STERLING CONSTRUCTION CO INC
Form ARS
March 27, 2015

ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2014

Dear Fellow Shareholders,

We'd like to begin our first letter to Sterling shareholders as Chief Executive Officer and Chairman of the Board of Directors by stating our belief that we have the potential to become a best-in-class company. The Company has struggled to deliver consistent results over the past several years; however, Sterling is a business that has all of the elements necessary for success in the heavy civil construction industry. The Company has a solid reputation and strong competitive position in growth markets, a team of experienced people, a large fleet of modern equipment, and a record-high backlog of projects that, if managed diligently, can deliver consistent profitability.

Our financial performance in 2014 showed considerable improvement over 2013, but was disappointing given our expectations heading into the year, and was far short of what we believe we are capable of delivering. In addition to internal execution issues on several projects, particularly in Texas, our results were negatively affected by external factors, including unusually difficult weather conditions, spot shortages of commodities, over- stretched sub-contractors and intense competition for craft labor in our Texas market.

We have completed an extensive review of all aspects of our Company, including processes, procedures and personnel at all levels. We've already taken numerous actions aimed at sharpening forward visibility in all our business units in order to deal with potential issues before they erode profitability. This includes the recent strengthening of leadership in our Texas operation. In addition, we negotiated a waiver of our bank covenant breach and are evaluating several debt financing proposals to provide liquidity to our operations. With these changes, along with others that we are in the process of implementing, we believe that we have corrected a number of our internal challenges.

Looking ahead, we anticipate continued year-over-year revenue growth in 2015 stemming from our robust backlog, which increased 11% during 2014 to a record high $764 million at the end of the year. In addition, we have a strong pipeline of project opportunities that we are pursuing throughout our primary markets. We are particularly encouraged by the recent announcement by the Texas Department of Transportation that the state will put out for bid more than $9.4 billion of new road and related infrastructure projects in 2015. We

expect that margin improvement will be driven by the enhancements we are making in our selective bidding process, our project management procedures, and the leadership changes we have already made and expect to continue to make. At December 31, 2014, the average gross margin of our projects in backlog was in the low-to-mid 6% range. We continue to focus on reducing our operating expenses, as evidenced by our industry-low general and administrative expense levels. In addition, our capital expenditures this year should be well below those of 2014.

In summary, while our results have been very disappointing, we firmly believe that the fundamental underpinnings of this business, and the team we have assembled, can deliver consistent profits and cash flow over the course of 2015 and beyond.

We would like to thank our outstanding employees, customers, lenders and surety, and most of all you, our shareholders, for your continued support.

Sincerely,

Paul J. Varello
Chief Executive Officer

Milton L. Scott
Chairman of the Board

The Woodlands, Texas
March 27, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[X] annual report pursuant to section 13 or 15(d) of the securities exchange act of 1934
For the fiscal year ended: December 31, 2014
[ ] transition report pursuant to section 13 or 15(d) of the securities exchange act of 1934
For the transition period from ______________________to ______________________________
Commission file number 1-31993

STERLING CONSTRUCTION COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware State or other jurisdiction of incorporation or organization	25-1655321 (I.R.S. Employer Identification No.)
1800 Hughes Landing Blvd. The Woodlands, Texas (Address of principal executive offices)	77380 (Zip Code)

Registrant's telephone number, including area code (281) 214-0800

Securities registered pursuant to Section 12(b) of the Act:	Name of each exchange on which registered
Title of each class	The NASDAQ Stock Market LLC
Common Stock, $0.01 par value per share (Title of Class)	

Securities registered pursuant to section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
[ ] Yes [√] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
[ ] Yes [√] No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter prior that the registrant was required to submit and post such files).
[√]] Yes [ ] No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]
Accelerated filer [√]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)
Smaller reporting company [ ]

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act). [ ] Yes [√] No

Aggregate market value of the voting and non-voting common equity held by non-affiliates at June 30, 2014: $166,755,548.

At March 6, 2015, the registrant had 18,768,244 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company’s definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held on May 8, 2015 are incorporated by reference into Part III of this Form 10-K.

Sterling Construction Company, Inc.
Annual Report on Form 10-K
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PART I

Cautionary Comment Regarding Forward-Looking Statements

This Report includes statements that are, or may be considered to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are included throughout this Report, including in the sections entitled “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. We have used the words “anticipate,” “assume,” “believe,” “budget,” “continue,” “could,” “estimate,” “expect,” “forecast,” “future,” “intend,” “may,” “plan,” “potential,” “should,” “will,” “would” and similar terms and phrases to identify forward-looking statements in this Report.

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

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

- changes in general economic conditions, including recessions, reductions in federal, state and local government funding for infrastructure services and changes in those governments’ budgets, practices, laws and regulations;
- delays or difficulties related to the completion of our projects, including additional costs, reductions in revenues or the payment of liquidated damages, or delays or difficulties related to obtaining required governmental permits and approvals;
- actions of suppliers, subcontractors, design engineers, joint venture partners, customers, competitors, banks, surety companies and others which are beyond our control, including suppliers’, subcontractors’ and joint venture partners’ failure to perform;
- factors that affect the accuracy of estimates inherent in our bidding for contracts, estimates of backlog, percentage-of-completion accounting policies, including onsite conditions that differ materially from those assumed in our original bid, contract modifications, mechanical problems with our machinery or equipment and effects of other risks discussed in this document;
- design/build contracts which subject us to the risk of design errors and omissions;
- cost escalations associated with our contracts, including changes in availability, proximity and cost of materials such as steel, cement, concrete, aggregates, oil, fuel and other construction materials, and cost escalations associated with subcontractors and labor;
- our dependence on a limited number of significant customers;
- adverse weather conditions; although we prepare our budgets and bid contracts based on historical rain and snowfall patterns, the incidence of rain, snow, hurricanes, etc., may differ materially from these expectations;
- the presence of competitors with greater financial resources or lower margin requirements than ours, and the impact of competitive bidders on our ability to obtain new backlog at reasonable margins acceptable to us;
- our ability to successfully identify, finance, complete and integrate acquisitions;
- citations issued by any governmental authority, including the Occupational Safety and Health Administration;
- federal, state and local environmental laws and regulations where non-compliance can result in penalties and/or termination of contracts as well as civil and criminal liability;
- adverse economic conditions in our markets; and
- the other factors discussed in more detail in Item 1A. —Risk Factors.

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

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

Item 1. Business.

Overview of the Company's Business.

Sterling Construction Company, Inc. was founded in 1991 as a Delaware corporation. Our principal executive offices are located at 1800 Hughes Landing Boulevard, Suite 250, The Woodlands, Texas 77380, and our telephone number at this address is (281) 214-0800. Our construction business was founded in 1955 by a predecessor company in Michigan and is now conducted through our subsidiaries which primarily include: Texas Sterling Construction Co., a Delaware corporation, or "TSC"; Road and Highway Builders, LLC, a Nevada limited liability company, or "RHB"; Road and Highway Builders of California, Inc., a California corporation, or "RHBCa"; Ralph L. Wadsworth Construction Company, LLC, a Utah limited liability company, or "RLW"; J. Banicki Construction, Inc., an Arizona corporation, or "JBC"; and Myers & Sons Construction, L.P., a California limited partnership, or "Myers". The terms "Company," "Sterling," and "we" refer to Sterling Construction Company, Inc. and its subsidiaries except when it is clear that those terms mean only the parent company or a particular subsidiary.

Sterling is a leading heavy civil construction company that specializes in the building and reconstruction of transportation and water infrastructure projects in Texas, Utah, Nevada, Arizona, California, Hawaii and other states where there are construction opportunities. Its transportation infrastructure projects include highways, roads, bridges and light rail and its water infrastructure projects include water, wastewater and storm drainage systems. Sterling performs the majority of the work required by its contracts with its own crews and equipment.

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 consist of one reportable segment, one operating segment and one reporting unit component, which is heavy civil construction. In making this determination, the Company considered the discrete financial information used by our Chief Operating Decision Maker ("CODM"). Based on this approach, the Company noted that the CODM organizes, evaluates and manages the financial information around each heavy civil construction project when making operating decisions and assessing the Company's overall performance. Furthermore, we considered that each heavy civil construction project has similar characteristics, includes similar services, has similar types of customers and is subject to similar economic and regulatory environments.

Sterling has grown its service profile and geographic reach both organically and through acquisitions. Expansions into Utah, Arizona and California were achieved with the 2009 acquisition of RLW and the 2011 acquisitions of JBC and Myers, respectively. These acquisitions also extended Sterling's service profiles.

Recent Developments.

Financial Results for 2014, Operational Issues and Outlook for 2015 Financial Results.

In 2014, the Company had an operating loss of $4.2 million and net loss attributable to Sterling common stockholders of $9.8 million. Our gross margins have increased to 4.8% in 2014 from (5.4)% in 2013 and decreased from the 7.5% gross margin experienced in 2012. In 2014, our gross margins continued to be adversely impacted by downward revisions to estimated profitability on projects primarily awarded in Texas; although, to a lesser extent than in the prior year.

The majority of our revenues and backlog is derived from fixed unit price contracts. Some of our revenues are derived from lump sum contracts. Fixed unit price contracts require us to provide materials and services at a fixed unit price based on approved quantities irrespective of our actual per unit costs. Lump sum contracts require that the total amount of work be performed for a single price irrespective of our actual costs. As discussed in "Item 1A. Risk Factors," we realize a profit on our contracts only if we accurately estimate our costs and then successfully control actual costs

and avoid cost overruns, and our revenues exceed actual costs. If our cost estimates for a contract are inaccurate, or if we do not execute the contract within our cost estimates, then cost overruns may cause the contract not to be as profitable as we expected or result in a loss, negatively affecting our cash flow, earnings and financial position.

While the risks of cost overruns and changes in estimated contract revenues are an inherent part of the construction business, we continue to implement the following changes in order to improve the profitability of our projects, reduce the variability in profitability of our projects in the future and strengthen the internal control environment:

- We continue to change roles and responsibilities to improve functional support and controls when needed.

- We continue to develop management tools designed to improve the estimating process and increase the oversight of that process where needed and continue to refine existing tools.

- We continue to implement processes designed to better identify, evaluate and quantify risks for individual projects where needed and continue to refine existing process.

- We continue to improve the methodologies for allocating overhead, indirect costs and equipment costs to individual projects in order to provide more accurate job cost and future bidding estimates.

- We continue to improve the timeliness and content of reporting available to operations management.

In addition to the factors discussed above which impact the profitability on individual projects, there are other factors which have adversely affected our ability to secure construction projects at favorable margins. Our highway and related bridge work is generally funded through federal and state authorizations. In recent years, federal and state legislation related to infrastructure spending has been slow to pass. Funding for federal highway projects primarily originate from the Highway Trust Fund where federal motor fuel taxes are the major source of income into the fund. Additional income is provided from the General fund and certain other funds to maintain the solvency of the fund as sources of income remain a challenge. While government spending on highway and related bridge work has not significantly increased in recent years, our backlog has increased $77 million from $687 million at December 31, 2013 to $764 million at December 31, 2014, representing ample work to be bid on within our markets with acceptable gross margins. In addition to highway and related bridge work, we continually look for projects that diversify our book of projects to relieve the continued pressure on our gross margins related to new contract awards from local, state and federal authorities.

Our Business Strategy.

Key features of our business strategy include:

- Continue to add construction capabilities: by adding capabilities that augment our core contracting and construction competencies, we are able to improve gross margin opportunities and more effectively compete for contracts that might not otherwise be available to us.
- Expand into new markets and selectively pursue opportunities and strategic acquisitions: we will continue to seek to identify attractive new markets and opportunities in select western, southwestern and southeastern U.S. areas. We will also continue to assess opportunities to extend our service capabilities and expand our markets through acquisitions.
- Apply core competencies across our markets: we will seek to capitalize on opportunities to export our Texas experience constructing water infrastructure projects and our Nevada earthmoving, aggregates and asphalt paving experience into Utah markets. Similarly, we believe that RLW's experience with design-build, construction manager and general contractor ("CM/GC") and other alternative project delivery methods in Utah, and its development of accelerated bridge construction ("ABC") techniques can enhance opportunities for us in our Texas, California, Arizona and Nevada markets.
- Increase our market leadership in our core markets: we have a strong presence in a number of markets in Texas, Utah and Nevada and intend to expand our presence in these states as well as Arizona, California, Hawaii and other states where we believe opportunities exist.
- Position our business for future infrastructure spending: currently there are considerable uncertainties surrounding federal, state and local funding in our markets; however, we believe there is awareness of the need to build, reconstruct and repair our country's infrastructure, including transportation infrastructure, such as bridges, highways, and mass transit systems and water infrastructure, such as water, wastewater and storm drainage systems. We will continue to build our expertise to capture this infrastructure spending. We also see opportunities to make enhancements to our operations that should yield improving performance over time. These include a tighter integration of the acquisitions we have made over the past several years which should result in cost reductions and better collaboration between business units when pursuing new contract opportunities.

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

Our Markets, Customers and Competition.

Currently, all our operations are performed within the United States. As such, we rely heavily on federal and state infrastructure spending. Actual appropriations by the U.S. Department of Transportation ("U.S.DOT") were $38.9 billion for federal highway financial assistance to the states for 2013. Additionally, U.S.DOT had enacted funds for the fiscal year ended September 30, 2014 of $40.1 billion and has requested authority to spend $47.3 billion in fiscal 2015 for highways and bridges.

Within the United States, our principal markets are in Texas, Utah, Nevada, Arizona, California and Hawaii, states that management believes benefit from both positive long-term demographic trends as well as a historical commitment to funding transportation and water infrastructure projects. Currently, the Company also has highway construction contracts in Montana, Idaho and Louisiana. According to the 2010 U.S. Census Bureau Information, Texas, Utah, Nevada, Arizona, California and Hawaii are expected to experience population increases of 32.5%, 26.1%, 58.6%, 67.6%, 24.7 and 7.7%, respectively, during the twenty year period between 2010 and 2030. While the near-term funding available for infrastructure spending in these markets is currently limited, management anticipates that long-term population growth and increased spending for infrastructure in these markets will positively affect business opportunities over the coming years.

In Texas, our customers include Texas Department of Transportation (“TxDOT”), Texas county and municipal public works departments, regional transit and water authorities, port authorities, school districts, municipal utility districts and the U.S. Corps of Engineers. TxDOT contract awards (“lettings”) for transportation construction projects are estimated to be $9.5 billion in 2015 and $4.2 billion in 2016.

Additionally, in Texas, substantial funds for transportation infrastructure spending are also being provided by toll road and regional mobility authorities for construction of toll roads, which provides Sterling with additional construction contracting opportunities; however, such spending could be limited by federal, state and local funding limitations.

Texas’ approximately 306,000 miles of roadway is in need of repair and the shale oil traffic has placed an additional burden on the transportation system. In November 2014, a ballot measure known as Proposition 1 was approved which will utilize approximately $1.7 billion from the Texas Economic Stabilization Fund (Rainy Day Fund) for these growing transportation needs. In the November 2013 election, Texans voted in favor of infrastructure spending by passing a water bill. The Proposition 6 water initiative had widespread support in the legislature and 73 percent voted in favor of the amendment. Proposition 6 provides $2 billion from the Rainy Day Fund for low-interest loans to help fund projects in the State Water Plan for the next 50 years.

In Utah, our public sector customers include the Utah Department of Transportation (“UDOT”) and the Utah Transit Authority. Spending for highway and bridge construction in Utah was $729 million in 2014, and $741 million has been authorized for 2015. The details of the capital spending budget for 2016 have not been released; however the Utah Governor’s recommendation for total capital spending in 2016 is approximately $687 million. In Utah, we have been competitive, in part, because of successful marketing efforts, design-build and CM/GC capabilities and development of innovative methods for completing projects. Competition for design-build projects is not totally focused on cost factors but is also significantly dependent on successful marketing efforts, reputation, quality of designs and aesthetics. We believe that we were one of the first construction companies to utilize ABC technology to build bridges offsite, move them to their location, and complete their installation in a very short period of time in order to minimize mobility disruptions.

In Nevada, we believe that we are a leading asphalt paving contractor on suburban and rural highway projects. Our primary public sector customer is the Nevada Department of Transportation (“NDOT”). Nevada’s budget for construction of roadways and facilities is estimated to be $375 million and $194 million in 2015 and 2016, respectively, compared with expenditures of $557 million in 2014.

In Arizona, our principal customers are the Arizona Department of Transportation (“ADOT”) and municipal airport authorities. Arizona’s expenditures for transportation construction were $1.4 billion in 2014, while such expenditures are estimated to be $1.6 billion in each year 2015 and 2016.

In California, our principal customer is the California Department of Transportation (“Caltrans”). California’s transportation capital outlays and local assistance were $5.2 billion in 2014, while such expenditures are estimated to be $5.6 billion in 2015 and $5.9 billion in 2016.

In Hawaii, our principal customers are the City of Honolulu and the Hawaii Department of Transportation (“HDOT”). Hawaii’s expenditures for transportation construction were $471 million in 2014, while expenditures for 2015 and 2016 are estimated to be $120 million and $133 million, respectively.

A significant portion of our contracts pertain to state highway and related bridge work. In 2014, state highway and related bridge work accounted for 48% of our consolidated revenues compared with 62% and 61% in 2013 and 2012, respectively. The majority of the remaining work we perform is for local city municipalities.

In the past, we have also completed the construction of certain infrastructure for new light rail systems in Houston, Dallas and Galveston, Texas, and in Salt Lake City, Utah. We anticipate that expenditures in the cities of Houston and San Antonio for road, rail and water infrastructure projects will continue to increase due to steady gains in population in these metropolitan areas as a result of the migration of new residents and the annexation of surrounding communities and due to continuing programs in these metropolitan areas to expand storm water and flood control systems and water delivery systems. We believe that similar municipal civil construction opportunities are available in other municipalities in our major markets.

Although we occasionally undertake contracts for private customers, the vast majority of our revenues are attributable to work for public sector customers. Our larger construction projects are typically undertaken from work bid and won as part of a letting through a particular state's department of transportation. Refer to Note 18 to the consolidated financial statements (references to "Note" or "Notes" are to the Notes to consolidated financial statements for the year ended December 31, 2014, included in this document), for major customers that accounted for 10% or more of total revenue in any of the past three fiscal years. The majority of the services provided to customers are pursuant to contracts awarded through competitive bidding processes.

Demand for transportation and water infrastructure depends on a variety of factors, including overall population growth, economic expansion and the vitality of the market areas in which we operate, as well as unique local topographical, structural and environmental issues. In addition to these factors, demand for the replacement of infrastructure is driven by the general aging of infrastructure and the need for technical improvements to achieve more efficient or safer use of infrastructure and resources. Funding for this infrastructure depends on federal, state and local governmental resources, budgets and authorizations.

Our competitors include companies that we bid against for construction contracts and compete against for short listings, mandates and joint ventures. We have many competitors of different sizes in all of the markets that we serve, and they include large international, national and regional construction companies as well as many smaller contractors. Historically, the construction business has not typically required large amounts of capital for smaller contracts, which can result in relative ease of market entry for companies possessing acceptable qualifications.

Factors influencing our competitiveness include price, our reputation for quality, our innovativeness, our equipment fleet, our work crews, our financial strength, our bonding capacity and prequalification criteria, our knowledge of local markets and conditions, our project management and estimating abilities, our customer relationships, our marketing abilities, our ability to enter into strategic relationships with other contractors and our ability to perform many aspects of each project. Although some of our competitors are larger than we are and may possess greater resources or provide more vertically-integrated services, we believe that we are well-positioned to compete in the markets in which we operate on the basis of the foregoing factors.

Based on publicly available information on awarded construction projects, we believe that we are one of the larger participants in each of our Texas, Utah, Nevada, Arizona, California and Hawaii markets. Because we own and maintain most of the equipment required for our contracts and have the key experienced workforce to handle many types of heavy civil construction, we are able to bid competitively on many categories of contracts, especially complex, multi-task projects. In the state highway markets, most of our competitors are large international, national and regional contractors, and individual contracts tend to be larger and require more specialized skills than those in the municipal markets. Some of these competitors have the advantage of being more vertically-integrated, or they specialize in certain types of projects such as construction over water.

Our markets have been much more competitive than in the past because of reductions in federal, state and local spending on transportation and water-related infrastructure; bidding by our traditional competitors at what appears to have been break-even or loss margins; the entry of new competitors from other states and the expansion of foreign competitors into our markets. While our business includes only minimal residential and commercial infrastructure work, the severe fall-off in new projects in those markets has resulted in some residential and commercial infrastructure contractors bidding on smaller public sector transportation and water infrastructure projects, sometimes at bid levels below our break-even pricing, thus increasing competition and creating downward pressure on the bid prices in our markets. These factors have compressed the profitability on many new projects where we submitted successful bids.

These and other factors have adversely affected the levels of transportation and water infrastructure capital awards and expenditures in our markets, reducing opportunities to replace backlog at reasonable margins and increasing

competition for new projects. However, we believe that the Company is well-established in our particular markets and has a fleet of modern equipment that gives us the ability to perform a broad range of work which will allow us to weather current market conditions and to continue to compete successfully for projects as they become available at acceptable profit margin levels.

Backlog.

Backlog is the revenue we expect to earn in future periods on our construction projects. However, low bid awards not officially awarded are excluded from backlog. As the construction on our projects progresses, we increase or decrease backlog to take into account our estimates of the effects of changes in estimated quantities, changed conditions, change orders and other variations from initially anticipated contract revenues, including completion penalties and incentives. At December 31, 2014, our backlog was $764 million.

Substantially all of the contracts in our contract backlog may be canceled at the election of the customer; however, we have not been materially adversely affected by contract cancellations or modifications in the past. See the section below entitled, “Contracts — Contract Management Process.”

Construction Delivery Methods.

Alternative construction delivery methods describe different contractual and responsibility relationships among the owner, the builder and the designer of a project. There are three primary construction delivery methods: design-bid-build, design-build and construction management.

The traditional method by which the majority of our projects have historically been completed is design-bid-build. Under this type of construction delivery, the owner hires a design engineer to design the project and then solicits bids from construction firms and typically awards the contract to build the pre-designed project to the lowest qualifying bidder. The contractor to whom the project is awarded becomes the general contractor and is responsible for completing the project in accordance with the owner’s designs using the contractor’s own employees or resources, or subcontractors. Projects under this method are typically fixed unit price contracts.

Design-build is increasingly being used by public entities as a method of project delivery. Unlike traditional projects where the owner first hires a design firm or designs a project itself and then puts the project out to bid for construction, design-build projects provide the owner with a single point of responsibility and a single contact for both final design and construction. The owner selects a builder who hires the design team as required and construction typically starts before the design is complete. This project delivery method is typically undertaken through either fixed unit price contracts or lump sum contracts, and price is not the only determining factor used by the owner when selecting a particular contractor.

Construction management is a newer method of delivering a project whereby a contractor agrees to manage a project for the owner for an agreed-upon fee, which may be fixed or may vary based upon negotiated factors. The owner of the project typically hires the contractor as a construction manager early in the design phase of the project. The construction manager works with the design team to help ensure that the design is something that can in fact be built within the owner’s desired cost and other parameters and that the ultimate construction contractor will be able to understand the design drawings and specifications. There are two basic types of construction management: construction manager as advisor and construction manager at risk. In the construction manager as advisor type of arrangement, the construction manager acts as a technical consultant to the owner of the project and has no legal responsibility for the performance of the actual construction work. In the construction manager at risk type of arrangement, the construction manager becomes the prime contractor during the construction phase and makes a determination as to which portions of the work will be self-performed and which will be performed through subcontracts. In either type of construction management process, portions of a project are often submitted for bid during the course of the construction manager relationship, with the construction manager bidding, and oftentimes having the first right to bid, on portions of the project.

Contracts.

Types of Contracts.

We provide our services primarily by using traditional general contracting arrangements, including fixed-unit price contracts, lump sum contracts and cost-plus contracts.

Fixed unit price contracts are generally used in competitively-bid public civil construction contracts. Contractors under fixed unit price contracts are generally committed to provide all of the resources required to complete the contract for a fixed price per unit. These contracts are generally subject to negotiated change orders, frequently due to

differences in site conditions from those initially anticipated or asserted by the customer. Some fixed unit price contracts provide for penalties, if the contract is not completed on time, or incentives, if it is completed ahead of schedule.

Under a lump sum contract, the contractor typically agrees to deliver a completed project in accordance with the contract's requirements for a specific price, and the customer agrees to pay the price according to a negotiated payment schedule. In developing a lump sum bid, the contractor estimates the costs of labor, subcontracts and materials and adds an amount for overhead and profit. The amount of the profit included in the bid is based on the contractor's assessment of risk and other factors such as availability of resources. If the actual costs of labor, subcontracts, materials and overhead are higher than the contractor's estimate, the profit will be reduced or become a loss; if the actual costs are lower, the contractor may earn more profit.

In a cost plus contract, the owner of a project generally agrees to pay the cost of all of the contractor's labor, subcontracts and materials plus an amount for contractor overhead and profit (usually as a percentage of the labor, subcontracts and material cost). If actual costs are lower than the estimate, the owner benefits from the cost savings. If actual costs are higher than the estimate, the owner bears the economic burden of the additional costs.

Contract Management Process.

We identify potential contracts from a variety of sources, including through subscriber services that notify us of contracts out for bid; through advertisements by federal, state and local governmental entities; through our business development efforts; through contacts at government agencies; and through meetings with other participants in the construction industry. After determining which contracts are available, we decide which contracts to pursue based on such factors as the relevant skills required, the contract size and duration, the availability of our personnel and equipment, the size and makeup of our current backlog, our competitive advantages and disadvantages, prior experience, the contracting agency or customer, the source of contract funding, geographic location, likely competition, construction risks, gross margin opportunities, penalties or incentives and the type of contract.

As a condition to pursuing some contracts, we are required to complete a prequalification process with the applicable agency or customer. Some customers, such as state departments of transportation, require yearly prequalification, and some other customers have experience requirements specific to the contract. The prequalification process generally limits bidders to those companies with the operational experience and financial capability to effectively complete the particular contract in accordance with the plans, specifications and construction schedule.

There are several factors that can create variability in contract performance and financial results compared to our bid assumptions on a contract. The most significant of these include the completeness and accuracy of our original bid analysis, recognition of costs associated with added scope changes, extended overhead due to customer and weather delays, subcontractor availability and performance issues, changes in productivity expectations, site conditions that differ from those assumed in the original bid, and changes in the availability and proximity of materials. In addition, our original bids for some contracts are based on the contract customer’s estimates of the quantities needed to complete a contract. If the quantities ultimately needed are different, our backlog and financial performance on the contract will change. All of these factors can lead to inefficiencies in contract performance, which can increase costs and lower profits. Conversely, if any of these or other factors is more favorable than the assumptions in our bid, contract profitability can improve. Design-build projects carry additional risks such as design error risk and the risk associated with estimating quantities and prices before the project design is completed. Design errors may result in higher than anticipated construction costs and additional liability to the contract owner. Although we manage this additional risk by adding contingencies to our bid amounts, obtaining errors and omissions insurance and obtaining indemnifications from our design consultants where possible, there is no guarantee that these risk management strategies will always be successful. Generally, gross margins included in bids on design-build contracts are higher than for other types of contracts due to the higher risks involved.

The estimating process for our traditional fixed unit price competitive bid contracts typically involves three phases. Initially, we consider the level of anticipated competition and our available resources for the prospective project. If we then decide to continue considering a project, we undertake the second phase of the contract process and spend several weeks performing a detailed review of the plans and specifications, summarizing the various types of work involved and related estimated quantities, determining the contract duration and schedule and highlighting the unique and riskier aspects of the contract. Concurrent with this process, we estimate the cost and availability of labor, material, equipment, subcontractors and the project team required to complete the contract on time and in accordance with the plans and specifications. Substantially all of our estimates are made on a per-unit basis for each line item, and it is not unusual for an estimate to contain over 300 line items. The final phase consists of a detailed review of the estimate by management, including, among other things, assumptions regarding cost, approach, means and methods, productivity, risk and the estimated profit margin. This profit amount will vary according to management’s perception of the degree of difficulty of the contract, the current competitive climate and the size, availability of resources and makeup of our backlog. Our project managers are intimately involved throughout the estimating and construction process so that contract issues, and risks, can be understood and addressed generally on a timely basis.

Although the factors described above are relevant in determining the appropriate amount to bid, the contracting process is managed differently if the project is to be performed on a design-build basis or a CM/GC basis. For design-build projects, we assemble a team that may include project managers, engineers, quality managers and surveyors, to learn about a project that we have identified as one on which we may desire to bid. For some projects, pre-qualification for the project is required where each contractor and/or contracting team prepares a description of financial strengths, past experience on similar types of projects, safety record and the persons who will be on the project management and design team, after which, the customer will usually announce a short list of three to five contractors to respond to a request for proposal, generally within three months. Utilizing the limited design specifications provided by the customer, we generally meet weekly over a two to three month period with design engineers to generate a bid containing quantities, prices, timing and a description of our approach for completing the project. The customer then reviews the bids and selects the one that has the best value, and considers factors such as contractor qualifications, the time estimated to complete the project and the price bid.

For our CM/GC projects, the customer typically sends out a request for proposal to general contractors for a project. The customer scores each contractor that submits a bid based on the unit prices submitted for five to twenty items that comprise approximately 10% to 20% of the project design, the profit margin proposed, the experience of the contractor for similar types of projects, the contractor's approach to completing the specific project and whether the contractor understands the CM/GC process. A committee reviews each bid and determines the best value winner to be the general contractor. If we are the winning general contractor, we work with the customer and the engineer to design the project. As various phases of the project are designed, we usually submit bids to construct phases of the project for which we are qualified. In some situations, we also solicit bids from other construction contractors. If we are the lower bidder, we are awarded a contract for that phase. In other situations, if our bid is close to the cost estimates determined by the customer and the engineer, then we will generally be awarded the contract for a particular phase; otherwise, the customer negotiates with us on an appropriate contract price; and if those negotiations are not successful, then the customer can terminate our contract.

To manage risks of changes in material prices and subcontracting costs used in tendering bids for construction contracts, we generally obtain firm price quotations from our suppliers and subcontractors, except for fuel and trucking, before submitting a bid. For fixed unit price contracts, these quotations do not include any quantity guarantees, and we have no obligation for materials or subcontract services beyond those required to complete the respective contracts that we are awarded for which quotations have been provided. For design-build and CM/GC projects, lump sum subcontracts are often executed with subcontractors.

During the construction phase of a contract, we monitor our progress by comparing actual costs incurred and quantities completed to date with budgeted amounts and the contract schedule, and periodically prepare an updated estimate of total forecasted revenue, cost and expected profit for the contract.

During the normal course of most contracts, the customer, and sometimes the contractor, initiates modifications or changes to the original contract to reflect, among other things, changes in quantities, specifications or design, method or manner of performance, facilities, materials, site conditions and the period for completion of the work. In many cases, final contract quantities may differ from those specified by the customer. Generally, the scope and price of these modifications are documented in a "change order" to the original contract and reviewed, approved and paid in accordance with the normal change order provisions of the contract. We are often required to perform extra or change order work under our fixed unit price contracts as directed by the customer even if the customer has not agreed in advance on the scope or price of the work to be performed. This process may result in disputes over whether the work performed is beyond the scope of the work included in the original contract plans and specifications or, even if the customer agrees that the work performed qualifies as extra work, the price that the customer is willing to pay for the extra work. These disputes may not be settled to our satisfaction. Even when the customer agrees to pay for the extra work, we may be required to fund the cost of the work for a lengthy period of time until the change order is approved and funded by the customer. In addition, any delay caused by the extra work may adversely impact the timely scheduling of other work on the contract (or on other contracts) and our ability to meet contract milestone dates.

The process for resolving contract claims varies from one contract to another but, in general, we attempt to resolve claims at the project supervisory level through the normal change order process or, if necessary, with higher levels of management within our organization and the customer's organization. Regardless of the process, when a potential claim arises on a contract, we typically have the contractual obligation to perform the work and must incur the related costs. We do not recoup the costs unless and until the claim is resolved, which could take a significant amount of time.

Most of our construction contracts provide for termination of the contract for the convenience of the customer, with provisions to pay us only for work performed through the date of termination. Our backlog and results of operations have not been materially adversely affected by these provisions in the past.

We act as the prime contractor on the majority of the construction contracts that we undertake. We generally complete the majority of the work on our contracts with our own resources, and we typically subcontract only specialized activities, such as traffic control, electrical systems, signage, trucking and earthmoving. As the prime contractor, we are responsible for the performance of the entire contract, including subcontract work. Thus, we are subject to increased costs associated with the failure of one or more subcontractors to perform as anticipated. We manage this risk by reviewing the size of the subcontract, the financial stability of and prior experience with the subcontractor and other factors. Although we generally do not require that our subcontractors furnish a bond or other type of security to guarantee their performance, we require performance and payment bonds on some specialized or large subcontract portions of our contracts. Disadvantaged business enterprise regulations require us to use our best efforts to subcontract a specified portion of contract work performed for governmental entities to certain types of subcontractors, including minority- and women-owned businesses. We have not experienced significant costs associated with subcontractor performance issues in the past.

Joint Ventures.

We participate in joint ventures with other large construction companies and other partners, typically for large, technically complex projects, including design-build projects, when it is desirable to share risk and resources in order to seek a competitive advantage or when the project is too large for us to obtain sufficient bonding. Joint venture partners typically provide independently prepared estimates, furnish employees and equipment, enhance bonding capacity and often also bring local knowledge and expertise. We select our joint venture partners based on our analysis of their construction and financial capabilities, expertise in the type of work to be performed and past working relationships with us, among other criteria.

Under a joint venture agreement, one partner is typically designated as the sponsor or manager. The sponsoring partner typically provides all administrative, accounting and most of the project management support for the project and generally receives a fee from the joint venture for these services. We have been designated as the sponsoring partner in certain of our current joint venture projects and are a non-sponsoring partner in others.

Joint venture contracts with project owners typically impose joint and several liability on the joint venture partners. Although our agreements with our joint venture partners provide that each party will assume and pay its share of any losses resulting from a project, if one of our partners is unable to pay its share, we would be fully liable under our contract with the project owner. Circumstances that could lead to a loss under these guarantee arrangements include a partner's inability to contribute additional funds to the venture in the event that the project incurs a loss or additional costs that we could incur should the partner fail to provide the services and resources toward project completion that had been committed to in the joint venture agreement.

Insurance and Bonding.

All of our buildings and equipment are covered by insurance, at levels which our management believes to be adequate. In addition, we maintain general liability and excess liability insurance, workers' compensation insurance and auto insurance all in amounts consistent with our risk of loss and industry practice.

As a normal part of the construction business, we are generally required to provide various types of surety and payment bonds that provide an additional measure of security for our performance under the contract. Typically, a bidder for a contract must post a bid bond, generally for 5% to 10% of the amount bid, and on winning the bid, must post a performance and payment bond for 100% of the contract amount. Upon completion of a contract, before receiving final payment on the contract, a contractor must post a maintenance bond for generally 1% of the contract amount for one to two years. Our ability to obtain surety bonds depends upon our capitalization, working capital, aggregate contract size, past performance, management expertise and external factors, including the capacity of the overall surety market. Surety companies consider such factors in light of the amount of our backlog that we have currently bonded and their current underwriting standards, which may change from time to time. As is customary, we have agreed to indemnify our bonding company for all losses incurred by it in connection with bonds that are issued, and we have granted our bonding company a security interest in certain assets, including accounts receivable, as collateral for such obligation.

Government and Environmental Regulations.

Our operations are subject to compliance with numerous regulatory requirements of federal, state and local agencies and authorities, including regulations concerning safety, wage and hour, and other labor issues, immigration controls, vehicle and equipment operations and other aspects of our business. For example, our construction operations are subject to the requirements of the Occupational Safety and Health Act, or OSHA, and comparable state laws directed toward the protection of employees. In addition, most of our construction contracts are entered into with public authorities, and these contracts frequently impose additional governmental requirements, including requirements

regarding labor relations and subcontracting with designated classes of disadvantaged businesses.

All of our operations are also subject to federal, state and local laws and regulations relating to the environment, including those relating to discharges into air, water and land, climate change, the handling and disposal of solid and hazardous waste, the handling of underground storage tanks and the cleanup of properties affected by hazardous substances. For example, we must apply water or chemicals to reduce dust on road construction projects and to contain contaminants in storm run-off water at construction sites. In certain circumstances, we may also be required to hire subcontractors to dispose of hazardous wastes encountered on a project in accordance with a plan approved in advance by the customer. Certain environmental laws impose substantial penalties for non-compliance and others, such as the federal Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, impose strict and retroactive joint and several liability upon persons responsible for releases of hazardous substances.

CERCLA and comparable state laws impose liability, without regard to fault or the legality of the original conduct, on certain classes of persons that contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the site where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances found at the site. Under CERCLA, these persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. CERCLA also authorizes the federal Environmental Protection Agency, or EPA, and, in some instances, third parties, to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur.

Solid wastes, which may include hazardous wastes, are subject to the requirements of the Federal Solid Waste Disposal Act, the Federal Resource Conservation and Recovery Act, referred to as RCRA, and comparable state statutes. Although we do not generate solid waste, we occasionally dispose of solid waste on behalf of customers. From time to time, the EPA considers the adoption of stricter disposal standards for non-hazardous wastes. Moreover, it is possible that additional wastes will in the future be designated as “hazardous wastes.” Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes.

We continually evaluate whether we must take additional steps at our locations to ensure compliance with environmental laws. While compliance with applicable regulatory requirements has not materially adversely affected our operations in the past, there can be no assurance that these requirements will not change and that compliance will not adversely affect our operations in the future. That tighter regulation for the protection of the environment and other factors may make it more difficult to obtain new permits and renewal of existing permits may be subject to more restrictive conditions than currently exist.

Employees.

As of December 31, 2014, the Company had approximately 1,799 employees, including 1,498 field personnel. Of our 1,498 field employees, 475 were union members in Nevada, Arizona, California and Hawaii, and these union employees are represented by 16 unions.

Our business is dependent upon a readily available supply of management, supervisory and field personnel. Substantially all of our employees are hired on a permanent basis; however, as is typical in the construction industry, we experience a high degree of turnover as a result of construction projects being completed. In the past, we have been able to attract sufficient numbers of personnel to support the growth of our operations. However, we have recently experienced intense competition for craft labor, primarily in Texas.

We conduct extensive safety training programs, which have allowed us to maintain a high safety level at our worksites. All newly-hired employees undergo an initial safety orientation, and for certain types of projects, we conduct specific hazard training programs. Our project foremen and superintendents conduct weekly on-site safety meetings, and our full-time safety inspectors make random site safety inspections and perform assessments and training if infractions are discovered. In addition, all of our superintendents and project managers are required to complete an OSHA-approved safety course.

Access to Company’s Filings.

The Company maintains a website at www.strlco.com on which our latest Annual Report on Form 10-K, recent Quarterly Reports on Form 10-Q, recent Current Reports on Form 8-K, any amendments to those filings, and other filings may be accessed free of charge, some directly on the website and others through a link to the Securities and Exchange Commission’s (“SEC”) website (www.sec.gov) where those reports are filed. Our website also has recent press releases, the Company’s Code of Business Conduct & Ethics, the charters of the Audit Committee, Compensation Committee, and Corporate Governance & Nominating Committee of the Board of Directors and information on the Company’s “whistle-blower” procedures. Our website content is made available for information purposes only. It should not be relied upon for investment purposes, and none of the information on the website is incorporated into this Report by this reference to it.

Item 1A. Risk Factors.

The risks described below are those we believe to be the material risks we face. Any of the risk factors described below could significantly and adversely affect our business, prospects, financial condition, results of operations and cash flows.

Risks Relating to Our Business.

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

The majority of our revenues and backlog are derived from fixed unit price contracts. Some of our revenues are derived from lump sum contracts. Fixed unit price contracts require us to provide materials and services at a fixed unit price based on approved quantities irrespective of our actual per unit costs. Lump sum contracts require that the total amount of work be performed for a single price irrespective of our actual per unit costs. We realize a profit on our contracts only if we accurately estimate our costs and then successfully control actual costs and avoid cost overruns, and our revenues exceed actual costs. If our cost estimates for a contract are inaccurate, or if we do not execute the contract within our cost estimates, then cost overruns may cause us to incur losses or cause the contract not to be as profitable as we expected. The final results under these types of contracts could negatively affect our cash flow, earnings and financial position.

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

- onsite conditions that differ from those assumed in the original bid or contract;
- failure to include required materials or work in a bid, or the failure to estimate properly the quantities or costs needed to complete a lump sum contract;
- delays caused by weather conditions;
- contract or project modifications creating unanticipated costs not covered by change orders;
- changes in availability, proximity and costs of materials, including steel, concrete, aggregates and other construction materials (such as stone, gravel, sand and oil for asphalt paving), as well as fuel and lubricants for our equipment;
- inability to predict the costs of accessing and producing aggregates and purchasing oil required for asphalt paving projects;
- availability and skill level of workers in the geographic location of a project;
- failure by our suppliers, subcontractors, designers, engineers, joint venture partners or customers to perform their obligations;
- fraud, theft or other improper activities by our suppliers, subcontractors, designers, engineers, joint venture partners or customers or our own personnel;
- mechanical problems with our machinery or equipment;
- citations issued by any governmental authority, including the Occupational Safety and Health Administration;
- difficulties in obtaining required governmental permits or approvals;
- changes in applicable laws and regulations;
- delays in quickly identifying and taking measures to address issues which arise during production; and
- claims or demands from third parties for alleged damages arising from the design, construction or use and operation of a project of which our work is part.

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

We may be unable to grow our revenues and increase our profitability.

Our revenue has grown rapidly in recent years, in part through acquisitions that expanded our geographical footprint. We may be unable to grow our revenues for a variety of reasons, including decreased government funding for infrastructure projects, limits on additional growth in our current markets, reduced spending by our customers, an increased number of competitors, less success in competitive bidding for contracts, limitations on access to necessary working capital and investment capital to sustain growth, limitations on access to bonding to support increased contracts and operations, inability to hire and retain essential personnel and to acquire equipment to support growth, and inability to identify acquisition candidates and successfully acquire and integrate them into our business. A substantial decline in our revenue could have a material adverse effect on our financial condition and results of operations if we are unable to also reduce our operating expenses. See "Recent Developments Financial Results for 2014, Operational Issues and Outlook for 2015 Financial Results" above for further discussion of the impact on our financial results.

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

Our business is highly dependent on the amount and timing of infrastructure work funded by various governmental entities, which, in turn, depends on the overall condition of the economy, the need for new or replacement infrastructure, the priorities placed on various projects funded by governmental entities and federal, state or local government spending levels. Spending on infrastructure could decline for numerous reasons, including decreased revenues received by state and local governments for spending on such projects, including federal funding. The most recent recession caused a nationwide decline in home sales and an increase in foreclosures, which correspondingly resulted in decreases in property taxes and some other local taxes, which are among the sources of funding for municipal road, bridge and water infrastructure construction. State spending on highway and other projects can be adversely affected by decreases or delays in, or uncertainties regarding, federal highway funding, which could adversely affect us. We are reliant upon contracts with state transportation departments for a significant portion of our revenues.

See “Business–Our Markets, Customers and Competition” above for a more detailed discussion of our markets and their funding sources.

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

Because of this concentration in specific geographic locations, we are susceptible to fluctuations in our business caused by adverse economic or other conditions in these regions, including natural or other disasters. The stagnant or depressed economy, to varying degrees, in Texas, Utah, Nevada, Arizona, California and Hawaii have adversely affected, and could continue to adversely effect, our business and results of operations.

The cancellation of significant contracts or our disqualification from bidding for new contracts could reduce our revenues and profits and have a material adverse effect on our results of operations.

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

Our growth strategy involves a number of risks.

While for a number of years we have pursued revenue and profit growth through the acquisition of companies and assets that enabled us to expand our project skill-sets and capabilities, enlarge our geographic markets, add experienced management and enhance our ability to bid on larger contracts, we may be unable or unwilling to continue to implement this strategy if we cannot reach agreements for potential acquisitions on acceptable terms or for other reasons. Risks related to growth, including growth through acquisitions, include:

- difficulties in the integration of operations and systems;
- difficulties applying our expertise in one market into another market;
- regulatory requirements that impose restrictions on bidding for certain projects because of historical operations by Sterling or the acquired company;
- the key personnel, customers and project partners of the acquired company may terminate or diminish their relationships with the acquired company;
- we may experience additional financial and accounting challenges and complexities in areas such as tax planning and financial reporting;
- we may assume or be held liable for risks and liabilities (including for environmental-related costs and liabilities) as a result of our acquisitions, some of which we may not discover during our due diligence;
- we may not adequately anticipate competitive and other market factors applicable to the acquired company;
- our ongoing business may be disrupted or receive insufficient management attention; and
- we may not be able to realize cost savings or other financial benefits we anticipated or we may not realize the anticipated benefits in the time frame that we expected.

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

Management may have difficulty implementing its business strategy.

We have recently experienced significant losses primarily related to projects constructed in Texas. If management is unable to timely implement its business strategy to return to profitability in its Texas, or other markets, our results of operations, cash flows and shareholder returns could be adversely affected. In addition, if a return to profitability does not occur within the time frame that we anticipate, or if we continue to incur losses in our Texas, or other markets, we may not have sufficient working capital to timely complete our construction projects. If adequate funds are not available, or are not available on acceptable terms, to alleviate our working capital constraints as we execute our business strategy to return to profitability we may need to liquidate assets, sell our owner's interest in subsidiaries, or take other measures to provide sufficient working capital to continue our operations.

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

In the past, a majority of the contracts on which we bid were awarded through a competitive bid process, with awards generally being made to the lowest bidder, but sometimes recognizing other factors, such as shorter contract schedules or prior experience with the customer. For our design-build, CM/GC and other alternative methods of delivering projects, reputation, marketing efforts, quality of design and minimizing public inconvenience are also significant factors considered in awarding contracts, in addition to cost. Within our markets, we compete with many international, national, regional and local construction firms. Some of these competitors have achieved greater market penetration than we have in the markets in which we compete, and some may have greater financial and other resources than we do. In addition, there are a number of international and national companies in our industry that are larger than we are and that, if they so desire, could establish a presence in our markets and compete with us for contracts.

In some markets where residential and commercial projects have significantly diminished, the bidding environment in our markets has been much more competitive as construction companies that lack available work in those markets have begun bidding on projects in our markets, sometimes at bid levels below our break-even pricing. In addition, traditional competitors on larger transportation and water infrastructure projects also appear to have been bidding at less than normal margins, and in some cases at below our break-even pricing, in order to replenish their backlogs. As a result, we may need to accept lower contract margins in order to compete against competitors that have the ability to accept awards at lower prices or have a pre-existing relationship with a customer.

In addition, if the use of design-build, CM/GC and other alternative project delivery methods continues to increase and we are not able to further develop our capabilities and reputation in connection with these alternative delivery methods, we will be at a competitive disadvantage, which may have a material adverse effect on our financial position, results of operations, cash flows and prospects. If we are unable to compete successfully in our markets, our relative market share and profits could also be reduced.

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

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

We also rely on third-party suppliers to provide most of the materials (including aggregates, cement, asphalt, concrete, steel, pipe, oil and fuel) for our contracts, except in Nevada where we source and produce some of the aggregates we use from quarries in which we have mining rights. We do not own or operate any quarries in Texas, Utah, Arizona, California, or Hawaii. We normally do not bid on contracts unless we have commitments from suppliers for the materials and subcontractors for certain of the services required to complete the contract and at prices that we have included in our bid, except for some construction projects in Nevada where we use aggregates from quarries in which we have mining rights. Thus, to the extent that we cannot obtain commitments from our suppliers for materials and subcontractors for certain of the services, our ability to bid for contracts may be impaired. In addition, if a supplier or subcontractor is unable to deliver materials or services according to the negotiated terms of a supply/services agreement for any reason, including the deterioration of its financial condition, we may suffer delays and be required

to purchase the materials/services from another source at a higher price or incur other unanticipated costs. This may reduce the profit to be realized, or result in a loss, on a contract.

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

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

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

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

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

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

In Nevada, California and Hawaii, a substantial number of our equipment operators and laborers are unionized. Any work stoppage or other labor dispute involving our unionized workforce, or inability to renew contracts with the unions, could have a material adverse effect on our operations and operating results.

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

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

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

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

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

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

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

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

Because all of our construction projects are built outdoors, work on our contracts is subject to unpredictable weather conditions, which could become more frequent or severe if general climatic changes occur. For example, evacuations in Texas due to hurricanes along the U.S. Gulf of Mexico coastal areas can result in our inability to perform work on all Houston-area contracts for several days. Lengthy periods of wet or cold winter weather will generally interrupt construction, and this can lead to under-utilization of crews and equipment, resulting in less efficient rates of overhead recovery. Extreme heat can prevent us from performing certain types of operations. During the late fall to the early spring months of each year, our work on construction projects in Nevada and Utah may also be curtailed because of snow and other work-limiting weather. While revenues can be recovered following a period of bad weather, it is generally impossible to recover the cost of inefficiencies, and significant periods of bad weather typically reduce profitability of affected contracts both in the current period and during the future life of affected contracts. Such reductions in contract profitability negatively affect our results of operations in current and future periods until the affected contracts are completed.

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

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

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

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

Our participation in construction joint ventures exposes us to liability and/or harm to our reputation for failures of our partners.

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

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

customer may terminate the project, which could result in legal liability to us, harm to our reputation and reduction to our profit on a project.

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

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

Due to the size and nature of our construction contracts, one or a few customers have in the past and may in the future represent a substantial portion of our consolidated revenues and gross profits in any one year or over a period of several consecutive years. For example, in 2014, approximately 9.1% of our revenue was generated from North Texas Tollway Authority ("NTTA") and approximately 14.5% was generated by Caltrans. Similarly, our backlog frequently reflects multiple contracts for certain customers; therefore, one customer may comprise a significant percentage of backlog at a certain point in time. Examples of this are TxDOT and Caltrans which comprised 30.6% and 23.2% of our backlog at December 31, 2014, respectively. The loss of business from any one of such customers could have a material adverse effect on our business or results of operations. Also, a default or delay in payment on a significant scale by a customer could materially adversely affect our business, results of operations, cash flows and financial condition.

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

A significant portion of our contracts is built with our own construction equipment rather than leased or rented equipment. To the extent that we are unable to buy construction equipment necessary for our needs, either due to a lack of available funding or equipment shortages in the marketplace, we may be forced to rent equipment on a short-term basis, which could increase the costs of performing our contracts.

The equipment that we own or lease requires continuous maintenance, for which we maintain our own repair facilities. If we are unable to continue to maintain the equipment in our fleet, we may be forced to obtain third-party repair services, which could increase our costs. In addition, the market value of our equipment may unexpectedly decline at a faster rate than anticipated.

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

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

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

Our workers are subject to the usual hazards associated with providing construction and related services on construction sites, plants and quarries. Operating hazards can cause personal injury and loss of life, damage to or destruction of property, plant and equipment and environmental damage. We maintain general liability and excess liability insurance, workers' compensation insurance, auto insurance and other types of insurance all in amounts consistent with our risk of loss and industry practice, but this insurance may not be adequate to cover all losses or liabilities that we may incur in our operations.

Insurance liabilities are difficult to assess and quantify due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, the number of incidents not reported and the effectiveness of our safety program. If we were to experience insurance claims or costs above our estimates, we might be required to use working capital to satisfy these claims rather than to maintain or expand our operations. To the extent that we

experience a material increase in the frequency or severity of accidents or workers' compensation and health claims, or unfavorable developments on existing claims, our operating results and financial condition could be materially and adversely affected.

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

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

Our aggregate quarry lease in Nevada could subject us to costs and liabilities. As lessee and operator of the quarry, we could be held responsible for any contamination or regulatory violations resulting from activities or operations at the quarry. Any such costs and liabilities could be significant and could materially and adversely affect our business, operating results and financial condition.

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

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

We rely on information technology systems to conduct our business, and disruption, failure or security breaches of these systems could adversely affect our business and results of operations.

We rely on information technology ("IT") systems in order to achieve our business objectives. We also rely upon industry accepted security measures and technology to securely maintain confidential information maintained on our IT systems. However, our portfolio of hardware and software products, solutions and services and our enterprise IT systems may be vulnerable to damage or disruption caused by circumstances beyond our control such as catastrophic events, power outages, natural disasters, computer system or network failures, computer viruses, cyber-attacks or other malicious software programs. The failure or disruption of our IT systems to perform as anticipated for any reason could disrupt our business and result in decreased performance, significant remediation costs, transaction errors, loss of data, processing inefficiencies, downtime, litigation and the loss of suppliers or customers. A significant disruption or failure could have a material adverse effect on our business operations, financial performance and financial condition.

Risks Related to Our Financial Results and Financing Plans.

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

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

In particular, as is more fully discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies," we recognize contract revenue using the percentage-of-completion method. Under this method, estimated contract revenue is recognized by applying the percentage of completion of the contract for the period (based on the ratio of costs incurred to total estimated costs of a contract) to the total estimated revenue for the contract. Estimated contract losses are recognized in full when determined. Contract revenue and total cost estimates are reviewed and revised on a continuous basis as the work progresses and as change orders are initiated or approved, and adjustments based upon the percentage of completion are reflected in contract revenue in the accounting period when these estimates are revised. To the extent that these adjustments result in an increase, a reduction or an elimination of previously reported contract profit, we recognize a credit or a charge against current earnings, which could be material.

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

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

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

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

- make distributions, pay dividends and buy back shares;
- incur liens or encumbrances;
- incur other indebtedness;
- guarantee obligations;
- dispose of a material portion of assets;
- engage in a merger with a third party; and
- make acquisitions.

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

We must manage our liquidity carefully to fund our working capital.

The need for working capital for our business varies due to fluctuations in the following amounts, among other factors:

- contract receivables and contract retentions;
- costs and estimated earnings in excess of billings;
- billings in excess of costs and estimated earnings;
- the size and status of contract mobilization payments and progress billings; and
- the amounts owed to suppliers and subcontractors.

We have limited cash on hand and the timing of payments on our contract receivables are difficult to predict. If the timing of payments on our receivables is delayed or the amount of such payments is less than expected, our liquidity and ability to fund working capital could be materially and adversely affected.

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

We had $54.8 million of goodwill recorded on our consolidated balance sheet at December 31, 2014. Goodwill represents the excess of cost over the fair value of net assets acquired in business combinations reduced by any impairments recorded subsequent to the date of acquisition. A shortfall in our revenues or net income or changes in various other factors from that expected by securities analysts and investors could significantly reduce the market price of our common stock. If our market capitalization drops significantly below the amount of net equity recorded on our balance sheet, it might indicate a decline in our fair value and would require us to further evaluate whether our goodwill has been impaired. We perform an annual test of our goodwill to determine if it has become impaired. On an interim basis, we also review the factors that have or may affect our operations or market capitalization for events that may trigger impairment testing. Write downs of goodwill may be substantial. For example, in 2011, our annual test indicated that goodwill was impaired, and as a result we recorded a charge of $67.0 million representing approximately 55% of the $121 million of recorded goodwill prior to the write down. As a result, the Company incurred a significant loss for 2011 and equity declined by $41.8 million. If we were required to write down all or a significant part of our goodwill in future periods our net earnings and equity could be materially and adversely affected.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Our corporate headquarters are located in The Woodlands, Texas, in 12,340 square feet of office space leased with an eight year term. Our executive, finance and accounting offices are located at this facility. We also have an office located in Lafayette, Colorado where we lease a small office for our information technology professionals.

Our TSC office building is located in Houston, Texas, which houses TSC's executive management, project management and finance and accounting offices. The building is located on a seven-acre parcel of land on which the TSC Houston division's equipment repair center is also located. We also own land, have repair facilities and have constructed offices in San Antonio and Dallas.

Our Utah operations leases office space in Draper, Utah, near Salt Lake City, and also repair facilities in West Jordan City, Utah from entities owned primarily by certain officers of RLW. Refer to Note 19 to the consolidated financial statements for additional information regarding related party transactions.

Our Nevada operations leases office space in Sparks, Nevada, and we own our office and repair facilities located on a forty-five acre parcel of land in Lovelock, Nevada. We also lease the right to mine stone and sand at four quarry sites in Nevada. In Nevada, we generally source and produce our own aggregates, either from our own quarries or from other sources near job sites where we enter into short-term leases to acquire the aggregates necessary for the job.

Our Arizona, California and Hawaii operations lease office space in Tempe, Sacramento and Honolulu, respectively.

In order to complete most contracts, we also lease small parcels of real estate near the site of a contract job site to store materials, locate equipment, and provide offices for the contracting customer, its representatives and our employees.

Item 3. Legal Proceedings.

We are and may in the future be involved as a party to various legal proceedings that are incidental to the ordinary course of business. We regularly analyze current information about these proceedings and, as necessary, provide accruals for probable liabilities on the eventual disposition of these matters.

In the opinion of management, after consultation with legal counsel, there are currently no threatened or pending legal matters that would reasonably be expected in the future to have a material adverse impact on our consolidated results of operations, financial position or cash flows.

Item 4. Mine Safety Disclosures.

The information concerning mine safety violations and other regulatory matters required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95.1 of this Annual Report on Form 10-K, which is incorporated by reference.

Executive Officers of the Registrant
(At March 1, 2015)

The following is a list of the Company's three executive officers, their ages, positions, offices and the year they became executive officers together with a brief description of their business experience.

Name	Age	Position/Offices	Executive Officer Since
Paul J. Varello	71	Chairman of the Board of Directors, Chief Executive Officer	2015
Thomas R. Wright	51	Executive Vice President & Chief Financial Officer, Treasurer	2013
Roger M. Barzun	73	Senior Vice President & General Counsel, Secretary	2006

Each executive officer is elected by the Board of Directors and, subject to the terms of any employment agreement he may have with the Company, holds office for such term as the Board of Directors may prescribe, or until his death, disqualification, resignation or removal.

Mr. Varello, who has been a director of the Company since January 2014, and Chairman of the Board of Directors since December 2014, was elected acting Chief Executive Officer after the Company's former President & Chief Executive Officer, Peter E. MacKenna, left the Company on January 31, 2015. Mr. Varello is the Founder and President of Commonwealth Projects, LLC, a project development company specializing in developing LNG projects in the Caribbean Basin and Bermuda. He is the former Founder and Chairman of Commonwealth Engineering & Construction, LLC (CEC) an engineering and construction management company specializing in the design and construction of major capital projects for the oil & gas, refining, alternative fuels, power, and related energy industries, which he sold in 2014. Prior to founding CEC in May 2003, Mr. Varello was Senior Partner of Varello & Associates, a company that provided technical assessments, economic evaluations, estimates and constructability reviews to project lenders, plant operators and engineering companies from September 2001 to May 2003. From May 1990 to September 2001, Mr. Varello was Chairman of the Board and Chief Executive Officer of American Ref-Fuel Company of Houston, Texas. The company was formed as a joint venture of two publicly-traded companies to develop, own and operate plants that convert solid municipal waste into energy. For the eighteen years prior to 1990, Mr. Varello was with Fluor Corporation, a Fortune 500 company that provides engineering, procurement, construction, maintenance, and project management services to a wide range of global clients. Mr. Varello started with Fluor as a project construction manager and rose to President of the Process Sector. Mr. Varello is a Registered Professional Engineer in California, Texas and Louisiana, and holds a Bachelor of Civil Engineering from Villanova University. He is also a graduate of Harvard Business School's Advanced Management Program.

Mr. Wright was elected Executive Vice President & Chief Financial Officer and Treasurer effective September 25, 2013. From February 2011 until he joined the Company, Mr. Wright was Chief Financial Officer of Toronto-based St Mary's/CBM, a leading North American cement and concrete company. Prior to that, from April 2006 to September 2010, he was with Boart Longyear Company, a global drilling services and products manufacturing company, initially as Vice President, Finance, Global Products and Manufacturing, and subsequently as Vice President, Financial Planning and Analysis, Mergers and Acquisitions, Investor Relations, Strategic Planning, and Corporate Communications. Mr. Wright holds an MBA in Finance from the Indiana University.

Mr. Barzun has been an officer of the Company for more than the last five years and also serves as general counsel to other companies from time to time on a part-time basis. He is a member of the bar of New York and Massachusetts.

PART II

Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company’s common stock is traded on the NASDAQ Global Select Market (“NGS”). The table below shows the market high and low closing sales prices of the common stock for 2013 and 2014 by quarter.

	High	Low
Year Ended December 31, 2013		
First Quarter	$11.78	$9.80
Second Quarter	10.97	8.91
Third Quarter	10.50	9.13
Fourth Quarter	12.17	8.67
Year Ended December 31, 2014		
First Quarter	$11.63	$8.67
Second Quarter	9.60	6.78
Third Quarter	9.88	7.46
Fourth Quarter	9.15	5.67

On February 28, 2015, there were 930 holders of record of our common stock.

Dividend Policy.

We have never paid any cash dividends on our common stock. For the foreseeable future, we intend to retain any earnings in our business, and we do not anticipate paying any cash dividends. Whether or not we declare any dividends will be at the discretion of the Board of Directors considering then-existing conditions, including the Company’s financial condition and results of operations, capital requirements, bonding prospects, contractual restrictions (including those under the Company’s “Credit Facility” – the credit facility entered into October 31, 2007 with Comerica Bank), business prospects and other factors that our Board of Directors considers relevant.

Equity Compensation Plan Information.

Certain information about the Company's equity compensation plans is incorporated into Item 12. — Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters from the Company's proxy statement for its 2015 Annual Meeting of Stockholders.

Performance Graph.

The following graph compares the percentage change in the Company’s cumulative total stockholder return on its common stock for the last five years with the Dow Jones US Total Return Index, a broad market index, and the Dow Jones US Heavy Construction Index, a group of companies whose marketing strategy is focused on a limited product line, such as civil construction. Both indices are published in The Wall Street Journal.

The returns are calculated assuming that an investment with a value of $100 was made in the Company’s common stock and in each index at the end of 2009 and that all dividends were reinvested in additional shares of common stock; however, the Company has paid no dividends during the periods shown. The graph lines merely connect the measuring dates and do not reflect fluctuations between those dates. The stock performance shown on the graph is not intended to be indicative of future stock performance.

	December 2009 ($)	December 2010 ($)	December 2011 ($)	December 2012 ($)	December 2013 ($)	December 2014 ($)
Sterling Construction Company, Inc.	100.00	68.13	56.27	51.93	61.29	33.39
Dow Jones US Total Return Index	100.00	116.65	118.22	137.52	182.86	206.53
Dow Jones US Heavy Construction Index	100.00	128.40	105.86	128.54	168.74	125.68

Issuer Purchases of Equity Securities.

In October 2008, the Company announced a share-repurchase program to purchase up to $5 million in shares of common stock. In August 2010, the Company announced an increase to the share-repurchase program to purchase an additional $5 million in shares of common stock, for a total up to $10 million. The specific timing and amount of repurchase will vary based on market conditions, securities law limitations and other factors. There were no repurchases of shares during the three months ended December 31, 2014.

Item 6. Selected Financial Data

The following table sets forth selected financial and other data of the Company and its subsidiaries and should be read in conjunction with both "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," which follows, and "Item 8. Financial Statements and Supplementary Data." Amounts are in thousands, except per share data:

	Years ended December 31,				
	2014	2013	2012	2011	2010
Revenues	$672,230	$556,236	$630,507	$501,156	$459,893
(Loss) Income before income taxes and earnings attributable to noncontrolling interests	$(4,593)	$(68,804)	$17,133	$(51,716)	$36,494
Income tax (expense) benefit	(632)	(1,222)	579	17,012	(10,270)
Net (loss) income	(5,225)	(70,026)	17,712	(34,704)	26,224
Noncontrolling owners' interests in earnings of subsidiaries	(4,556)	(3,903)	(18,009)	(1,196)	(7,137)
Net income (loss) attributable to Sterling common stockholders	$(9,781)	$(73,929)	$(297)	$(35,900)	$19,087
Net income (loss) per share attributable to Sterling common stockholders:					
Basic	$(0.54)	$(4.91)	$(0.26)	$(2.24)	$1.15
Diluted	$(0.54)	$(4.91)	$(0.26)	$(2.24)	$1.13
Weighted average number of common shares outstanding used in computing per share amounts:					
Basic	18,063	16,635	16,421	16,396	16,195
Diluted	18,063	16,635	16,421	16,396	16,563
Cash dividends declared	$--	$--	$--	$--	$--
Balance sheet:					
Total assets	$306,451	$273,018	$331,510	$303,831	$367,131
Long-term debt	$37,021	$8,331	$24,201	$263	$336
Equity attributable to Sterling common stockholders	$133,686	$128,893	$210,148	$213,311	$250,429
Book value per share of outstanding common stock attributable to Sterling common stockholders	$7.11	$7.74	$12.74	$13.07	$15.21
Shares outstanding	18,803	16,658	16,495	16,321	16,468

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview.

We are a company that operates in one segment, heavy civil construction, through our subsidiaries, and which specializes in the building, reconstruction and repair of transportation and water infrastructure in Texas, Utah, Nevada, Arizona, California, Hawaii and other states where we see opportunities. We have strategically expanded our operations, either by establishing an office in a new market, often after having successfully bid on and completed a project in that market, or by acquiring a company that gives us an immediate entry into a market.

Critical Accounting Policies.

On an ongoing basis, the Company evaluates the critical accounting policies used to prepare its consolidated financial statements, including, but not limited to, those related to:

- Revenue recognition
- Contracts receivable, including retainage
- Valuation of long-lived assets and goodwill
- Income taxes
- Segment reporting

Our significant accounting policies are described in Note 1 to the consolidated financial statements, and conform to the Financial Accounting Standards Board's Accounting Standards Codification (or GAAP or ASC).

Use of Estimates.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. 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-lived assets, and income taxes. Management continually evaluates all of its estimates and judgments based on available information and experience; however, actual amounts could differ from those estimates.

Revenue Recognition.

The majority of our construction contracts with our customers are "fixed unit price." Under such contracts, we are committed to providing materials or services required by a contract at fixed unit prices (for example, dollars per cubic yard of concrete poured or per cubic yard of earth excavated). Most of our state and municipal contracts provide for termination of the contract for the convenience of the owner, with provisions to pay us only for work performed through the date of termination.

Revenue from these construction contracts is recognized using the percentage-of-completion accounting method. Under this method, revenue is recognized as costs are incurred in an amount equal to cost plus the related expected profit based on the ratio of costs incurred to estimated final costs. This cost to cost measure is used because

management considers it to be the best available measure of progress on these contracts. Contract costs consist of direct costs on contracts, including labor, materials, amounts payable to subcontractors and those indirect costs related to contract performance, such as indirect salaries and wages, equipment maintenance, repairs, fuel and depreciation, insurance and payroll taxes. Contract cost is recorded as incurred, and revisions in contract revenue and cost estimates are reflected in the accounting period when known. 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 change orders, 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.

Change orders are modifications of an original contract that effectively change the existing provisions of the contract without adding new scope or terms. Change orders may include changes in specifications or designs, manner of performance, facilities, equipment, materials, sites and period of completion of the work. Either we or our customers may initiate change orders.

The Company considers unapproved change orders to be contract variations for which we have customer approval for a change of scope but a price change associated with the scope change has not yet been agreed upon. Costs associated with unapproved change orders are included in the estimated cost to complete the contracts and are treated as project costs as incurred. The Company recognizes revenue equal to costs incurred on unapproved change orders when realization of price approval is probable. Unapproved change orders involve the use of estimates, and it is reasonably possible that revisions to the estimated costs and recoverable amounts may be required in future reporting periods to reflect changes in estimates or final agreements with customers. Change orders that are unapproved as to both price and scope are evaluated as claims.

The Company considers claims to be amounts in excess of agreed contract prices that we seek to collect from our customers or others for customer-caused delays, errors in specifications and designs, contract terminations, change orders that are either in dispute or are unapproved as to both scope and price, or other causes of unanticipated additional contract costs. Revenue from claims is recognized when an agreement is reached with customers as to the value of the claims, which in some instances may not occur until after completion of work under the contract. Costs associated with claims are included in the estimated costs to complete the contracts and are treated as project costs when incurred.

Our contracts generally take 12 to 36 months to complete. The Company generally provides a one to two-year warranty for workmanship under its contracts when completed. Warranty claims historically have been insignificant.

The accuracy of our revenue and profit recognition in a given period is dependent on the accuracy of our estimates of the revenues and costs to finish uncompleted contracts. Our estimates for all of our significant contracts use a highly detailed “bottom up” approach, and we believe our experience allows us to produce reliable estimates. However, our projects can be highly complex, and in almost every case, the profit margin estimates for a contract will either increase or decrease to some extent from the amount that was originally estimated at the time of bid. Because we have a large number of projects of varying levels of size and complexity in process at any given time, these changes in estimates can sometimes offset each other without materially impacting our overall profitability. However, large changes in revenue or cost estimates can have a significant effect on profitability. There are a number of factors that can contribute to changes in estimates of contract cost and profitability. The most significant of these include the completeness and accuracy of the original bid, recognition of costs associated with scope changes, extended overhead due to customer-related and weather-related delays, subcontractor and supplier performance issues, site conditions that differ from those assumed in the original bid (to the extent contract remedies are unavailable), the availability and skill level of workers in the geographic location of the project and changes in the availability and proximity of materials. The foregoing factors, as well as the stage of completion of contracts in process and the mix of contracts at different margins, may cause fluctuations in gross profit between periods, and these fluctuations may be significant. Results for 2014, 2013 and 2012 were adversely affected by revisions to estimated profitability on a number of construction projects. See “Recent Developments Financial Results for 2014, Operational Issues and Outlook for 2015 Financial Results” above and “Results of Operations Fiscal Year Ended December 31, 2014 Compared with Fiscal Year Ended December 31, 2013” for further discussion of the impact on our financial results.

Contracts Receivable, Including Retainage.

Contracts receivable are generally based on amounts billed to the customer. At December 31, 2014 and 2013, contracts receivable included $16.4 million and $18.3 million of retainage, respectively, which is being withheld by customers until completion of the contracts. All other contracts receivable include only balances approved for payment by the customer.

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. 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.

There are certain contracts that are completed in advance of full payment. When the receivable will not be collected within our normal operating cycle, we consider it a long-term contract receivable and it is recorded in "Other assets, net" in our balance sheet. At December 2014 and 2013, there was $5.0 million and $7.8 million recorded, respectively. We consider the credit quality of the borrower to assess the appropriate discount rate to apply and continuously monitor the borrower's credit quality.

As the majority of our construction contracts are entered into with state or municipal government customers, credit risk is minimal. 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.

Contracts receivable are written off based on individual credit evaluation and specific circumstances of the customer, when such treatment is warranted. There was no bad debt expense recorded in 2014 or in 2012. In 2013, the Company wrote off $1.8 million of contracts receivable to bad debt expense which was recorded in "Other operating income, net." During 2014, we recovered $1.0 million of this $1.8 million.

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, 2014 are fully collectible, and accordingly, no allowance for doubtful accounts against contracts receivable is necessary.

Valuation of Long-Lived Assets and Goodwill.

Long-lived assets, which include property, equipment and acquired intangible assets, including goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment evaluations involve fair values and management estimates of useful asset lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management, and this could have a material effect on operating results and financial position. For the years ended December 31, 2014 and 2013, there were no events or changes in circumstances that would indicate an impairment of our long-lived assets.

Goodwill must be tested for impairment at least annually, and we performed our most recent annual impairment test of historical goodwill on October 1, 2014. Based on our one reporting unit, our test indicated there was no impairment of goodwill. See "Segment Reporting" below for further information regarding the determination of our reporting unit. Note 8 to the consolidated financial statements discusses the two valuation approaches used by the Company to determine the fair value of the Company's equity for purposes of evaluating whether there is an indication of goodwill impairment. These valuation approaches are impacted by a number of factors but the key factors are the Company's stock price, the estimated control premium and the estimated forecasted cash flows. The valuation approaches contain uncertainty regarding the estimates used. One of the largest uncertainties relates to local, state and government spending which management expects to increase in the upcoming years. There are a number of other uncertainties with respect to our future financial performance that could impact estimated future cash flows. These are discussed in a number of places including "Item 1A. Risk Factors." We determined that the fair value of the Company's equity was approximately 19% above the carrying value of the Company's equity.

After the annual test was completed, the Company's stock price decreased from $7.54 on October 1, 2014 to $6.39 on December 31, 2014. Due to the decrease in the stock price, we noted that a goodwill impairment triggering event occurred during the fourth quarter of 2014. Therefore, we updated our annual goodwill impairment assessment using the two methods discussed in Note 8. The methods now included fourth quarter information which incorporated the Company's stock price at December 31, 2014 and reduced gross margins used in our discounted cash flow model projections. Based on this revised testing, there was no goodwill impairment and we determined that the fair value of the Company's equity was approximately 13% above the carrying value of the Company's equity.

On January 27, 2015, we announced our preliminary fourth quarter and full year 2014 results and that we were not in compliance with our Credit Facility's tangible net worth covenant as of December 31, 2014.

We believe these announcements negatively impacted the Company's stock price which decreased from $5.52 on January 26, 2015 to $3.97 on January 27, 2015, and has not yet recovered. Due to the decrease in the stock price, we noted that a goodwill impairment triggering event may have occurred in January 2015. We believe an impairment is possible if our stock price does not recover. At this time, we believe that our stock price is undervalued as a result of these announcements and will ultimately recover. However, a modest change in estimated forecasted cash flows, a continued depressed stock price, or declines in other key factors discussed above, could result in an impairment of goodwill. At December 31, 2014, we had goodwill with a remaining carrying amount of approximately $54.8 million.

Income Taxes.

Deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability and, where necessary, establish a valuation allowance.

Valuation allowances are established to reduce deferred tax assets if we determine that it is more likely than not (e.g., a likelihood of more than 50%) that some or all of the deferred tax assets will not be realized in future periods. To assess the likelihood, we use estimates and judgment regarding our future taxable income, as well as the jurisdiction in which this taxable income is generated, to determine whether a valuation allowance is required. Such evidence can include our current financial position, our results of operations, both actual and forecasted results, the reversal of deferred tax liabilities, and tax planning strategies as well as the current and forecasted business economics of our industry. Additionally, we record uncertain tax positions at their net recognizable amount, based on the amount that management deems is more likely than not to be sustained upon ultimate settlement with the tax authorities in the domestic and international tax jurisdictions in which we operate. On the basis of our evaluations, at December 31, 2014 and 2013, a valuation allowance was recorded on our net deferred tax assets and we had no material uncertain tax positions.

If our estimates or assumptions regarding our current and deferred tax items are inaccurate or are modified, these changes could have potentially material impacts on our earnings.

Segment Reporting.

We operate in one segment and have only one reportable segment and one reporting unit component, which is heavy civil construction. In making this determination, the Company considered the discrete financial information used by our Chief Operating Decision Maker ("CODM"). Based on this approach, the Company noted that the CODM organizes, evaluates and manages the financial information around each heavy civil construction project when making operating decisions and assessing the Company's overall performance. The service provided by the Company, in all instances of our construction projects, is heavy civil construction. Furthermore, we considered that each heavy civil construction project has similar characteristics, includes similar services, has similar types of customers and is subject to similar economic and regulatory environments which would allow aggregation of individual operating segments into one reportable segment if multiple operating segments existed.

In addition, the Company noted that even if our local offices were to be considered separate components of our heavy civil construction operating segment, those components could be aggregated into a single reporting unit for purposes of testing goodwill for impairment because our local offices all have similar economic characteristics and are similar in all of the following areas:

- The nature of the products and services — each of our local offices perform similar construction projects — they build, reconstruct and repair roads, highways, bridges, light rail and water, waste water and storm drainage systems.
- The nature of the production processes — our heavy civil construction services rendered in the construction process for each of our construction projects performed by each local office is the same — they excavate dirt, remove existing pavement and pipe, lay aggregate or concrete pavement, pipe and rail and build bridges and similar large structures in order to complete our projects.
- The type or class of customer for products and services — substantially all of our customers are state departments of transportation, cities, counties, and regional water, rail and toll-road authorities. A substantial portion of the funding for the state departments of transportation to finance the projects we construct is furnished by the federal government.
- The methods used to distribute products or provide services — the heavy civil construction services rendered on our projects are performed primarily with our own field work crews (laborers, equipment operators and supervisors) and equipment (backhoes, loaders, dozers, graders, cranes, pug mills, crushers, and concrete and asphalt plants).
- The nature of the regulatory environment — we perform substantially all of our projects for federal, state and municipal governmental agencies, and all of the projects that we perform are subject to substantially similar regulation under U.S. and state department of transportation rules, including prevailing wage and hour laws; codes established by the federal government and municipalities regarding water and waste water systems installation; and laws and regulations relating to workplace safety and worker health of the U.S. Occupational Safety and Health Administration and to the employment of immigrants of the U.S. Department of Homeland Security.

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

Results of Operations.

Backlog at December 31, 2014

At December 31, 2014, our backlog of construction projects was $764 million, as compared to $687 million at December 31, 2013. Our contracts are typically completed in 12 to 36 months. At December 31, 2014, there was approximately $24 million excluded from our consolidated backlog where we were the apparent low bidder, but had not yet been formally awarded the contract or the contract price had not been finalized. Backlog includes $16 million attributable to our share of estimated revenues related to joint ventures where we are a noncontrolling joint venture partner. As discussed further in "Item 1. Business Recent Developments Financial Results for 2014, Operational Issues and Outlook for 2015 Financial Results," our backlog reflects, in part, our recently implemented strategy to target smaller, shorter duration projects with a particular focus on improved gross margins.

We expect that our markets will ultimately recover from the conditions discussed in "Item 1. Business." Furthermore, we believe that the Company is well-established in our particular markets and has a fleet of modern equipment that gives us the ability to perform a broad range of work which will allow us to weather current market conditions and continue to compete successfully for projects as they become available at acceptable profit margin levels. See "Item 1. Business — Our Markets, Customers and Competition" for a more detailed discussion of our markets and their funding sources.

Fiscal Year Ended December 31, 2014 Compared with Fiscal Year Ended December 31, 2013

	2014	2013	% Change
	(Dollar amounts in thousands)		
Revenues	$ 672,230	$ 556,236	20.9 %
Gross profit (loss)	$ 32,421	$ (29,944)	NM
General and administrative expenses	(36,897)	(40,951)	(9.9)
Other income	252	1,737	(85.5)
Operating loss	(4,224)	(69,158)	(93.9)
Gains on sale of securities	--	91	NM
Interest income	754	879	(14.2)
Interest expense	(1,123)	(616)	82.3
Loss before income taxes and earnings attributable to noncontrolling interests	(4,593)	(68,804)	(93.3)
Income tax expense	(632)	(1,222)	(48.3)
Net loss	(5,225)	(70,026)	(92.5)
Noncontrolling owners' interests in earnings of subsidiaries and joint ventures	(4,556)	(3,903)	16.7
Net loss attributable to Sterling common stockholders	$ (9,781)	$ (73,929)	(86.8)
Gross margin (deficit)	4.8 %	(5.4)%	NM
Operating margin (deficit)	(0.6)%	(12.5)%	(95.2)
Contract backlog, end of year	$ 764,000	$ 687,000	11.2

NM – Not meaningful.

Revenues.

Revenues for 2014 increased 20.9% compared with the prior year. This increase is primarily attributable to an increase in the number of projects in progress, largely in our Texas and California markets. However, this increase in revenue was weaker than we anticipated, primarily in our California, Utah and Hawaii markets. The 2013 revenues were adversely affected by the completion of large projects in Utah and to a lesser extent the completion of significant projects in Arizona.

Gross Profit.

Gross profit increased $62.4 million in 2014 compared with the prior year. Gross margin also increased to 4.8% in 2014 from (5.4)% in 2013 primarily due to net downward revisions of estimated revenues and gross margins on construction projects in Texas and Arizona in the prior year. In 2014, timing and weather issues impacted some large projects in our Hawaii and California operations, while spot shortages of commodities, over-stretched sub-contractors and vendors, and intense competition for craft labor continued to pressure our Texas operations which led to a less than anticipated gross profit.

While there are a number of factors which cause the costs incurred and gross profit realized on our contracts to vary, sometimes substantially, from our original projections, the primary factors which resulted in downward revisions in estimates in 2014 were:

- conditions or contract requirements that differed from those assumed in the original bid or contract;
- delays in taking measures to address issues which arose during construction;
- subcontractors performance issues and vendor material spot shortages which caused project progress delays; and
- shortage of skilled labor, particularly in our Texas market.

We may be entitled to claim proceeds related to customer-caused delays, errors in specification and designs or other causes of unanticipated additional costs related to certain projects; however, we cannot predict the amount of claim proceeds or the timing of the receipt of such proceeds. Claims are recognized in revenue when an agreement is reached with the customer as to the value of the claims, which in some instances may not occur until after completion of work under the contract.

At December 31, 2014, we had approximately 116 contracts-in-progress which were less than 90% complete of various sizes, of different expected profitability and in various stages of completion. The nearer a contract progresses toward completion, the more visibility we have in refining our estimate of total revenues (including incentives, delay penalties and change orders), costs and gross profit. Thus gross profit as a percent of revenues can increase or decrease from comparable and sequential quarters due to variations among contracts and depending upon the stage of completion of contracts.

General and administrative expenses.

General and administrative expenses decreased $4.1 million during 2014 to $36.9 million from $41.0 million in 2013. This decrease is due to certain non-recurring costs in 2013 related to employee benefit costs, as well as costs associated with the evaluation and pursuit of potential acquisition opportunities.

As a percentage of revenues, general and administrative expenses decreased to 5.5% in 2014 from 7.4% in 2013. The decrease in the 2014 percentage as compared to 2013 percentage is the result of the decrease in expenses mentioned above and the result of investments made in 2013 in our information systems infrastructure and operational and financial process improvements which allowed us to increase our efficiency without a significant increase in general and administrative expenses.

Income taxes.

Our effective income tax rates for 2014 and 2013 were (13.8)% and (1.8)%, respectively. In 2014 and in 2013, our effective income tax rate varied from the statutory rate primarily as a result of our deferred tax asset valuation allowance.

In order to determine that a valuation allowance was necessary, management assessed the available positive and negative evidence to estimate whether sufficient future taxable income would be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2014. The cumulative three-year period loss that ended in the fourth quarter of 2014 was the result of the write-downs recorded during 2013 and 2014. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth. On the basis of this evaluation, as of December 31, 2014, a valuation allowance of $36.6 million has been recorded on our net deferred tax assets including federal and state net operating losses as they are not likely to be realized. The amount of the deferred tax asset considered realizable could be adjusted if objective negative evidence is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

Net income attributable to noncontrolling interests.

The increase of $0.7 million to $4.6 million from $3.9 million in net income attributable to noncontrolling interest owners for the year ended December 31, 2014 compared with same period in 2013 is primarily related to net income attributable to the 50% noncontrolling interest in Myers. Operations at the Myers subsidiary are conducted primarily in California where Myers has seen significant growth.

Fiscal Year Ended December 31, 2013 Compared with Fiscal Year Ended December 31, 2012

	2013	2012	% Change
	(Dollar amounts in thousands)		
Revenues	$ 556,236	$ 630,507	(11.8)%
Gross profit (loss)	$ (29,944)	$ 47,472	NM
General and administrative expenses	(40,951)	(35,187)	16.4
Unusual items	--	(511)	NM
Other income	1,737	4,217	(58.8)
Operating income (loss)	(69,158)	15,991	NM
Gains on sale of securities	91	785	(88.4)
Interest income	879	1,301	(32.4)
Interest expense	(616)	(944)	(34.7)
Income (loss) before income taxes and earnings attributable to noncontrolling interests	(68,804)	17,133	NM
Income tax (expense) benefit	(1,222)	579	NM
Net income (loss)	(70,026)	17,712	NM
Noncontrolling owners' interests in earnings of subsidiaries and joint ventures	(3,903)	(18,009)	(78.3)
Net loss attributable to Sterling common stockholders	$ (73,929)	$ (297)	NM
Gross margin (deficit)	(5.4)%	7.5 %	NM
Operating margin (deficit)	(12.5)%	2.4 %	NM
Contract backlog, end of year	$ 687,000	$ 656,000	4.7

NM – Not meaningful.

Revenues.

Revenues for 2013 decreased 11.8% compared with prior year. This decrease is primarily attributable to the completion of large projects in Utah and to a lesser extent the completion of significant projects in Arizona. In 2012, a large part of our revenue in Utah related to our share of the results from a construction joint venture in which we were a minority participant. This project was substantially completed in 2012. The revenues generated in our other markets were similar to the revenues generated in the prior year.

Gross Profit.

Gross profit decreased $77.4 million in 2013 compared with the prior year. Gross margin declined to (5.4)% in 2013 from 7.5% in 2012 due to net downward revisions of estimated revenues and gross margins on construction projects in Texas and Arizona. The majority of the write-downs related to three large projects awarded prior to 2012 in Texas, which continued to have a negative impact on profitability.

While there are a number of factors which cause the costs incurred and gross profit realized on our contracts to vary, sometimes substantially, from our original projections, the primary factors which resulted in downward revisions in estimates in 2013 were:

- conditions or contract requirements that differed from those assumed in the original bid or contract;
- lower than expected productivity levels; and
- delays in quickly identifying and taking measures to address issues which arose during production.

At December 31, 2013, we had approximately 102 contracts-in-progress which were less than 90% complete of various sizes, of different expected profitability and in various stages of completion. The nearer a contract progresses toward completion, the more visibility we have in refining our estimate of total revenues (including incentives, delay penalties and change orders), costs and gross profit. Thus gross profit as a percent of revenues can increase or decrease from comparable and sequential quarters due to variations among contracts and depending upon the stage of completion of contracts.

General and administrative expenses.

General and administrative expenses as a percentage of revenues for 2013 increased to 7.4% from 5.7% in 2012. This increase included expenses for an expanded information systems team which was hired in the fourth quarter of 2012 as well as an increase in certain employee benefit costs. The information systems team is expected to generate benefits by upgrading our information systems infrastructure, improving measurement, and focusing on process improvements that will offset their costs in the long-term. Additionally, during 2013, there were costs related to operational and financial process improvements that the Company believes are non-recurring.

Income taxes.

Our effective income tax rates for 2013 and 2012 were (1.8)% and (3.4)%, respectively. Our effective income tax rate varied from the statutory rate in 2013 primarily as a result of our deferred tax asset valuation allowance.

In order to determine that a valuation allowance was necessary, management assessed the available positive and negative evidence to estimate whether sufficient future taxable income would be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2013. The cumulative three-year period loss that occurred in the fourth quarter of 2013 was the result of the significant write-downs recorded during the quarter. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth. On the basis of this evaluation, as of December 31, 2013, a valuation allowance of $28.2 million has been recorded on our net deferred tax assets including federal and state net operating losses as they are not likely to be realized. The amount of the deferred tax asset considered realizable could be adjusted if objective negative evidence or cumulative losses are no longer present, and additional weight may be given to subjective evidence such as our projections for growth. In 2012, our effective tax rate was impacted by net income attributable to noncontrolling interest owners which is taxed to those owners rather than Sterling.

Net income attributable to noncontrolling interests.

The decrease in net income attributable to noncontrolling interest owner in 2013 compared with 2012 is primarily related to net income attributable to the 20% noncontrolling interest owners in RLW. The Company purchased the remaining 20% interest in RLW on December 31, 2012 which has resulted in lower net income attributable to noncontrolling interest owners during 2013. Additionally, the members of RLW, including the Company, agreed to amend RLW's operating agreement effective January 1, 2012 to provide that any goodwill impairment, including the 2011 fourth quarter goodwill impairment, is not to be allocated to RLW for the purpose of calculating the distributions to be made to the RLW noncontrolling interest owners. This amendment resulted in an increase in the net income attributable to RLW's noncontrolling interests of $6.7 million during 2012. This increase had a related tax impact of $2.4 million which increased the tax benefit for 2012.

Historical Cash Flows.

The following table sets forth information about our cash flows and liquidity (amounts in thousands):

	Years Ended December 31,		
	2014	2013	2012
Net cash provided by (used in):			
Operating activities	$(10,513)	$(22,072)	$24,789
Capital expenditures	(13,509)	(14,390)	(37,359)
Proceeds from sale of property and equipment	6,078	6,787	12,464
Acquisition of noncontrolling interest	--	--	(23,144)
Net sales (purchases) of short-term securities	--	48,236	(3,493)
Distributions to noncontrolling interest owners	(1,191)	(3,565)	(10,185)
Net proceeds from stock issuance	14,046	--	--
Net drawdowns (repayment) on the Credit Facility	26,793	(16,204)	24,012
Other	(733)	(62)	(313)
Total increase (decrease) in cash and cash equivalents	$20,971	$(1,270)	$(13,229)

	As of December 31,	
	2014	2013
Cash and cash equivalents	$22,843	$1,872
Working capital	$52,324	$8,686

Operating Activities.

Significant non-cash items included in operating activities include depreciation and amortization expense which was $18.3 million in 2014, $18.7 million in 2013 and $19.0 million in 2012. Depreciation expense has decreased slightly from 2012 to 2014 as a result of our efforts to maintain our current fleet of equipment and supplement it as necessary with leased equipment during seasonal peak operating times.

Besides the net loss in 2014, 2013 and 2012 and the non-cash items discussed above, other significant components of cash flows from operations were:

- contracts receivable increased by $1.7 million and $6.4 million in 2014 and 2013, respectively, and decreased by $4.1 million in 2012 while the net cash flow result of billings in excess of costs and estimated earnings and costs and estimated earnings in excess of billings decreased by $27.6 million in 2014, increased by $21.6 million in 2013, and decreased by $3.7 million in 2012;
- accounts payable increased by $5.2 million in 2014, $13.8 million in 2013 and $7.7 million in 2012;
- accrued compensation and other liabilities decreased by $2.5 million in 2014 and increased by $4.1 million in 2013 and decreased by $2.4 million in 2012; and
- Member’s interest subject to mandatory redemption and undistributed earnings decreased by $1.1 million as a result of an increase in undistributed earnings of $2.1 million and distributions of $3.2 million for the year ended December 31, 2014.

Investing Activities.

Capital equipment is acquired as needed to support increased levels of production activities and to replace retiring equipment. Expenditures for the replacement of certain equipment and to expand our construction fleet totaled $16.7 million in 2014 which includes $3.2 million of financed capital expenditures. Proceeds from the sale of property and equipment totaled $6.1 million for 2014 with an associated net gain of $1.0 million. For the years ended December 31,

2013 and 2012, capital expenditures totaled $14.9 million, which includes $0.5 million of financed capital expenditures, and $37.4 million, respectively, while proceeds from the sale of property and equipment totaled $6.8 million and $12.5 million, respectively, with an associated net gain of $1.8 million and $3.2 million, respectively. The level of expenditure in 2014 increased minimally by $1.8 million from 2013 as a result of management's efforts to optimize utilization of our existing fleet of equipment based on current and projected workloads while supplementing our fleet with leased equipment during seasonal peak operating times.

During 2014, we owned no short-term securities. In 2013 and 2012, we had sales of short-term securities of $48.2 million and net purchases of $3.5 million, respectively. The net sales of short-term securities in 2013 were primarily used to pay the drawdown on our Credit Facility which was used to purchase the remaining 20% RLW interest in December 31, 2012 and also maintain a lower outstanding Credit Facility balance which we use to fund our operations. This sale included all of our short-term investments; therefore, at December 31, 2013, we had no short-term investment securities on our balance sheet.

Financing Activities.

Financing activities in 2014 consisted of net proceeds from our common stock offering of $14.0 million which was used to strengthen our balance sheet. In addition, the net drawdown on our Credit Facility of $26.8 million was used to fund our operating activities. Distributions to noncontrolling interest owners were $1.2 million for the year. Financing activities in 2013 primarily reflected a net repayment of $16.2 million and distributions to noncontrolling interest owners of $3.6 million. Financing activities in 2012 primarily reflected a net drawdown of $24.0 million and distributions to noncontrolling interest owners of $10.2 million. The amount of borrowings associated with the Credit Facility is based on the Company's expectations of working capital requirements.

Liquidity and Sources of Capital.

The need for working capital for our business varies due to fluctuations in:

- contract receivables and contract retentions;
- costs and estimated earnings in excess of billings;
- billings in excess of costs and estimated earnings;
- the size and status of contract mobilization payments and progress billings; and
- the amounts owed to suppliers and subcontractors.

Some of these fluctuations can be significant.

As of December 31, 2014, we had working capital of $52.3 million, an increase of $43.6 million over December 31, 2013. The increase in working capital was the result of the following (amounts in thousands):

Net loss	$(5,225)
Depreciation and amortization	18,348
Capital expenditures	(13,509)
Proceeds from sales of property and equipment, net of gain (loss)	5,083
Distributions to noncontrolling interest owners	(1,191)
Net drawdown on the Credit Facility	26,793
Net proceeds from stock issued	14,046
Other	(707)
Total increase in working capital	$43,638

In addition to our available cash, cash equivalents and cash provided by operations, from time to time, we use borrowings under our Credit Facility with Comerica Bank to finance our capital expenditures and working capital needs.

On October 31, 2007, the Company and its subsidiaries entered into a new Credit Facility with Comerica Bank with a maturity date of October 31, 2012. In December 2009, the Credit Facility was amended to permit the acquisition of RLW and in November 2011, the Credit Facility was amended to extend the maturity date to September 30, 2016. Subject to the conditions under the terms of the Credit Facility, including the financial covenants and further amendments discussed below, up to $40.0 million in borrowings and letters of credit are available under the Credit Facility. Borrowings under the Credit Facility are secured by all assets of the Company, other than proceeds and other rights under our construction contracts which are pledged to our bond surety. At December 31, 2014, there was $34.6 million in borrowing outstanding under the Credit Facility; additionally, there was a letter of credit of $3.0 million outstanding which reduced availability under the Credit Facility to $2.4 million.

The Credit Facility is subject to our compliance with certain covenants, including financial covenants relating to leverage, tangible net worth and asset coverage. The Credit Facility contains restrictions on our 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; and
- Make investments in securities.

At the end of the fourth quarter of 2013, we were not in compliance with the minimum tangible net worth and the leverage ratio financial covenants. As a result, subsequent to year end, we obtained a Waiver and Fourth Amendment to Credit Agreement (the “Fourth Amendment”) with our bank which waived the noncompliance with the financial covenants as of December 31, 2013 and provided less restrictive covenant requirements. The Fourth Amendment also imposed liquidity thresholds that we are required to meet in 2014. Refer to the discussion below of our revised amendment which eased our required liquidity thresholds.

Among other things, the Fourth Amendment reduced the borrowings available to $40 million from the previously available $50 million and has eliminated the option to increase the Credit Facility by an additional $50 million. The Fourth Amendment also modified the existing borrowing interest fee schedule and increased borrowing rates by 50 basis points to 4.75% effective December 31, 2013. In addition, if certain liquidity thresholds are not met in 2014 the interest rate may increase 200 basis points and continue to increase 100 basis points every quarter after 2015 until such thresholds are met. Furthermore, the Fourth Amendment requires the payment of a quarterly commitment fee of 0.75% per annum, which is an increase of 25 basis points, on unused availability.

On April 29, 2014, we obtained an amendment (the “Fifth Amendment”) with our bank which removed a requirement that we raise $20 million of new equity capital by September 30, 2014, in addition to raising $10 million of other liquidity by June 30, 2014, provided that we raise $10 million of new equity capital by May 30, 2014. As discussed below, the Company raised $14.1 million and the cash was used to repay a portion of our outstanding indebtedness under the Credit Facility. The equity raise did not reduce the Company’s borrowing capacity.

In addition, as discussed in Note 16 to the accompanying financial statements, on April 29, 2014, an amended “shelf” registration statement filed by the Company with the SEC became effective. Under the amended shelf registration statement, the Company may offer from time to time any combination of securities described in the prospectus in one or more offerings up to a total of $80 million, the proceeds of which may be used for working capital, capital expenditures and general corporate purposes, including future acquisitions.

On May 6, 2014, we closed a public offering with D.A. Davidson & Co. as sole underwriter (the “Underwriter”), pursuant to which the Underwriter purchased from the Company 2,100,000 shares of the Company’s common stock at a price of $6.90 per share. The net proceeds of $14.0 million from the offering, after deducting underwriting discounts and offering expenses, was used to repay a portion of the indebtedness outstanding under our $40 million revolving credit facility in accordance with the Fifth Amendment mentioned above.

On September 5, 2014, the Company and its lender amended the Credit Facility (the “Sixth Amendment”) which accomplished the following:

- Removed the prohibition against acquisitions and amended the definition of Permitted Acquisition in the Credit Agreement to provide that the Company may, without the lender's consent, but subject to certain restrictions, acquire another entity or its assets for a price of up to $8 million payable in shares of the Company's common stock.
- Modified the Company’s Tangible Net Worth requirement.
- Eliminated the covenant which capped losses per quarter.
- Changed the monthly Covenant Compliance Reports to quarterly reports.

As a result of the fourth quarter loss, we were not in compliance with the tangible net worth covenant related to the Company’s Credit Facility at December 31, 2014. On March 12, 2015, we obtained a waiver and amendment (the “Seventh Amendment”) which includes the following key modifications:

- A reduction in our availability of $5 million for total availability of $35 million as of March 12, 2015;
- A reduction in our availability of $10 million at June 1, 2015, for total availability of $25 million;
- A reduction in our availability of $10 million at September 1, 2015, for total availability of $15 million;

- An increase in our annual interest rate from prime rate plus 150 basis points, or 4.75%, to prime rate plus 350 basis points, or 6.75%;
- The tangible net worth covenant is modified to include $11.3 million of available headroom from the $86.3 million of tangible net worth calculated at December 31, 2014;
- Our first covenant test will begin at the end of April using April annualized figures; and
- A fee of $0.4 million is due in four equal payments. The first payment was due upon execution of the Seventh Amendment and the second, third and fourth payments are due on June 30th, September 30th, and December 31st of 2015, respectively. However, any remaining unpaid fees are waived if at any point during the year we liquidate and terminate our Credit Facility a month before a payment becomes due.

We believe that we will be able to maintain compliance with all covenants under the Seventh Amendment through at least the next twelve months.

Due to the fourth quarter losses, which are largely due to projects constructed in Texas, and our Credit Facility's tangible net worth debt covenant violation, we are monitoring our cash position very closely. If we are unable to return to profitability in the near future we may encounter working capital constraints. If adequate funds are not available, or are not available on acceptable terms, to alleviate our working capital constraints we may be required to sell Company equipment or property to maintain sufficient levels of working capital during our peak operating periods.

Average borrowings under the Credit Facility for the 2014 fiscal year were $16.9 million and the largest amount of borrowings under the Credit Facility was $36.8 million on April 21, 2014. Average borrowings under the Credit Facility for the 2013 fiscal year were $18.6 million and the largest amount of borrowings under the Credit Facility was $37.4 million on July 12, 2013.

Based on our average borrowings for 2014 and our 2015 forecasted cash needs, we continue to believe that the Company has sufficient liquid financial resources to fund our requirements for the next twelve months of operations, including our bonding requirements. Furthermore, the Company is continually assessing ways to increase revenues and reduce costs to improve liquidity. In 2015, our capital expenditures will be less than in 2014 and we are currently scrutinizing our fleet of equipment in order to identify and liquidate underutilized equipment.

Contractual Obligations.

The following table sets forth our fixed, non-cancelable obligations at December 31, 2014:

	Payments due by period			
	< 1	1 - 3	4 – 5	> 5
Total	Year	Years	Years	Years