights of holders of any then outstanding shares of preferred stock, common stockholders are entitled to receive ratably any dividends that may be declared by the Board of Directors out of funds legally available for that purpose. Holders of common stock are entitled to share ratably in net assets upon any dissolution or liquidation after payment of provision for all liabilities and any preferential liquidation rights of our preferred stock then outstanding. Common stock shares are not subject to any redemption provisions and are not convertible into any other shares of capital stock. The rights, preferences and privileges of holders of common stock are subject to those of the holders of any shares of preferred stock that may be issued in the future.

The Board of Directors may authorize the issuance of one or more classes or series of preferred stock without stockholder approval and may establish the voting powers, designations, preferences and rights and restrictions of such shares. No preferred shares have been issued.

In December 1998, the Company entered into a rights agreement with American Stock Transfer & Trust Company, as rights agent, providing for a dividend of one purchase right for each outstanding share of common stock for stockholders of record on December 29, 1998. Holders of shares of common stock issued since that date were issued rights with their shares. The rights traded automatically with the shares of common stock and became exercisable only if a takeover attempt of the Company had occurred. The rights expired on December 29, 2008.

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17. Quarterly Financial Information (Unaudited)

	Fiscal 2008 Quarter Ended (unaudited)				
	March 31	June 30	September 30	December 31(*)	Total
	(Dollar amounts in thousands, except per share data)				
Revenues	$ 84,926	$ 106,728	$ 114,148	$ 109,272	$ 415,074
Gross profit	8,101	11,740	12,572	9,559	41,972
Income before income taxes and minority interest	4,800	8,278	9,591	6,330	28,999
Net income	$ 3,117	$ 5,140	$ 5,978	$ 3,831	$ 18,066
Net income per share, basic:	$ 0.24	$ 0.39	$ 0.46	$ 0.29	$ 1.38
Net income per share, diluted:	$ 0.23	$ 0.37	$ 0.44	$ 0.28	$ 1.32

	Fiscal 2007 Quarter Ended (unaudited)				
	March 31	June 30	September 30	December 31	Total
	(Dollar amounts in thousands, except per share data)				
Revenues	$ 68,888	$ 71,275	$ 77,714	$ 88,343	$ 306,220
Gross profit	5,632	8,046	7,915	12,093	33,686
Income before income taxes and minority interest	3,806	5,711	5,125	7,754	22,396
Net income	$ 2,511	$ 3,797	$ 3,443	$ 4,693	$ 14,444
Net income per share, basic:	$ 0.23	$ 0.35	$ 0.31	$ 0.42	$ 1.31
Net income per share, diluted:	$ 0.21	$ 0.32	$ 0.29	$ 0.39	$ 1.22

* See Note 13 regarding reversal in the fourth quarter of $228,000 of interest expense accreted on the minority interest liability in the first three quarters of 2008.

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Exhibit Index

Number	Exhibit Title
2.1	Purchase Agreement by and among Richard H. Buenting, Fisher Sand & Gravel Co., Thomas Fisher and Sterling Construction Company, Inc. dated as of October 31, 2007 (incorporated by reference to Exhibit number 2.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, Amendment No. 1 filed on November 21, 2007 (SEC File No. 1-31993)).
2.2	Escrow Agreement by and among Sterling Construction Company, Inc., Fisher Sand & Gravel Co., Richard H. Buenting and Comerica Bank as Escrow Agent, dated as of October 31, 2007 (incorporated by reference to Exhibit number 2.2 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, Amendment No. 1 filed on November 21, 2007 (SEC File No. 1-31993)).
3.1	Certificate of Incorporation of Sterling Construction Company, Inc. incorporating all amendments made thereto through May 8, 2008 (incorporated by reference to Exhibit 3.1 to Sterling Construction Company, Inc.'s Quarterly Report on Form 10-Q, filed on August 11, 2008 (SEC File No. 333-129780)).
3.2	Bylaws of Sterling Construction Company, Inc. as amended through March 13, 2008 (incorporated by reference to Exhibit 3.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, filed on March 19, 2008 (SEC File No. 333-129780)).
4.1	Form of Common Stock Certificate of Sterling Construction Company, Inc. (incorporated by reference to Exhibit 4.5 to its Form 8-A, filed on January 11, 2006 (SEC File No. 011-31993)).
10.1#	Oakhurst Company, Inc. 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.6 to Sterling Construction Company, Inc.'s Registration Statement on Form S-1, filed on November 17, 2005 (SEC File No. 333-129780)).
10.2#	Forms of Stock Option Agreement under the Oakhurst Company, Inc. 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.51 to Sterling Construction Company, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 29, 2005 (SEC File No. 001-31993)).
10.3#	Summary of the Compensation Plan for Non Employee Directors of Sterling Construction Company, Inc. (incorporated by reference to Exhibit 10.1 to Sterling Construction Company, Inc.'s Quarterly Report on Form 10-Q, filed on August 11, 2008 (SEC File No. 333-129780)).
10.4	Credit Agreement by and among Sterling Construction Company, Inc., Texas Sterling Construction Co., Oakhurst Management Corporation and Comerica Bank and the other lenders from time to time party thereto, and Comerica Bank as administrative agent for the lenders, dated as of October 31, 2007 (incorporated by reference to Exhibit 10.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, Amendment No. 1 filed on November 21, 2007 (SEC File No. 1-31993)).
10.5	Security Agreement by and among Sterling Construction Company, Inc., Texas Sterling Construction Co., Oakhurst Management Corporation and Comerica Bank as administrative agent for the lenders, dated as of October 31, 2007 (incorporated by reference to Exhibit 10.2 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, Amendment No. 1 filed on November 21, 2007 (SEC File No. 1-31993)).

10.6	Joinder Agreement by Road and Highway Builders, LLC and Road and Highway Builders Inc, dated as of October 31, 2007 (incorporated by reference to Exhibit 10.3 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, Amendment No. 1 filed on November 21, 2007 (SEC File No. 1-31993)).
10.7#	Employment Agreement dated as of July 19, 2007 between Sterling Construction Company, Inc. and Patrick T. Manning (incorporated by reference to Exhibit 10.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K filed on January 17, 2008 (SEC File No. 1-31993))
10.8#	Employment Agreement dated as of July 19, 2007 between Sterling Construction Company, Inc. and Joseph P. Harper, Sr. (incorporated by reference to Exhibit 10.2 to Sterling Construction Company, Inc.'s Current Report on Form 8-K filed on January 17, 2008 (SEC File No. 1-31993))
10.09#	Employment Agreement dated as of July 16, 2007 between Sterling Construction Company, Inc. and James H. Allen, Jr. (incorporated by reference to Exhibit 10.3 to Sterling Construction Company, Inc.'s Current Report on Form 8-K filed on January 17, 2008 (SEC File No. 1-31993))
10.10#	Option Agreement dated August 7, 2007 between Sterling Construction Company, Inc. and James H. Allen, Jr. (incorporated by reference to Exhibit 10.4 to Sterling Construction Company, Inc.'s Current Report on Form 8-K filed on January 17, 2008 (SEC File No. 1-31993))
10.11#*	Employment Agreement dated as of March 17, 2006 between Sterling Construction Company, Inc. and Roger M. Barzun.
21	Subsidiaries of Sterling Construction Company, Inc.: Name — State of Incorporation Texas Sterling Construction Co. — Delaware Road and Highway Builders, LLC — Nevada Road and Highway Builders Inc. — Nevada Road and Highway Builders of California, Inc. — California
23.1*	Consent of Grant Thornton LLP.
31.1*	Certification of Patrick T. Manning, Chief Executive Officer of Sterling Construction Company, Inc.
31.2*	Certification of James H. Allen, Jr., Chief Financial Officer of Sterling Construction Company, Inc.
32.0*	Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) of Patrick T. Manning, Chief Executive Officer, and James H. Allen, Jr., Chief Financial Officer.

Management contract or compensatory plan or arrangement.
* Filed herewith.

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