STERLING CONSTRUCTION CO INC
Form DEF 14A
April 07, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Sterling Construction Company, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed aggregate value of transaction:

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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed**:**

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STERLING CONSTRUCTION COMPANY, INC.

20810 Fernbush Lane
Houston, Texas 77073
(281) 821-9091

NOTICE OF THE 2006 ANNUAL MEETING OF STOCKHOLDERS

Notice is hereby given that the Annual Meeting of Stockholders of Sterling Construction Company, Inc., a Delaware corporation, will be held as follows:

Date:	May 10, 2006
Place:	The offices of Sterling Construction Company, Inc. 20810 Fernbush Lane Houston, Texas 77073
Time:	2:00 p.m., local time
Purposes:	To elect three Class II directors, each to serve for a term of three years and until his successor is duly elected and qualified.
	To consider the approval of an amendment of the Company s 2001 Stock Incentive Plan to increase the number of shares of common stock that may be issued under that plan from 500,000 shares to 1,000,000 shares.
	To consider the ratification of the selection of Grant Thornton LLP as the Company s Independent Auditors for 2006.
	To transact any other business that may properly come before the meeting.

The stockholders of record at the close of business on March 13, 2006 are entitled to notice of the meeting and to vote at the meeting or any adjournment of it.

By Order of the Board of Directors

April 7, 2006

Roger M. Barzun, *Secretary*

You are urged to complete, sign and date the enclosed proxy and to return it in the envelope provided. The execution of a proxy will not affect a record holder s right to vote in person if present at the meeting.

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STERLING CONSTRUCTION COMPANY, INC.
20810 Fernbush Lane
Houston, Texas 77073
(281) 821-9091

2006 PROXY STATEMENT

GENERAL INFORMATION

This Proxy Statement and the enclosed Annual Report on Form 10-K are being sent to stockholders on or about April 10, 2006

In this Proxy Statement, Sterling Construction Company, Inc. is referred to as the Company, and the Board of Directors of the Company is referred to as the Board. This Proxy Statement is being furnished to stockholders in connection with the solicitation of proxies by the Board for the Annual Meeting of Stockholders, which will be held on May 10, 2006 at 2:00 p.m. local time at the Company s offices at 20810 Fernbush Lane, Houston, Texas.

The Record Date. The Company established March 13, 2006 as the date, the Record Date, for the determination of those stockholders of record who are entitled both to notice of the Annual Meeting and to vote at the Annual Meeting. On that date there were 10,495,608 shares of the Company s common stock outstanding.

Voting and Proxy Holders. There are two ways that as a record holder you may vote shares. You may come to the Annual Meeting and vote in person, or you may appoint someone to vote your shares for you by giving that person a proxy. In this Proxy Statement you are being asked to appoint each of Patrick T. Manning, Joseph P. Harper, Sr. and Karen A. Stempinski as your proxy holder to vote your shares at the Annual Meeting or at any adjournment of the meeting.

Voting of Proxies. Your proxy will be voted as you direct if it is properly signed, if it is returned to the Company before the Annual Meeting and if it is not revoked by you before the voting. If no choice is specified on your proxy, it will be voted

FOR the election of the nominees for director listed on the proxy;
FOR the approval of the amendment of the Company s 2001 Stock Incentive Plan; and
FOR the ratification of the selection of the Company s Independent Auditors.

The Board does not know of any proposal that will be presented for consideration at the Annual Meeting other than the election of directors, the amendment of the 2001 Stock Incentive Plan and the ratification of the selection of the Company s Independent Auditors. However, if any other business should come before the meeting, it is the intention of the persons named in the enclosed proxy to vote or otherwise act in accordance with their best judgment.

Revocation of a Proxy. You may revoke a proxy already given in any one of the following ways:

- By delivering to the Secretary of the Company at the Company s address set forth above a written statement to that effect;

- By submitting a later dated proxy; or

- By notifying the chairman of the Annual Meeting that you wish to vote in person and to thereby revoke your proxy.

Quorum, Vote Required and Method of Counting.

Quorum for the Meeting. A quorum must be present in order to hold the Annual Meeting. A quorum consists of the holders of a majority of the shares of common stock issued and outstanding on the Record Date. Holders of shares of common stock who are either present in person or are represented at the meeting by proxy (including holders of shares who abstain or do not vote on one or more of the matters presented for stockholder approval) will be counted for purposes of determining whether there is a quorum at the meeting.

Vote Required. Each share of common stock entitles the record holder to one vote on each of the matters to be voted on at the Annual Meeting. In the election of directors (Proposal 1) the director nominees with the most votes will be elected. The approval of the amendment of the 2001 Stock Incentive Plan (Proposal 2) requires the affirmative vote by the holders of a majority of the shares who are present at the meting in person or represented at the meeting by proxy and who are voting on the proposal. As to the vote on Proposal 3 see *Ratification of the Selection of Independent*

Auditors (Proposal 3), below.

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Method of Counting. Neither the shares of holders who abstain from voting on a particular proposal, nor the shares held in street name by brokers or by nominees who indicate on their proxies that they do not have the discretionary authority to vote those shares on a particular matter, known as broker non-votes, will be counted as votes in favor of a proposal. They will also not be counted as votes cast or shares voting on the matter. As a result, abstentions and broker non-votes will have no effect in the voting on any of the proposals described in this Proxy Statement.

Solicitation of Proxies. The expense of preparing, printing and mailing this Proxy Statement and the enclosed form of proxy and any other solicitation materials will be paid by the Company. In addition to the use of the mails, proxies may be solicited by directors, officers and employees of the Company using personal interviews, telephone calls, facsimiles or e-mail. The Company will also request banks, brokerage houses and other custodians, nominees and fiduciaries to solicit their customers who are beneficial owners of common stock and to forward the solicitation materials to those beneficial owners. The Company will reimburse them for their reasonable out-of-pocket expenses incurred in doing so.

The Annual Report. A copy of the Company s Annual Report on Form 10-K for the year ended December 31, 2005, which has been filed with the Securities and Exchange Commission (SEC), contains financial statements and other information of interest to stockholders. A copy of that Annual Report is enclosed with this Proxy Statement.

ELECTION OF DIRECTORS (Proposal 1)

The Composition of the Board. The by-laws of the Company permit the Board to determine from time to time the number of directors who make up the full Board. The size of the Board is currently set at eight directors. Under the Company s Certificate of Incorporation, directors are divided into three classes with as nearly an equal number of directors in each class as possible. The term of each class is three years, and the terms are staggered so that at each Annual Meeting of Stockholders one class of directors must be elected. A director holds office until the expiration of his or her term and until a successor is elected and qualified unless the director dies, resigns or is removed from the Board.

The Nominees and Continuing Directors.

The following table lists the nominees for director and the directors whose terms continue after the Annual Meeting. Each of the nominees has indicated his willingness to serve if elected, however, if any nominee should be unable to serve, the proxy holder may vote the proxy for a substitute nominee. The Board has no reason to believe that any of the nominees will be unable to serve. The enclosed proxy cannot be voted by the proxy holder for more persons than the number of nominees named in this Proxy Statement.

Nominees	Current Position	Age	Class	Director Since	Term Expires
John D. Abernathy	Director	68	II	1994	2006
Robert W. Frickel	Director	62	II	2001	2006
Milton L. Scott	Director	49	II	2005	2006
Continuing Directors					
Maarten D. Hemsley	Chief Financial Officer, Director	56	III	1998	2007
Christopher H. B. Mills	Director	53	III	2001	2007
Patrick T. Manning	Chairman of the Board & Chief Executive Officer	60	I	2001	2008
Joseph P. Harper, Sr.	President & Chief Operating Officer, Director	60	I	2001	2008
David R. A. Steadman	Director	68	I	2005	2008

Information about the number of shares of common stock of the Company owned by the nominees and the continuing directors can be found under the heading *Stock Ownership Information*, below.

Background of Nominees.

John D. Abernathy. Mr. Abernathy was Chief Operating Officer of Patton Boggs LLP, a Washington D.C. law firm, from January 1995 through May 2004, when he retired. He is a director, Chairman of the Audit Committee and Lead

Director of Par Pharmaceutical Companies, Inc., a publicly-traded drug manufacturer, and a director and Chairman of the Audit Committee of Neuro-Hightech Pharmaceutical, Inc., a publicly-traded development stage drug company. Mr. Abernathy is a certified public accountant. In December 2005, Mr. Abernathy was elected Lead Director by the independent members of the Company s Board of Directors.

Robert W. Frickel. Mr. Frickel is the founder and President of R.W. Frickel Company, P.C., a public accounting firm that provides audit, tax and consulting services primarily to companies in the construction industry. Prior to the founding of the R.W. Frickel Company in 1974, he was employed by Ernst & Ernst. Mr. Frickel is a certified public accountant.

Milton L. Scott . Mr. Scott is currently a consultant to Complete Energy Holdings, LLC, a company of which he was Managing Director until January, 2006 and which he co-founded in January, 2004 to acquire, own and operate power generation assets in the United States. From March 2003 to January 2004, Mr. Scott was a Managing Director of The StoneCap Group, an entity formed to acquire, own and operate power generation assets. From October 1999 to November 2002, Mr. Scott served as Executive Vice President and Chief Administrative Officer at Dynegy Inc., a public company that was a market leader in power distribution, marketing and trading of gas, power and other commodities, midstream services and electric distribution. From July 1977 to October 1999, Mr. Scott was with the Houston office of Arthur Andersen LLP, a public accounting firm, where he served as partner in charge of the Southwest Region Technology and Communications practice. Mr. Scott is currently the Lead Director and chairman of the audit committee of W-H Energy Services, Inc., a NYSE listed company that is in the oilfield services industry.

Background of Continuing Directors.

Maarten D. Hemsley. Mr. Hemsley has been an employee in various capacities and/or a director of the Company and its predecessors since 1988. Mr. Hemsley served as President, Chief Operating Officer and Chief Financial Officer until July 2001, and currently serves as Chief Financial Officer. From January 2001 to May 2002, Mr. Hemsley was also a consultant to, and thereafter has been an employee of, JO Hambro Capital Management Group Limited, or JOHCMG, an investment management company based in the United Kingdom, serving since 2001 as Fund Manager of Leisure & Media Venture Capital Trust, plc, and since February 2005, as Senior Fund Manager of its Trident Private Equity II investment fund. Mr. Hemsley is a director of Tech/Ops Sevcon, Inc., a public company that manufactures electronic controls for electric vehicles, and of a number of privately-held companies in the United Kingdom. Mr. Hemsley is a Fellow of the Institute of Chartered Accountants in England and Wales.

Christopher H. B. Mills. Mr. Mills is a director of JOHCMG. Prior to founding JOHCMG in 1993, Mr. Mills was employed by Montagu Investment Management and its successor company, Invesco MIM, as an investment manager and director, from 1975 to 1993. He is the Chief Executive of North Atlantic Smaller Companies Investment Trust plc, the holder currently of 8.29% of the Company s common stock, and of American Opportunity Trust plc. Mr. Mills also serves as a director of Nationwide Accident Repair Services, PLC, a U.K. public company that repairs motor vehicles, Izodia PLC, a U.K. public company that is an e-commerce software publisher, W-H Energy Services, Inc., a public company that is in the oilfield services industry and Lesco, Inc., a U.S. public company that manufactures and sells fertilizer and lawn products.

Patrick T. Manning. Mr. Manning joined the predecessor of Texas Sterling Construction, L.P., our construction subsidiary, which along with its predecessors we refer to as TSC, in 1971 and led its move from Detroit, Michigan into the Houston market in 1978. He has been TSC s President and Chief Executive Officer since 1998 and the Company s Chairman of the Board of Directors and Chief Executive Officer since July 2001. Mr. Manning has served on a variety of construction industry committees, including the Gulf Coast Trenchless Association and the Houston Contractors Association, where he served as a member of the board of directors and as President from 1987 to 1993. He attended Michigan State University from 1969 to 1972.

Joseph P. Harper, Sr. Mr. Harper has been employed by TSC since 1972. He was Chief Financial Officer of TSC for approximately 25 years until August 2004, when he became Treasurer. In addition to his financial responsibilities, Mr. Harper has performed both estimating and project management functions. Mr. Harper has been a director and the Company s President & Chief Operating Officer since July 2001. Mr. Harper is a certified public accountant.

David R. A. Steadman. Mr. Steadman is President of Atlantic Management Associates, Inc., a management services and investment group. An engineer by profession, he served as Vice President of the Raytheon Company from 1980 until 1987, where he was responsible for commercial telecommunications and data systems businesses in addition to setting up a corporate venture capital portfolio. Subsequent to that and until 1989, Mr. Steadman was Chairman and Chief Executive Officer of GCA Corporation, a manufacturer of semiconductor production equipment. Until April 1, 2006, Mr. Steadman served as Chairman of VISaer, Inc., a provider of software used in the maintenance, repair and overhaul of aircraft; and currently serves as Chairman of Brookwood Companies Incorporated, a major textile converter, dyer and finisher; and as a director of Mathsoft Engineering and Education, Inc., a provider of calculation management software solutions, all privately held companies. Mr. Steadman also serves on the board of directors of two public companies, Aavid Thermal Technologies, Inc., a provider of thermal management solutions for the electronics industry, and as Chairman of Tech/Ops Sevcon, Inc. Mr. Steadman is a Visiting Lecturer in Business Administration at the Darden School of the University of Virginia.

AMENDMENT OF THE 2001 STOCK INCENTIVE PLAN (Proposal 2)

On March 17, 2006, the Board terminated the Company s 1998 Stock Incentive Plan with respect to any future grants or awards under the plan. The Company s two 1994 stock option plans expired by their terms in 2004. As a result, the only stock incentive plan remaining for future grants and awards is the Company s 2001 Stock Incentive Plan, which at March 17, 2006, had only 24,880 shares of common stock available for future stock awards.

Accordingly, on March 17, 2006, the Board also adopted an amendment to the 2001 Plan, subject to stockholder approval, that authorizes the issuance of an additional 500,000 shares of common stock for grants and awards under the 2001 Plan. At that date, participants in the 2001 Plan consisted of four independent directors of the Company, five officers of the Company and 50 employees of the Company and its subsidiaries who are neither directors nor officers of the Company.

Under the employment agreements of Messrs. Manning, Harper, Hemsley and of certain officers of the Company s Sterling General, Inc. subsidiary, the Company is obligated to make stock option grants in July 2006 covering a total of 62,800 shares of common stock. See the information under the heading *New Plan Benefits Table*, below. The amendment of the 2001 Plan will therefore permit the Company to make the required grants under outstanding employment agreements and to that extent, those persons have an interest in the outcome of the vote on this amendment. The amendment will also enable the Company to make awards in the future to assist in attracting and retaining other personnel who have or are expected to contribute to the growth and development of the Company.

The Board recommends a vote *FOR* the approval of the amendment.

Summary of the 2001 Stock Incentive Plan.

The following is a summary of the material features of the Plan, modified to reflect the proposed amendment to increase the number of shares issuable under the Plan. The summary is qualified in its entirety by the full text of the Plan, a copy of which is available for review at the principal executive offices of the Company and will be furnished to any stockholder without charge upon written request to Karen A. Stempinski, Treasurer, at 20810 Fernbush Lane, Houston, Texas 77073.

The 2001 Stock Incentive Plan was adopted by the Board on July 23, 2001 and was approved by stockholders on October 16, 2001. The purpose of the Plan is to advance the interests of the Company s stockholders by enhancing the Company s ability to attract, retain and motivate persons who make (or are expected to make) important contributions to the Company by providing those persons with opportunities for equity ownership and performance-based incentives and thereby to better align the interests of those persons with those of the Company s stockholders. All of the Company s employees, officers, directors, consultants and advisors are eligible to be granted stock options, restricted stock, or other stock-based awards under the Plan. The Company has eight directors and five officers, of whom three are also directors and employees of the Company. The Company together with its subsidiaries has approximately 800 employees.

Stock options may be granted at an exercise price which may be less than, equal to or greater than the fair market value of the common stock on the date of grant. Under present law, however, incentive stock options and options intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code may not be granted at an exercise price less than the fair market value of the common stock on the date of grant (or less than 110% of the fair market value in the case of incentive stock options granted to optionees holding more than 10% of the voting power of the Company). Options granted under the Plan typically will vest over time and can be exercised no more than 10 years after the date of the grant. Annual option grants to independent directors as part of their standard compensation are exercisable in full on the date of grant. See *Board Operations Compensation of Directors*, below.

Restricted stock awards entitle recipients to acquire shares of common stock subject to the right of the Company to repurchase all or part of the shares from the recipient in the event that the conditions specified in the award are not satisfied prior to the end of the restriction period established for the award. Under the Plan, the Board has the right to grant other awards based upon the common stock having the terms and conditions that the Board determines, including the grant of shares based upon certain conditions, the grant of securities convertible into common stock and the grant of stock appreciation rights. To date, the Company has only granted stock options and only at the market price on the date of grant.

The Plan (as amended) provides for the issuance pursuant to the grant of awards of a maximum of 1,000,000 shares of common stock subject to adjustment in the case of stock splits or stock combinations. In order to comply with

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Section 162(m) of the Code, the maximum number of shares with respect to which options may be granted in any calendar year to any one employee under the Plan is 350,000.

The Plan is administered by the Board, which has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the Plan and to interpret its provisions. The Board has delegated that authority to the Compensation Committee as well as the authority to grant awards under the Plan. No consideration is payable to the Company for the grant of a stock option.

The Board may also amend, suspend or terminate the Plan or any part of it at any time as long as no amendment is made without stockholder approval if approval is necessary to comply with any applicable tax or regulatory requirements. Amendments become effective when adopted by the Board, as long as any required stockholder approval has been obtained.

On March 15, 2006, the closing price of the Company s common stock on The Nasdaq National Market was $20.35 per share.

Federal Income Tax Information. Set forth below is a general summary of the federal income tax consequences to the Company and to recipients of awards under the Plan. The following summary is not intended to be exhaustive, does not address certain special federal tax provisions, and does not address state, municipal or foreign tax laws.

Tax Treatment of Non-Statutory Stock Options. Under Section 83 of the Code, persons granted options, or optionees, realize no taxable income when a non-statutory stock option is granted. Instead, the difference between the fair market value of the stock and the option price paid on exercise is taxed as ordinary compensation income as of the date of exercise if the stock is not subject at that time to a substantial risk of forfeiture, as defined in Section 83.

The Company receives no tax deduction on the grant of a non-statutory stock option, but is entitled to a tax deduction when the optionee recognizes taxable income on or after exercise of the option in the same amount as the income recognized by the optionee.

Tax Treatment of Incentive Stock Options. Under Section 422 of the Code, an optionee incurs no federal income tax liability on either the grant or exercise of an incentive stock option. If the stock is held for at least one year after the date of exercise of the option and at least two years after its date of grant, any gain realized on the subsequent sale of the stock will be taxed as long-term capital gain. If the stock is disposed of within a shorter period, the optionee will be taxed, with respect to the gain realized, as if he or she had then received ordinary compensation income in an amount equal to the difference between the fair market value of the stock on the date of exercise of the option and its fair market value on the date on which the option was granted. The balance of the gain realized will be taxed as capital gain, long-term or short-term depending on the holding period since the date of exercise.

The Company receives no tax deduction on the grant or exercise of an incentive stock option, but is entitled to a tax deduction if the optionee recognizes ordinary compensation income on account of a premature disposition of an incentive stock option stock in the same amount and at the same time as the optionee recognizes income.

Tax Treatment of Stock Awards. Generally, an employee who receives an award of stock will recognize taxable income at the time the stock is received and, generally, an employee who receives an award of stock subject to one or more restrictions will not recognize taxable income at the time the stock is received, but will recognize ordinary compensation income when restrictions lapse in an amount equal to the excess of the aggregate fair market value, as of the date the restrictions lapse, over the amount, if any, paid by the employee for the restricted stock. Alternatively, an employee receiving restricted stock may elect, in accordance with Section 83(b) of the Code, to be taxed on the excess of the fair market value of the shares of restricted stock at the time of grant over the amount, if any, paid by the employee, notwithstanding the existence of restrictions on the stock. All those taxable amounts are deductible by the Company at the time and in the amount of the ordinary compensation income recognized by the employee. The full amount of dividends or other distributions of property made on the restricted stock prior to the lapse of the restrictions will constitute ordinary compensation income to the employee, and the Company will be entitled to a deduction at the same time and in the same amount.

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New Plan Benefits. The following table sets forth the currently determinable benefits that will be received under the Plan as amended by the named individuals and groups.

New Plan Benefits Table
2001 Stock Incentive Plan

Name and Position	Number of Shares (1)
Patrick T. Manning Chairman & Chief Executive Officer, director	10,000 (2)
Joseph P. Harper, Sr. President & Chief Operating Officer, director	10,000 (2)
Maarten D. Hemsley Chief Financial Officer, director	2,800 (2)
Executive Group	22,800 (3)
Non-Executive Director Group	-0-
Non-Executive Officer Group	40,000 (2)

(1) All options will have an exercise price that is equal to the market value of a share of common stock on the date of grant.

(2) These shares will be subject to options to be granted in July 2006 pursuant to outstanding employment agreements. They will be incentive stock options to the extent permitted by applicable tax laws, will expire five years from the date of

grant, and will become exercisable in full on July 18, 2007.

(3) These shares consist of the 22,800 shares that will be subject to the options to be granted in July 2006 pursuant to outstanding employment agreements to the three executive officers named above.

RATIFICATION OF THE SELECTION OF INDEPENDENT AUDITORS (Proposal 3)

The Audit Committee has selected Grant Thornton LLP as the Company s independent auditors to perform the audit of the Company s financial statements for 2006. Grant Thornton was also the Company s independent auditors for the year ended December 31, 2005. Grant Thornton is a registered public accounting firm.

Stockholders are being asked to approve the selection of Grant Thornton although ratification is not required by the Company s by-laws or otherwise. The Board is submitting the selection of Grant Thornton for ratification as a matter of good corporate practice. Whether the selection is ratified or not, the Audit Committee in its discretion may select a registered public accounting firm at any time during the year if it determines that to do so would be in the best interests of the Company and its stockholders. See also *Independent Auditor Information*, below.

BOARD OPERATIONS

Communicating with the Board. Interested persons wishing to communicate with the non-employee directors about their concerns or questions about the Company or on other matters may do so by U.S. Mail addressed to The Non-Employee Directors, c/o The Secretary, Sterling Construction Company, Inc., 20810 Fernbush Lane, Houston, TX 77073. These communications will be given to the non-employee directors as received unless they are voluminous, in which case they will be summarized by the Secretary of the Company and the summary will be furnished instead.

Nomination of Directors. In August 2005 the Board established a Corporate Governance & Nominating Committee with responsibilities, among others, to identify and nominate qualified candidates for election to the Board. The Committee has nominated Messrs. Abernathy, Frickel and Scott as Class II directors, the term of which expires at the Annual Meeting, for re-election to the Board. The term of Class III directors expires at the Annual Meeting of Stockholders in 2007, and the term of Class I directors expires at the Annual Meeting of Stockholders in 2008.

Mr. Abernathy is Chairman of the Audit Committee; one of the two Audit Committee Financial Experts; Lead Director of the independent directors; and a member of both the Compensation Committee and the Corporate Governance & Nominating Committee. Mr. Frickel is Chairman of the Compensation Committee. Mr. Scott is a member of the Audit Committee; the other Audit Committee Financial Expert; and a member of the Corporate Governance & Nominating Committee. Information about the background of the nominees for election to the Board is set forth above under the heading *Election of Directors (Proposal 2) Background of Nominees*.

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The Corporate Governance & Nominating Committee seeks to achieve a Board that is composed of individuals who have experience relevant to the needs of the Company and who have a high level of professional and personal ethics. Candidates should also be committed to enhancing stockholder value and should have sufficient time to carry out the duties of a director and member of one or more Board committees. The Committee has not specified any minimum qualifications as such for serving on the Board; however the Committee seeks candidates with business experience in the Company s industry and/or with engineering, financial reporting, corporate governance, senior management or other skills and experience that can be expected to contribute to an effective Board.

The Committee uses a variety of methods for identifying and evaluating nominees for director. Candidates may come to the attention of the Committee through current members of the Board, Company employees, professional search firms, stockholders and other persons, but in any event, the Committee requires and checks multiple references before nominating a candidate for election to the Board.

The Committee has not established a policy regarding the consideration of director candidates recommended by stockholders primarily because no recommendations of that kind have been received by the Company for more than the last ten years. If a stockholder wishes to recommend a person as a director candidate, the stockholder may follow the procedure for communicating with non-employee directors described in this section above under the heading *Communicating with the Board*. Recommendations or nominations for the 2007 Annual Meeting of Stockholders must be received by the date set forth below under the heading *Submission of Stockholder Proposals*.

Director Independence. Five of the eight directors serving on the Board are independent as defined by The Nasdaq Stock Market s rules, and the standing committees of the Board are made up solely of independent directors. To be considered independent a director must also be determined by the Board to not have a material relationship with the Company that would interfere with the exercise of independent judgment, and the Board has made that determination as to each of the Company s current independent directors.

Attendance at Meetings in 2005. The Board held twelve meetings during 2005. Mr. Mills did not attend four of those meetings or one of the meetings of the Audit Committee on which he served until May 2005. Each of the other directors attended more than 75% of the meetings of the Board while he was a director, as well as all meetings of committees of the Board on which he served. Three directors attended last year s Annual Meeting of Stockholders. The Company has adopted a policy to schedule the Annual Meeting of Stockholders to coincide with a regular Board meeting so that all directors can attend the Annual Meeting without the Company incurring extra travel and related expenses.

Committees of the Board. The Board has three standing committees, the Audit Committee, the Compensation Committee and the Corporate Governance & Nominating Committee.

*The Audit Committe*e. The members of the Audit Committee are John D. Abernathy, Chairman, Milton L. Scott and David R. A. Steadman. The Board has determined that Messrs. Abernathy and Scott, whose backgrounds are described above under the heading *Election of Directors (Proposal 1) Background of Nominees*, are the two Audit Committee Financial Experts based on the definition of that term contained in applicable regulations. During 2005, Mr. Mills was a member of the Audit Committee until May 19, 2005 and Robert M. Davies, a former director, was a member of the Audit Committee until December 23, 2005, when he resigned as a director. The Audit Committee meets at least quarterly and held five meetings in 2005. The Board adopted an Audit Committee Charter on February 12, 2004, which is posted on the Company s website at www.sterlingconstructionco.com. A copy of that charter was attached as an appendix to the Company s proxy statement sent to stockholders on April 7, 2005 in connection with the 2005 Annual Meeting of Stockholders.

The Audit Committee assists the Board in fulfilling its responsibility to oversee the Company s accounting and financial reporting processes and the audits of the financial statements. In particular, the Audit Committee has the responsibility to

review financial reports and other financial information, internal accounting and financial controls, controls and procedures relating to public disclosure of information, and the audit of the Company s financial statements by the independent auditors;

appoint independent auditors, approve their compensation, supervise their work, oversee their independence and evaluate their qualifications and performance;

review with management and the independent auditors the audited and interim financial statements that are included in filings with the SEC;

review the quality of the Company s accounting policies;

review with management major financial risk exposures;

review all proposed related party transactions in which the amount involved exceeds $50,000, which are subject to the prior written approval of the committee; and

provide for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Audit Committee Report.

The Audit Committee is responsible for providing oversight of the Company s financial management, its independent auditors, and the financial reporting controls and accounting policies and procedures of the Company. The Company s management is responsible for preparing the Company s financial statements and systems of internal controls, and the independent auditors are responsible for auditing those financial statements and expressing its opinion as to whether they present fairly, in all material respects, the financial position, results of operations and cash flows of the Company in conformity with generally accepted accounting principles.

In fulfillment of its responsibilities, the Audit Committee has reviewed and met and discussed with management and the independent auditors the Company s audited consolidated financial statements. The Audit Committee has discussed with the Company s independent auditors the matters required to be discussed by Statement on Accounting Standards No. 61 *Communication with Audit Committees*. In addition, the Audit Committee has received from the independent auditors the written disclosures and the letter required by Independence Standards Board Standard No. 1 *Independence Discussions with Audit Committees* and discussed with them their independence from the Company and its management.

In reliance on the reviews and discussions described above, the Audit Committee recommended to the Board, and the Board has approved, the inclusion of the Company s audited consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the SEC.

Submitted by the members of the Audit Committee on April 7, 2006

John D. Abernathy, *Chairman*
Milton L. Scott
David R. A. Steadman

The Compensation Committee. The members of the Compensation Committee are Robert W. Frickel, Chairman, and John D. Abernathy. During 2005, Robert M. Davies, a former director, served on the Compensation Committee until December 2005, when he resigned as a director. The Compensation Committee held two meetings in 2005. The Board adopted a Compensation Committee charter on November 2, 2005, which is posted on the Company s website at www.sterlingconstructionco.com.

The Compensation Committee oversees senior level compensation arrangements and has particular responsibility to

review and approve any corporate goals and objectives relating to the chief executive officer s compensation;

evaluate the chief executive officer s performance in light of those corporate goals and objectives;

either as a committee or together with the other independent directors (as directed by the Board), to determine and approve the compensation of the chief executive officer and other senior officers, and together with the boards of directors of the Company s subsidiaries, to determine and approve the compensation of their senior officers;

either as a committee or together with the other independent directors (as directed by the Board), to review and approve any employment agreements, severance arrangements, change-in-control arrangements or special or supplemental employee benefits, and any material amendments to the foregoing, that are applicable to senior officers and, together with the boards of directors of the Company s subsidiaries, that are applicable to their senior officers;

either as a committee or together with the other independent directors (as directed by the Board), to administer the Company s stock plans and make grants of stock options and other awards as provided in those plans;

make recommendations to the Board regarding incentive compensation plans and equity-based plans for other senior officers and those of the Company s subsidiaries;

advise the Corporate Governance & Nominating Committee on the compensation of directors, including the chairman of the board and the chairpersons of the committees of the Board; and

provide the report of the Compensation Committee on Executive Compensation for inclusion in the annual proxy statement pursuant to the rules and regulations of the SEC.

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Report of the Compensation Committee on Executive Compensation.

This report has been prepared by the Compensation Committee of the Board and addresses the Company s compensation policies with respect to the Chief Executive Officer and executive officers of the Company in general for 2005. All members of the Committee are independent under the applicable standards of The Nasdaq Stock Market. During 2005 the Company had no operating business of its own, but was a holding company of other operating businesses.

Compensation Policy. The overall intent of the Compensation Committee is to establish levels of compensation that provide appropriate incentives to executive officers to command a high level of individual performance and thereby increase the value of the Company to its stockholders, and that are sufficiently competitive to attract and retain the skills required for the success and profitability of the Company. The principal components of executive compensation are salary, bonus and stock options. All of the executive officers of the Company are compensated under employment agreements described below under the heading Executive Compensation Employment Contracts & Termination of Employment and Change-in-Control Arrangements.

Chief Executive Officer s Compensation. Mr. Manning received compensation in 2005 under his July 2004 amended employment agreement with the Company and Sterling General, Inc., or SGI, which is the general partner of Texas Sterling Construction, L.P., or TSC. The level of his compensation was determined to be appropriate by the members of the Committee serving at the time based on an analysis of compensation for executives with similar responsibilities at companies of similar size within the heavy civil construction industry together with an evaluation of the nature of the position; the expertise and responsibility that the position requires; Mr. Manning s extensive experience in the construction industry; the generally strong performance of TSC during prior years and the subjective judgment of the members of the Committee of what is a reasonable level of compensation.

Other Executive Officers. In considering the compensation for Mr. Harper under his July 2004 amended employment agreement with the Company and SGI, and Mr. Hemsley s compensation under his July 13 employment agreement with the Company, the Committee followed similar benchmarking and evaluation processes to those applied to Mr. Manning s compensation.

Salary. Since all of the Company s executive officers are long-term employees of the Company or of TSC and its predecessors, their salaries in 2005 were based on the benchmarking procedures described above in respect of Messrs. Manning, Harper and Hemsley, the level of their prior salaries, and the subjective judgment of the members of the Compensation Committees as to the value of the executive s past contribution and potential future contribution to the business.

Bonuses. Bonuses are designed to provide additional incentive to executive officers, including the chief executive officer, to increase the Company s profitability. Accordingly their bonuses are based on achieving and exceeding Board-established levels of defined earnings before interest, taxes and depreciation, and in the case of Mr. Hemsley also on the extent of special tasks undertaken during the year. See Executive Compensation, below.

Stock Options. The Committee believes that stock ownership by executive officers is important in aligning management s and stockholders interests in the enhancement of stockholder value over the long term and/or in providing an incentive to remain in the Company s employ. The exercise price of all outstanding stock option grants is equal to the market price of the common stock on the date of grant. In 2005, options were granted to certain executives in recognition of their past performance.

Submitted by the members of the Compensation Committee on April 7, 2006

Robert W. Frickel, *Chairman*

John D. Abernathy

The Corporate Governance & Nominating Committee. The members of the Corporate Governance & Nominating Committee are David R. A. Steadman, Chairman, John D. Abernathy and Milton L. Scott. During 2005, Robert M. Davies, a former director, was a member of the Committee until December 23, 2005, when he resigned as a director. Milton L. Scott was elected a member of the Committee in March 2006,. The Corporate Governance & Nominating Committee, which was established in August 2005, held one meeting in 2005. Each of Messrs. Steadman, Abernathy and Scott is an independent director under Nasdaq standards. The Board adopted a charter for the Committee on November 2, 2005, which is posted on the Company s website at www.sterlingconstructionco.com.

The Corporate Governance & Nominating Committee assists the Board in fulfilling its responsibility for corporate governance and in particular has the responsibility to

- develop and recommend to the Board appropriate corporate governance principles and rules;
- recommend appropriate policies and procedures to ensure the effective functioning of the Board;
- identify and nominate qualified candidates for election to the Board and its committees;

recommend directors for membership on Board committees;

develop and make recommendations to the Board regarding standards and processes for determining the independence of directors under applicable laws, rules and regulations;

develop and oversee the operation of an orientation program for new directors and determine whether and what form and level of continuing education for directors is appropriate;

periodically review the Company s Code of Business Conduct & Ethics and Insider Trading Policy to ensure that they remain responsive both to legal requirements and to the nature and size of the business; and

set the remuneration for non-employee directors, committee members and committee chairpersons.

Each of the Audit Committee, the Compensation Committee and the Corporate Governance & Nominating Committee is constituted and operates in accordance with the rules of The Nasdaq Stock Market.

Compensation of Directors.

The following table sets forth the standard compensation paid to non-employee directors in 2005.

Annual Fees	
Each Director:	$ 7,500
Each Director at each Annual Meeting of Stockholders:	5,000-share stock option(1)
Additional Annual Fees	
Chairman of the Audit Committee	$7,500
Chairman of the Compensation Committee	$2,500
Chairman of the Corporate Governance & Nominating Committee	$2,500
Meeting Fees (each director)	
Regularly-scheduled in-person Board meeting	$1,250
Regularly-scheduled telephonic Board meeting	$1,000
Other telephonic Board meeting	$ 500
Committee meetings (including the chairman)	$ 750

(1) The stock option is granted at the market price on the date of grant, vests in full on the date of grant and expires on the

tenth
anniversary of
the date of
grant.

During 2005, non-employee directors did not receive any other compensation for any service provided as a director. All directors are reimbursed for their reasonable out-of-pocket expenses incurred in attending meetings of the Board and Board committees. Directors living outside North America, currently only Mr. Mills, have the option of attending regularly-scheduled in-person meetings by telephone, and those who elect to do so are paid an attendance fee as if they had attended in person.

Code of Ethics. The Board has adopted a Code of Business Conduct & Ethics that applies to the Company s principal executive officer, principal financial officer and principal accounting officer as well as to those employees of its direct and indirect subsidiaries who perform similar functions. The Code of Business Conduct & Ethics is posted on the Company s website at www.sterlingconstructionco.com.

Compensation Committee Interlocks and Insider Participation.

During 2005, Robert W. Frickel, John D. Abernathy and Robert M. Davies served on the Compensation Committee. Mr. Davies resigned as a director on December 23, 2005. Prior to July 2001, Mr. Davies was an executive officer of the Company. Mr. Steadman, who is a director of the Company, and Mr. Hemsley, who is a director and executive officer of the Company, are each members of the compensation committee of Tech/Ops Sevcon, Inc., but neither of them are executive officers of that company. None of the Company s executive officers served as a director or member of the compensation committee, or any other committee serving an equivalent function, of any other entity whose executive officers served as a director or member of the Company s Compensation Committee.

The Board of Directors intends that any transactions with officers, directors and affiliates will be entered into on terms no less favorable to the Company than could be obtained from unrelated third parties and that they will be approved by a majority of the Board who are independent and disinterested with respect to the proposed transaction. The Audit Committee reviews in advance all related-party transactions in excess of $50,000. See the relationship with Mr. Frickel described in *Business Relationships Between the Company and its Directors and Officers*, below.

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STOCK OWNERSHIP INFORMATION

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

The percentages listed in the following two tables assume for each person or group the acquisition of all shares as to which beneficial ownership may be acquired by that person or group within sixty days of March 1, 2006 in accordance with Rule 13d-3(d)(1) of the Exchange Act, but not the acquisition of the shares that could be acquired in that period by any other person or group listed.

Certain Beneficial Owners.

The following table sets forth certain information at March 1, 2006 about the beneficial ownership of shares of the Company s common stock by each person, other than the Company s directors and executive officers, known to the Company to own beneficially more than 5% of the outstanding shares of common stock. The address of each of the beneficial holders in the following table is North Atlantic Value LLP, Ryder Court, 14 Ryder Street, London SW1Y 6QB, England.

Name of Beneficial Owner	Number of Outstanding Shares of Common Stock Owned	Shares Subject to Purchase *	Total Beneficial Ownership	Percent of Class
North Atlantic Smaller Companies Investment Trust plc (NASCIT)	870,000 (1)	-0-	870,000	8.29%
Christopher H. B. Mills	870,000 (1)	17,000 (2)	887,000	8.44%
North Atlantic Value LLP	870,000 (1)	-0-	870,000	8.29%

* Shares as to which beneficial ownership may be acquired within sixty days of March 1, 2006 in accordance with Rule 13d-3(d)(1) of the Exchange Act.

(1) Each of NASCIT, Mr. Mills and North Atlantic Value LLP claims shared voting and dispositive power over these shares

in Amendment No. 2 to a Schedule 13G filed with the SEC on February 10, 2006.

(2) These shares may be acquired by Mr. Mills under a stock option granted to him by the Company as shown in the following table. Mr. Mills claims sole voting and dispositive power over these shares in Amendment No. 2 to a Schedule 13G filed with the SEC on February 10, 2006.

The following table sets forth information at March 1, 2006 regarding beneficial ownership of the Company s common stock by each director; the Chief Executive Officer of the Company; the other executive officers of the Company listed in the Summary Compensation Table (below); and all directors and executive officers as a group. The address of each of the individuals listed below is the address of the Company.

Name of Beneficial Owner	Number of Shares of Outstanding Common Stock Owned	Option and/or Warrant Shares Subject to Purchase*	Total Beneficial Ownership	Percent of Class
John D. Abernathy	8,996	95,166	104,162	0.98%
Robert W. Frickel	62,000	17,000	79,000	0.75%
Joseph P. Harper, Sr.	681,367	138,275	819,642	7.71%
Maarten D. Hemsley	80,888	438,924	519,812	4.75%
Patrick T. Manning	207,000	29,380	236,380	2.25%
Christopher H. B. Mills	870,000 (1)	17,000 (1)	887,000	8.44%
Milton L. Scott	-0-	-0-	-0-	N/A
David R. A. Steadman	14,000	5,000	19,000	0.18%
All directors and executive officers as a group (9 persons)	1,938,411	761,745	2,700,156	24.06%