

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

FORM 10-K

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

For the fiscal year ended December 31, 2020

OR

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:

Common Stock, \$0.01 par value per share
(Title of each class)

STRL
(Trading Symbol)

NASDAQ
(Name of each exchange on which registered)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates, based on a NASDAQ closing price of \$10.47 on June 30, 2020 was approximately \$286.4 million.

The number of shares outstanding of the registrant's common stock as of February 26, 2021 – 28,207,557

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 5, 2021 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 Statement Regarding Forward-Looking Statements

This annual report on Form 10-K, including the documents incorporated herein by reference, contains statements that are, or may be considered to be, “forward-looking statements” regarding the Company which represent our expectations and beliefs concerning future events. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995 as set forth in 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. The forward-looking statements included herein or incorporated herein by reference relate to matters that are predictive in nature, 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, and may use or contain words such as “anticipate,” “assume,” “believe,” “budget,” “continue,” “could,” “estimate,” “expect,” “forecast,” “future,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would” and similar terms and phrases.

Forward-looking statements reflect our current expectations as of the date of this annual report on Form 10-K 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 those anticipated, projected or assumed in the forward-looking statements due to a variety of factors. Although it is not possible to identify all of these factors, they include, among others, the following:

- potential risks and uncertainties relating to the ongoing COVID-19 pandemic, including the duration of the COVID-19 pandemic, additional actions that may be taken by governmental authorities to contain the COVID-19 pandemic or to address its impact, including the distribution, effectiveness and acceptance of vaccines, and the potential ongoing or further negative impact of the COVID-19 pandemic on the global economy and financial markets;
- factors that affect the accuracy of estimates inherent in the bidding for contracts, estimates of backlog, and over time revenue recognition accounting policies, including onsite conditions that differ materially from those assumed in the original bid, contract modifications, mechanical problems with machinery or equipment and effects of other risks discussed herein;
- 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;
- 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, including changes in U.S. trade policies and retaliatory responses from other countries, and cost escalations associated with subcontractors and labor;
- changes in costs to lease, acquire or maintain our equipment;
- our dependence on a limited number of significant customers;
- 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 qualify as an eligible bidder under government contract criteria;
- changes in general economic conditions, including a prolonged recession, reductions in federal, state and local government funding for infrastructure services, changes in those governments’ budgets, practices, laws and regulations and adverse economic conditions in our geographic markets, such as those caused by the ongoing COVID-19 pandemic;
- 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;
- design/build contracts which subject us to the risk of design errors and omissions;
- our ability to obtain bonding or post letters of credit;
- our ability to raise additional capital on favorable terms;
- our ability to attract and retain key personnel;
- increased unionization of our workforce or labor costs and any work stoppages or slowdowns;
- adverse weather conditions;
- 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; and
- the other factors discussed in more detail in Item 1A “Risk Factors.”

In reading this annual report on Form 10-K, 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. Investors are cautioned that many of the assumptions upon which our forward-looking statements are based are likely to change after the forward-looking statements are made. Further, we may make changes to our business plans that could affect our results. Although we believe that our plans, intentions and expectations reflected in, or suggested by, the forward-looking statements that we make in this annual report on Form 10-K are reasonable, we can provide no assurance that they will be achieved.

The forward-looking statements included herein are made only as of the date hereof, and we undertake no obligation to update any information contained herein 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 annual report on Form 10-K.

Item 1. Business

Overview of the Company's Business

Sterling Construction Company, Inc. ("Sterling" or "the Company"), operates through a variety of subsidiaries within three segments specializing in Heavy Civil, Specialty Services and Residential projects in the United States (the "U.S."), primarily across the southern U.S., the Rocky Mountain States, California and Hawaii, as well as other areas with strategic construction opportunities. Heavy Civil includes infrastructure and rehabilitation projects for highways, roads, bridges, airfields, ports, light rail, water, wastewater and storm drainage systems. Specialty Services projects include construction site excavation and drainage, drilling and blasting for excavation, foundations for multi-family homes, parking structures and other commercial concrete projects. Residential projects include concrete foundations for single-family homes.

In this report, unless the context otherwise indicates, "Sterling," "the Company," "we," "our" or "us" mean Sterling and its consolidated subsidiaries. In addition, references to "Note" or "Notes" refer to the Notes to the Consolidated Financial Statements, included in Item 8 of Part II of this annual report on Form 10-K, unless indicated otherwise.

Business Strategy

Since 2016, our strategic vision has been based on the following elements and objectives:

Strategic Element	Strategic Objectives
Solidifying the base	Risk Reduction
Growing high margin products	Bottom-Line Growth
Expansion into adjacent markets	Exceed Peer Performance
	Build a Platform for Future Accretive Growth

Solidifying the base—The Company's historic base business is our low-bid heavy highway projects within our Heavy Civil segment. Heavy highway projects typically have gross margins of 7-8%; however, prior to 2016 our gross margin was approximately 4%. In 2016, we implemented a strategy to solidify this base business by improving bid discipline to significantly reduce the probability of project losses. Since implementation, we have improved the heavy highway backlog gross margin to 9.6% as of December 31, 2020, and we expect gross margins to continue improving as projects bid prior to implementing our strategy come to a completion.

Growing high margin products—While solidifying the base is important to the profitability of the Company, the improvement of gross margins is limited due to the highly competitive bidding environment for heavy highway projects. In 2016, we implemented a strategy to shift our project mix from low-bid heavy highway projects to alternative delivery heavy highway projects and other higher margin work (e.g., airports, commercial, piling and shoring). In 2016, our low-bid heavy highway revenue was approximately 79% of our total revenue, but we have progressively brought that down to 21% as of December 31, 2020. The higher margin projects we target have gross margins in the range of 12%-15%.

Expansion into adjacent markets—In 2016, we implemented a strategy to pursue growth through the acquisition of companies and assets that will enable us to broaden the types of projects we execute and also expand into adjacent markets. Since 2016, we have completed two acquisitions and plan to consider other strategic acquisitions in the future. The companies we target for acquisition typically have gross margins of 15% or more. Specifically, we expanded into adjacent markets and broadened the types of projects we execute in 2017 and 2019 through our recent Tealstone and Plateau acquisitions described below.

Recent Acquisitions

Plateau Acquisition—On October 2, 2019, we completed our acquisition of all of the issued and outstanding shares of capital stock of LK Gregory Construction, Inc. and Plateau Excavation, Inc., and all of the issued and outstanding equity interests in DeWitt Excavation, LLC (collectively, "Plateau") for aggregate consideration of \$427.5 million, consisting of \$375 million in cash, a working capital adjustment of \$21.3 million, 1.25 million shares of the Company's common stock, a \$10 million subordinated promissory note that bears interest at 8% and a tax basis election of \$5.0 million. To finance the cash portion of the purchase price, we entered into a Credit Agreement, which is further described in *Note 9 - Debt*. The new Credit Agreement also refinanced and extinguished all of the outstanding indebtedness under our previous Oaktree Facility (entered into in connection with the acquisition of Tealstone, described below).

Plateau is engaged in engineering and executing site development, and their services include surveying, clearing and grubbing, erosion control, grading, grassing, site excavation, storm drainage, sanitary sewer and water main installation, drilling

and blasting, curb and gutter, paving, concrete work and landfill services, in each case to general contractors and developers engaged in construction services, and engineering services relating thereto. The results of Plateau are included within our Specialty Services segment. See *Note 3 - Plateau Acquisition* for further discussion.

Tealstone Acquisition—On April 3, 2017, we completed our acquisition of all of the issued and outstanding stock of Tealstone Commercial, Inc., and Tealstone Residential Concrete, Inc., (collectively, “Tealstone”) from the stockholders thereof (the “Tealstone Sellers”) for consideration totaling \$84 million and up to \$15 million in aggregate earn-out payments based upon achievement of specified financial performance levels. In conjunction with the acquisition of Tealstone, on April 3, 2017, the Company, as borrower, and certain of its subsidiaries, as guarantors, entered into a Loan and Security Agreement with Wilmington Trust, National Association, as agent, and the lenders party thereto (the “Oaktree Facility”), providing for a term loan of \$85 million (the “Loan”) with a maturity date of April 4, 2022, which replaced the then existing debt facility. As noted above, the Credit Agreement entered into in connection with the acquisition of Plateau replaced the Oaktree Facility. See *Note 9 - Debt* for further discussion of our financing arrangements.

Tealstone focuses on concrete construction of residential foundations, parking structures, elevated slabs and other concrete work for leading home builders, multi-family developers and general contractors in both residential and commercial markets.

Segments, Markets and Customers

The Company’s internal and public segment reporting are aligned based upon the services offered by its operating groups, which represent the reportable segments. The Company’s operations consist of three reportable segments: Heavy Civil, Specialty Services and Residential. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and *Note 21 - Segment Information* for further discussion of our business segments.

Heavy Civil—Our Heavy Civil segment relies heavily on federal and state infrastructure spending. The principal markets of this segment are Arizona, California, Colorado, Hawaii, Nevada, Texas and Utah. Within these principal markets, our core customers are the Departments of Transportation (“DOT(s)”) in various states, regional transit authorities, airport authorities, port authorities, water authorities and railroads. In our Heavy Civil segment, four state DOTs accounted for 44% of that segment’s revenue in 2020, 43% in 2019 and 45% in 2018.

Specialty Services—Our Specialty Services segment serves large, blue-chip end users in the e-commerce, data center, distribution center and warehousing, energy, mixed use and multi-family sectors. We are a leading provider of large-scale site infrastructure improvement contracting services and believe we are the largest excavating contractor in the Southeastern U.S. In our Specialty Services segment, four customers accounted for 35% of that segments revenue in 2020.

Residential—Our Residential segment’s principal market is Texas, specifically the Dallas-Fort Worth and Houston areas and the surrounding communities. The core customer base for our Residential segment is primarily made up of leading national home builders as well as regional and custom home builders. In our Residential segment, four customers, including their respective affiliates, accounted for 83% of that segments revenue in 2020, 75% in 2019 and 72% in 2018.

We did not have any customers contribute more than 10% of our consolidated revenues in 2020, however we routinely construct projects for our largest customers mentioned above. If we lost any of these customers, it could have a material adverse effect on our financial results. Refer to Item 1A “Risk Factors” and *Note 19 - Concentration of Risk and Enterprise Wide Disclosures* for the Company’s major customers that represent a concentration of risk due to their significant revenue contributions.

Competition

Competition for our segments ranges from small local contractors to large international construction companies. We traditionally try to position ourselves to bid on work too large for the small local contractors yet too small for the large national and international construction companies. However, if market conditions became less favorable, we would tend to see migration from both the small local contractors and large international players into that mid-level market. This, in return, could increase competitive bidding pressure and reduce both revenue growth and margins. See Item 1A “Risk Factors” for further discussion of risks associated with our competitive environment.

Seasonality

Operations for our segments are typically affected by weather conditions primarily during the first and fourth quarters of our fiscal year, which may alter construction schedules and can create variability in our revenues, profitability and the required number of employees. For additional discussion regarding the potential impacts of seasonality on our business, see Item 1A “Risk Factors—*Adverse weather conditions may cause delays, which could slow completion of our construction activity.*”

Resources

We purchase raw materials for our segments, including but not limited to, cement, aggregate, concrete, liquid asphalt, lumber, steel, diesel and gasoline fuel, natural gas and propane from numerous sources. The price and availability of raw materials may vary from year to year due to fluctuations in market conditions and production capacities.

Backlog

Our remaining performance obligations on our projects are referred to as “Backlog” and represent the amount of revenues we expect to recognize in the future from our contract commitments on Heavy Civil and Specialty Services projects. The value of our Backlog was \$1.2 billion at December 31, 2020, as compared to \$1.1 billion at December 31, 2019. We exclude from Backlog contracts for our Heavy Civil segment where we are the apparent low bidder for projects (“Unsigned Low-bid Awards”) until the contract is executed by our customer (approximately \$356.9 million at December 31, 2020). Our Residential revenue is recognized upon completion at a point in time and therefore is never reflected in our backlog. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Market Outlook and Trends” for discussion and quantification of our Backlog. Also see Item 1A “Risk Factors.”

Contracts

Our contracts are awarded on a competitively bid basis or negotiated bid basis using a range of contracting options, including fixed-unit price, lump sum and cost-reimbursable. Each contract is designed to optimize the balance between risk and reward. At December 31, 2020, substantially all of our backlog was contracted on a fixed-unit price or lump sum basis. We occasionally present claims or change orders to our clients for additional costs exceeding a contract price or for costs not included in the original contract price.

Substantially all of the contracts in our Backlog contain “termination for convenience” clauses which allow the customer to cancel the contract at their election but require that the Company be paid for work performed through the date of termination. 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. See Item 1A “Risk Factors” and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of our types of risk and how we mitigate cancellation and credit risk.

Insurance and Bonding

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

As a normal part of the Heavy Civil business and occasionally with the Specialty Services business, we are 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 bid amount, and on being awarded the bid, must post a performance and payment bond for up to 100% of the costs to construct. Usually, upon posting of the performance bond, a contractor must also post a maintenance bond for generally 1% of the contract amount for one to two years. Our ability to obtain 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. Bonding 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 (“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 these requirements will not change and compliance will not adversely affect our operations in the future. In addition, 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.

Human Capital

At December 31, 2020, the Company had approximately 2,600 employees, comprised of approximately 600 salaried employees and approximately 2,000 hourly employees. The percentage of our employees represented by unions at December 31, 2020 was approximately 13%. We have agreements, which we customarily renew periodically, with various unions representing groups of employees at project sites. We consider our relationships with our employees and the applicable labor unions to be satisfactory.

Our business is dependent upon a readily available supply of management, supervisory and field personnel. Substantially all of our employees are hired on a full-time basis; however, as is typical in the construction industry, we experience a high degree of turnover as construction projects are completed. In the past, we have been able to attract a sufficient number of personnel to support the growth of our operations; however, we continue to face competition for experienced workers in all our markets.

Our employees are important to the success of our business. Hiring, developing and retaining our employees is not only important, but is a necessity for continued growth and delivery at all levels within our organization. Every employee is critical to the success of our organization and we strive daily to ensure that we are managing our workforce’s needs and requirements. We often work in tight labor markets that make hiring and retaining employees challenging. Therefore, it is critical to have a strategic plan for hiring and managing our workforce. We develop hiring practices by geographic area to ensure a customizable recruiting strategy that allows all of our businesses to thrive. Retaining our employees through various means of succession planning and other retention tools is also a critical component of our strategy, particularly for our key positions. Planning for today as well as the future is the cornerstone of our people strategy.

Our focus on diversity is at the forefront of how we operate in each of our locations. We strive to instill an inclusive culture that allows all employees the opportunity to thrive.

As of December 31, 2020, our workforce was comprised of the following race and ethnicity demographics:

Employees as of December 31, 2020	
Hispanic	50.1%
White	40.9%
Black	4.1%
Pacific Islander	2.2%
Other	2.7%

We focus on our safety processes which have allowed us to maintain a high level of safety at our work sites. All employees receive hazard specific training and our newly-hired employees undergo an initial safety orientation and receive follow-up trainings during their first 90 days of employment. Our project managers and superintendents work closely with the safety department to ensure safety is planned into all of our operations before they begin. Daily, our project foremen are required to conduct safety briefings with employees. Regular safety walkthroughs are conducted by our managers, supervisors and safety staff to evaluate project conditions and observe employee safety behavior. During 2020, to address the safety and health of our workforce due to the COVID-19 pandemic, we implemented additional employee health and safety protocols. For the Company's office-based personnel, the Company is social distancing and, where practical, working from home. For personnel onsite at the Company's construction sites, the Company has taken mitigation measures to prevent the spread of COVID-19, including but not limited to, social distancing, wellness checks, providing sanitation stations and wearing personal protective equipment.

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 SEC's website (www.sec.gov) where those reports are filed. Our website also has recent press releases, the Company's code of business conduct, the charters of the audit committee, compensation and talent development committee, and corporate governance and nominating committee of the Board of Directors and information on the Company's "whistleblower" 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 intended to be incorporated into this annual report on Form 10-K by reference.

Item 1A. Risk Factors

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding other statements in this annual report on Form 10-K. The following information should be read in conjunction with Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related Notes in Part II, Item 8 "Financial Statements and Supplementary Data" of this annual report on Form 10-K.

Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below; any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, prospects, financial condition, results of operations, stock price and cash flows. These could also be affected by additional factors that apply to all companies generally which are not specifically mentioned below.

Because of the following factors, as well as other factors affecting our financial condition and operating results, our past financial performance should not be considered to be a reliable indicator of our future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Risks Relating to Our Business

If we do not accurately estimate the overall risks, requirements or costs related to either a Heavy Civil or Specialty Services project when we bid for 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 and from lump sum contracts. Fixed-unit price contracts require us to provide materials and services at a fixed-unit price based on agreed quantities irrespective of our actual per unit costs. Lump sum contracts require the contract work to be completed for a single price irrespective of our actual costs incurred. Given that our revenues per contract are fixed, our ability to achieve contract profitability is dependent upon our ability to avoid cost overruns by accurately estimating our costs and then successfully controlling our actual costs. If our cost estimates for a contract are inaccurate, or if we do not perform 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. As a result, 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 estimates 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 or contract price adjustments;
- 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;
- higher than anticipated costs to lease, acquire and maintain 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;
- rapidly increasing labor costs;
- 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, customers or our own personnel;
- mechanical problems with our machinery or equipment;
- citations issued by any governmental authority, including OSHA;
- 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 execution of a project; 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 a 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. 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.

Substantially all of the contracts in our Backlog contain “termination for convenience” clauses which allow the customer to cancel the contract at their election but require that the Company be remunerated for work performed through the date of termination.

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.

We rely on third party subcontractors to perform some of the work on many of our projects and third party suppliers to provide substantially all of the materials (including aggregates, cement, asphalt, concrete, steel, oil and fuel) for our contracts.

We generally do not bid on contracts unless we have the key subcontractors committed for the anticipated scope of the contract and commitments from suppliers for the significant materials required to complete the contract, in each case at prices that we have included in our bid. To the extent that we are unable to engage subcontractors or obtain commitments from our suppliers for materials, our ability to bid for contracts may be impaired. In addition, if a subcontractor or supplier is unable to deliver its services or materials, in accordance with the agreed terms for any reason, including the deterioration of its financial condition, we may suffer delays and be required to purchase the services or materials 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.

Recent and potential changes in U.S. trade policies and retaliatory responses from other countries may significantly increase the costs or limit supplies of materials and products used in our construction projects involving concrete.

The federal government has imposed new or increased tariffs or duties on an array of imported materials and goods that are used in connection with our construction business, including steel, raising our costs for these items (or products made with them), and has threatened to impose further tariffs, duties and/or trade restrictions on imports. Foreign governments, including China and Canada, and trading blocs, such as the European Union, have responded by imposing or increasing tariffs, duties and/or trade restrictions on U.S. goods, and are reportedly considering other measures. These trading conflicts and related escalating governmental actions that result in additional tariffs, duties and/or trade restrictions could increase our construction costs further, cause disruptions or shortages in our supply chains and/or negatively impact the U.S., regional or local economies, and, individually or in the aggregate, materially and adversely affect our business and result of operations.

We may not accurately assess the quality, and we may not accurately estimate the quantity, availability and cost, of aggregates we need to complete a project, particularly for projects in rural areas.

Particularly for projects in rural areas, we may estimate the quality, quantity, availability and cost for aggregates (such as sand, gravel, crushed stone, slag and recycled concrete) from sources that we have not previously used as suppliers, 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. If we fail to accurately assess the quality, quantity, availability and cost of aggregates, it could cause us to incur losses, which could materially adversely affect our results of operations.

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.

We service a significant portion of our contracts 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 utilize our own facilities to maintain the equipment in our fleet, we may be forced to obtain third party repair services, which could increase our costs.

We are dependent on a limited number of significant customers.

Due to the size and nature of our 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. 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. The loss of business or a default or delay in payment from any one of these customers could have a material adverse effect on our business, results of operations, cash flows and financial condition.

See *Note 19 - Concentration of Risk and Enterprise Wide Disclosures* for the Company's major customers that represent a concentration of risk due to their significant revenue contributions.

The 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 considerations, such as shorter contract schedules or prior experience with the customer and reputation. Within our geographic markets, we compete with many international, national, regional and local construction firms. Several of these competitors have achieved greater geographic market penetration than we have in the geographic markets in which we compete, and several of our competitors have greater financial and other resources than we do. In addition, a number of international and national companies in our industry that are larger than we are and that currently do not have a significant presence in our geographic markets, if they so desire, could establish a presence in our geographic markets and compete with us for contracts.

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 Heavy Civil business relies on highly competitive and highly regulated state or local government contracts.

State and local government funding for public works projects is limited, thus creating a highly competitive environment for the limited number of public projects available. In addition, state and local government contracts are subject to specific procurement regulations, contract provisions and a variety of regulatory requirements relating to their formation, administration, performance and accounting. Many of these contracts include express or implied certifications of compliance with applicable laws and contract provisions. As a result, any violations of these regulations could bring about litigation and could cause termination of other existing state or local government contracts and result in the loss of future state or local government contracts. Due to the significant competition in the marketplace and the level of regulations on state or local government contracts, we could suffer reductions in new projects and see lower revenues and profit margins on those projects, which could have a material adverse effect on the business, operating results and financial condition.

Our Heavy Civil business depends on our ability to qualify as an eligible bidder under state or local government contract criteria and to compete successfully against other qualified bidders in order to obtain state or local government contracts.

State and local government agencies conduct rigorous competitive processes for awarding many contracts. Some contracts include multiple award task order contracts in which several contractors are selected as eligible bidders for future work. We will potentially face strong competition and pricing pressures for any additional Heavy Civil contract awards from other government agencies, and we may be required to qualify or continue to qualify under various multiple award task order contract criteria. Our inability to qualify as an eligible bidder under state or local government contract criteria could preclude us from competing for certain other government contract awards. In addition, our inability to qualify as an eligible bidder, or to compete successfully when bidding for certain state or local government contracts and to win those Heavy Civil contracts, could materially adversely affect our business, operations, revenues and profits.

Our Heavy Civil business is susceptible to economic downturns and reductions in state or local government funding of infrastructure projects.

Our business is highly dependent on the amount and timing of infrastructure work funded by various governmental entities, which, in turn, depend 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. For example, 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 since we are reliant upon contracts with state transportation departments for a significant portion of our revenues.

Refer to our “Business—Segments, Markets and Customers” section within Item 1 for a more detailed discussion of our geographic markets, and refer to Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Market Outlook and Trends” for a discussion of our current expectations regarding federal spending.

Our Specialty Services business, as well as the industries of many of our customers upon whom we are dependent, is susceptible to economic downturns, including periods of slower than anticipated economic growth and the risk of a new recession.

Demand for our Specialty Services business is cyclical and may be vulnerable to economic downturns, interest rate fluctuations or other adverse developments in the credit markets, and reductions in private industry spending, the effects of which may cause our customers to delay, curtail or cancel proposed and existing projects. A number of factors can adversely affect the industries we serve, including, among other things, financing or credit availability, potential bankruptcies, global and U.S. trade relationships or other geopolitical events. A reduction in cash flow or the lack of availability of debt or equity financing for our customers could cause our customers to reduce their spending for our services or affect the ability of our customers to pay amounts owed to us.

Most of our significant contracts can be canceled on short notice.

Our contracts generally have clauses that permit the cancellation of the contract unilaterally and at any time as long as the customer pays for the work already completed. A cancellation of an unfinished contract could cause our equipment and work crews to be idle 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.

The homebuilding industry is cyclical and susceptible to downward changes in general economic or other business conditions which could adversely affect our Residential projects, including foundations for single-family and multi-family homes.

The Residential homebuilding industry is sensitive to changes in economic conditions and other factors, such as the level of employment, consumer confidence, consumer income, availability of financing and interest rate levels. Adverse changes in any of these conditions generally, or in the markets where we operate, could decrease demand and pricing for new homes in these areas or result in customer cancellations of pending contracts, which could adversely affect the number of Residential concrete projects we have or reduce the prices we can charge for these projects, either of which could result in a decrease in our revenues and earnings that could materially adversely affect our results of operations.

We cannot predict with certainty the overall trajectory of the U.S. housing market or the duration of trends due to changes in conditions that are beyond our control, including, but not limited to:

- Rising interest rates;
- Economic recession or downturn;
- Shortage of lots available for development;
- Changes in demographics and population migration that impair the demand for new housing;
- Labor shortages, especially craft labor, and rising costs of labor; and
- Changes in the tax laws that reduce the benefits of home ownership.

Our participation in 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 in part 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 reduce 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.

At December 31, 2020, there was approximately \$522.6 million of construction work to be completed on unconsolidated construction joint venture contracts, of which \$234.2 million represented our proportionate share. As of December 31, 2020, we

are not aware of any situation that would require us to fulfill responsibilities of our joint venture partners pursuant to the joint and several liability under our contracts.

We may not be able to recover on claims or change orders against clients for payment or on claims against subcontractors for performance.

We occasionally present claims or change orders to our clients for additional costs exceeding a contract price or for costs not included in the original contract price. Change orders are modifications of an original contract that effectively change the provisions of the contract without adding new provisions. They generally include changes in specifications or design, facilities, equipment, materials, sites and periods for completion of work. Claims are amounts in excess of the agreed contract price (or amounts not included in the original contract price) that we seek to collect for customer-caused delays, errors in specifications and designs, contract terminations or other causes of unanticipated additional costs. These costs may or may not be recovered until the claim is resolved. In addition, we may have claims against subcontractors for performance or non-performance related issues which resulted in additional costs on a project. In some instances, these claims can be the subject of lengthy legal proceedings, and it is difficult to accurately predict when they will be fully resolved. A failure to promptly document and negotiate a recovery for change orders and claims could have a negative impact on our cash flows and overall ability to recover change orders and claims, which would have a negative impact on our financial condition, results of operations and cash flows.

We may fail to meet schedule or performance requirements of our contracts.

In most cases, our contracts require completion by a scheduled acceptance date. Failure to timely complete a project could result in additional costs, penalties or liquidated damages being assessed against us, and these could exceed projected profit margins on the contract.

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

We could be liable for a design error or omission that causes or contributes to damages with respect to one of our design-build projects. Although by contract 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 Heavy Civil projects may have a material adverse effect on our financial position, results of operations and cash flows. Performance problems on existing and future Heavy Civil 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.

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 bonding to our customers to secure our performance under our contracts. Our ability to obtain bonding primarily depends upon our capitalization, working capital, borrowing capacity under our credit facilities, past performance, management expertise and reputation and certain external factors, including the overall capacity of the credit market. Bonding companies and banks 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 financial 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.

Timing of the award and performance of new contracts may fluctuate.

It is generally very difficult to predict whether and when new contracts will be offered for tender, as our 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.

Our business depends on our ability to attract and retain talented employees.

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 management, project managers, estimators, supervisors, foremen, equipment operators and laborers for each of our subsidiaries. The loss of the services of any of our subsidiaries' management-level personnel 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. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution.

We may be subject to unionization, work stoppages, slowdowns or increased labor costs.

In Arizona, California, Hawaii and Nevada, a substantial number of our equipment operators and laborers are unionized. Additional groups of our employees may also unionize in the future. If at any time, a significant amount of our employees unionized, it could limit the flexibility of the workforce and could result in demands that might increase our operating expenses and adversely affect our profitability. Each of our different employee groups could unionize at any time and would require separate collective bargaining agreements. If any group of our employees were to unionize and we were unable to agree on the terms of their collective bargaining agreement or we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. In addition, we may be subject to disruptions by organized labor groups protesting our non-union status. Any of these events would be disruptive to our operations and could have a material adverse effect on our business, operating results and financial condition.

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 as well as negative reputational impacts relating to health and safety matters.

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. In addition, if our safety record were to substantially deteriorate over time or were to suffer substantial penalties or criminal prosecution for violation of health and safety regulations, our customers could cancel our contracts or not award us future business.

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 results of operations and financial condition could be materially and adversely affected.

If we are unable to comply with applicable immigration laws, our ability to successfully complete contracts 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 undocumented immigrants who work for us. Our failure to identify undocumented 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 results of operations and financial condition.

Environmental and other regulatory matters, including those relating to climate change, 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 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. 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, growing concerns about climate change may result in the imposition of additional environmental regulations. Such legislation or restrictions could increase the costs of projects for us and our clients or, in some cases, prevent a project from going forward, thereby potentially reducing the need for our services which could in turn have a material adverse effect on our operations and financial condition. Generally, environmental 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 leases in Utah and Nevada could subject us to costs and liabilities. As lessee and operator of the quarries, we could be held responsible for any contamination or regulatory violations resulting from activities or operations at the quarries. Any such costs and liabilities could be significant and could materially and adversely affect our business, operating results and financial condition.

Adverse weather conditions may cause delays, which could slow completion of our construction activity.

Because all of our construction projects are performed 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, in 2017 Hurricane Harvey caused damage and disruption that resulted in our inability to perform work on all Houston-area contracts for several days and in some cases several weeks. Future evacuations due to hurricanes along the coastal areas can delay our performance of work on contracts for several days or weeks or longer. 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 the Rocky Mountain States 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.

We rely on information technology systems to conduct our business, which are subject to disruption, failure or security breaches.

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 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.

The COVID-19 pandemic could disrupt the Company’s operations and adversely affect its business, results of operations and financial condition.

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic, and on March 13, 2020, the U.S. President announced a National Emergency relating to COVID-19. Federal, state and local authorities have advised social distancing and many imposed shelter-in-place and stay-at-home orders, including some mandatory business closures. Authorities in some areas of the U.S. began to relax these quarantine and isolation measures in the second quarter of 2020. The country, including areas where the Company does business, later experienced multiple periods of resurgence of the numbers of cases of the virus in both the third and fourth quarters of 2020. Authorities have reacted to these resurgences by deferring the phasing out of these restrictions and in some instances, re-imposing quarantine and isolation measures during the fourth quarter of 2020. The U.S. Food and Drug Administration has authorized three COVID-19 vaccines for emergency use; however, even with widespread distribution and acceptance of these vaccines, their long-term efficacy is unknown. Consequently, the measures taken have had, and are expected to continue to have, serious adverse effects on the U.S. and global economies of an unknown severity and duration. This outbreak, which has continued to spread worldwide, has adversely

affected workforces, customers, economies and financial markets globally. While the Company has not incurred significant disruptions thus far from the COVID-19 pandemic, the pandemic may impact our business, consolidated results of operations and financial condition in the future. However, the significance of the impact on our operations going forward is not yet certain and depends on numerous evolving factors that the Company may not be able to accurately predict or effectively respond to, including, without limitation: the duration and scope of the outbreak, actions taken by governments, businesses and individuals in response to the outbreak, the effect on economic activity and actions taken in response, the effect on customers and their demand for the Company's products and services, the ability of our subcontractors to perform under their contracts due to their own financial or operational difficulties, the availability of subcontractors and other talent, the speed and effectiveness of responses to combat the virus, including vaccine efficacy, distribution and widespread public acceptance, and the Company's ability to continue operations, including without limitation as a result of supply chain challenges, facility closures, social distancing, restrictions on travel, fear or anxiety by the populace and shelter-in-place orders.

Risks Related to Our Financial Results, Financing and Liquidity

Our use of over time revenue recognition (formally known as percentage-of-completion method) accounting related to our Heavy Civil and Specialty Services projects could result in a reduction or elimination of previously reported revenue and profits.

As is more fully discussed in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates," we recognize Heavy Civil and Specialty Services contract revenue over time. This method is used because management considers the cost-to-cost measure of progress to be the best measure of progress on these contracts.

Under this method, estimated contract revenue is recognized by applying the cost-to-cost measure of progress 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. Contract estimates are based on various assumptions to project the outcome of future events that often span several years. These assumptions include labor productivity and availability, the complexity of the work to be performed, the cost and availability of materials and the performance of subcontractors. Changes in job performance, job conditions and estimated profitability, including those changes arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined. These adjustments could result in both increases and decreases in profit margins or losses. Actual results could differ from estimated amounts and could result in a reduction or elimination of previously recognized earnings. In certain circumstances, it is possible that such adjustments could be significant and could have an adverse effect on our business. 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 not be able to fully realize the revenue value reported in our Backlog.

Backlog as of December 31, 2020 totaled \$1.2 billion for our Heavy Civil and Specialty Services segments. Backlog develops as a result of new awards, which represent the potential revenue value realizable pursuant to new project commitments received by us during a given period. Backlog is measured and defined differently by companies within our industry. We refer to "Backlog" as the unearned revenue we expect to earn in future periods on our executed Heavy Civil and Specialty Services contracts. As the construction on our projects progresses, we increase or decrease Backlog to take into account newly signed contracts, revenue earned during the period and our estimates of the effects of changes in estimated quantities, changed conditions, change orders and other variations from previously anticipated contract revenues, including completion penalties and incentives. We cannot guarantee that the revenue projected in our Backlog will be realized, or if realized, will result in earnings.

Given these factors, our Backlog at any point in time may not accurately represent the revenue that we expect to realize during any period, and our Backlog as of the end of a fiscal year may not be indicative of the revenue we expect to earn in the following fiscal year. Inability to realize revenue from our Backlog could have an adverse effect on our business.

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 the condition of our business and our operating results; such factors may adversely affect our efforts to arrange additional financing on terms satisfactory to us and makes us more vulnerable to adverse economic and competitive conditions.

We have pledged the proceeds and other rights under our Heavy Civil and Specialty Services contracts to our bonding agent, and we have pledged substantially all of our other assets as collateral in connection with our Credit Agreement. 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 Agreement, we must obtain the consent of our lenders to incur additional debt from other sources (subject to certain limited exceptions).

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.

In connection with the Plateau Acquisition, we incurred a substantial amount of indebtedness, and the agreements governing such indebtedness contain various covenants and other provisions that impose restrictions on our ability to operate and manage our business.

As a result of borrowing funds for the Plateau Acquisition, we have a higher level of indebtedness; specifically, as of December 31, 2020, our aggregate principal amount outstanding under our credit facility (“Credit Facility,” as defined below) was \$355 million. The Credit Facility will mature on October 2, 2024. While we currently believe we will have the financial resources to meet or refinance our obligations when they come due, we cannot fully anticipate our future performance or financial condition, the future condition of the credit markets or the economy generally.

The Credit Agreement governing the indebtedness incurred by us in connection with the Plateau Acquisition contains certain subsidiary guarantees, which are secured by a first priority security interest in substantially all assets directly owned by such subsidiaries and us, subject to certain exceptions and limitations. The Credit Agreement contains various affirmative and negative covenants that may, subject to certain exceptions, restrict the ability of us and our subsidiaries to, among other things, grant liens, incur additional indebtedness, make loans, advances or other investments, make non-ordinary course asset sales, declare or pay dividends or make other distributions with respect to equity interests, purchase, redeem or otherwise acquire or retire capital stock or other equity interests, or merge or consolidate with any other person, among various other things.

In addition, the Credit Agreement contains financial covenants that require us and certain of our subsidiaries to maintain certain financial ratios and to prepay outstanding loans under the Credit Agreement in certain cases with proceeds from the issuance of additional debt, asset dispositions, events of loss and excess cash flows. These requirements could limit our cash flow or impair our ability to conduct business and pursue business strategies, which could have a material adverse effect on our results of operations, cash flows or financial condition. The ability of us and our subsidiaries to comply with these provisions may be affected by events beyond our and their control. Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could accelerate our debt repayment obligations, which in turn may trigger cross-acceleration or cross-default provisions in other debt or bonding agreements. The Credit Agreement also contains a cross-default provision. This provision could have a wider impact on liquidity than might otherwise arise from a default of a single debt instrument. Our available cash and liquidity would not be sufficient to fully repay borrowings under all of our debt instruments that could be accelerated upon such an event of default.

Further, our level of indebtedness could have important other consequences to our business, including the following:

- limiting our flexibility in planning for, or reacting to, changes in the industry in which we operate;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to fund future working capital and capital expenditures because of the need to dedicate a substantial portion of our cash flows from operations to payments on our debt service;
- placing us at a competitive disadvantage compared to our competitors that have less debt;
- limiting our ability to borrow additional funds or refinance existing debt; or
- requiring that we pledge substantial collateral, which may limit flexibility in operating our business and restrict our ability to sell assets.

We may elect to borrow, continue or convert certain term or revolving loans under our Credit Agreement to bear interest at an annual rate of one-, two-, three-, six- or, if available, twelve-month London Interbank Offered Rate (“LIBOR”), plus 4.5% per annum. Accordingly, increases in interest rates could have a material adverse effect on our business operations, financial performance and financial condition.

The financial industry is currently transitioning away from LIBOR as a benchmark for the interbank lending market. While an orderly transition to a new benchmark is expected, a universal approach has not been adopted. It is uncertain as to the nature of any replacement rate and whether it will gain widespread market acceptance. Because certain loans under our Credit Agreement may bear interest calculated by reference to LIBOR, we may be impacted by this transition, including by:

- the effect of uncertainty regarding the interest rate calculation before replacement benchmark is published regularly and gains widespread market acceptance; or
- the risk that differences in the administration or determination methodology of the replacement benchmark may affect the amount of interest payments.

Our strategy, which includes expanding into adjacent markets, may not be successful.

We may pursue growth through the acquisition of companies or assets that will enable us to broaden the types of projects we execute and also expand into new markets. We have completed several acquisitions and plan to consider strategic acquisitions in the future. We may be unable to implement this growth strategy if we cannot identify suitable companies or assets or reach agreement on potential strategic acquisitions on acceptable terms. Moreover, an acquisition involves certain risks, including:

- difficulties in the integration of operations, systems, policies and procedures;
- enhancements in our controls and procedures including those necessary for a public company may make it more difficult to integrate operations and systems;
- failure to implement proper overall business controls, including those required to support our growth, resulting in inconsistent operating and financial practices at companies we acquire or have acquired;
- termination of relationships with the key personnel and customers of an acquired company;
- additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, financial reporting and internal controls;
- the incurrence of environmental and other liabilities, including liabilities arising from the operation of an acquired business or asset prior to our acquisition for which we are not indemnified or for which the indemnity is inadequate;
- disruption of or receipt of insufficient management attention to our ongoing business; and
- inability to realize the cost savings or other financial benefits that we anticipate.

To service our indebtedness and to fund working capital, we will require a significant amount of cash. Our ability to generate cash depends on many factors that are beyond our control, including the fact that adverse capital and credit market conditions may affect our ability to meet liquidity needs, access to capital and cost of capital.

Our ability to generate cash, outside of funds available through our revolving credit facility (“Revolving Credit Facility,” as defined below), is subject to our operational performance, as well as general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We may be unable to expand our credit capacity, which could adversely affect our operations and business. Earnings from our operations and our working capital requirements can vary from period to period based primarily on the mix of our projects underway and the percentage of project work completed during the period. Capital expenditures may also vary significantly from period to period. We cannot provide assurance that our business will generate sufficient cash flow from operations or asset sales or that we can obtain future borrowing capacity in an amount sufficient to enable us to pay our indebtedness, to fund working capital requirements or to fund our other liquidity needs. Without sufficient liquidity, we will be forced to curtail our operations, and our business will suffer.

In the event we cannot generate enough cash to satisfy our liquidity needs, we may have to seek additional financing. The Credit Agreement, subject to certain exceptions, restricts our ability to incur additional financing indebtedness. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects if the level of our business activity decreased due to a market downturn. The domestic and worldwide capital and credit markets may experience significant volatility, disruptions and dislocations with respect to price and credit availability. Should we need additional funds or to refinance our existing indebtedness, we may not be able to obtain such additional funds. If internal sources of liquidity prove to be insufficient, we may not be able to successfully obtain additional financing on favorable terms, or at all.

We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot provide assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. Our inability to refinance our debt on commercially reasonable terms also could have a material adverse effect on our business. If we experience operational difficulties, we may need to increase our available borrowing capacity or seek amendments to the terms of our Credit Agreement. There can be no assurance that we will be able to secure any additional capacity or amendment to our Credit Agreement or to do so on terms that are acceptable to us, in which case, our costs of borrowing could rise and our business and results of operations could be materially adversely affected.

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:

- receivables;
- contract retentions;
- contract assets;
- contract liabilities;
- the size and status of contract mobilization payments and progress billings; and
- the amounts owed to suppliers and subcontractors.

We may have limited cash on hand and the timing of payments on our contract receivables is 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.

We may be required to write down all or part of our goodwill and intangibles.

We had approximately \$192 million of goodwill and \$245 million of intangibles recorded on our Consolidated Balance Sheet at December 31, 2020. 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. Intangible assets are recognized as an asset apart from goodwill if it arises from contractual or other legal rights or if it is separable, that is, it is capable of being separated or divided from the acquired business and sold, transferred, licensed, rented or exchanged (whether there is intent to do so). 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 or intangible assets have been impaired. We perform an annual test of our goodwill and periodic assessments of intangible assets to determine if they have 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 and intangible assets may be substantial. If we were required to write down all or a significant part of our goodwill and/or intangible assets in future periods, our net earnings and equity could be materially adversely affected.

General Risk Factor

Failure to maintain adequate financial and management processes and internal controls could lead to errors in our financial reporting.

The accuracy of our financial reporting is dependent on the effectiveness of our internal controls. We are required to provide a report from management to our shareholders on our internal control over financial reporting that includes an assessment of the effectiveness of these controls. Internal control over financial reporting has inherent limitations, including human error, the possibility that controls could be circumvented or become inadequate because of changed conditions, resource challenges and fraud. Because of these inherent limitations, internal control over financial reporting might not prevent or detect all misstatements or fraud. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, otherwise fail to prevent financial reporting misstatements, or if we experience difficulties in implementing internal controls, our business and operating results could be harmed, and we could fail to meet our financial reporting obligations. Please refer to Item 9A of this annual report on Form 10-K for further information.

Item 1B. Unresolved Staff Comments

None.

Item 2. *Properties*

We own or lease properties in locations throughout the United States to conduct our business. We believe these facilities are adequate to meet our current and near-term requirements. The following list summarizes our principal properties by segment for which they are primarily utilized: Heavy Civil, Specialty Services, Residential and Corporate:

Location	Type of Facility	Interest	Segment(s)
The Woodlands, TX	Administrative	Leased	Corporate
San Antonio, TX	Administrative and equipment yard	Owned	Heavy Civil
Dallas, TX	Administrative and equipment yard	Leased	Heavy Civil
Sparks, NV	Administrative and operations	Owned/Leased	Heavy Civil
Phoenix, AZ	Administrative and operations	Leased	Heavy Civil
Sacramento, CA	Administrative, operations and repair facility	Owned/Leased	Heavy Civil
Houston, TX	Administrative and equipment yard	Owned	Heavy Civil
Draper, UT ⁽¹⁾	Administrative and operations	Leased	Heavy Civil and Specialty Services
Austell, GA	Administrative, operations and equipment yard	Owned/Leased	Specialty Services
Winter Garden, FL	Administrative and operations	Owned/Leased	Specialty Services
Denton, TX	Administrative and operations	Leased	Residential and Specialty Services

⁽¹⁾ The leased office space in Draper, UT is owned by companies which are principally owned by the President of our Heavy Civil segment and his family members. Refer to *Note 20 - Related Party Transactions* for additional information.

All of our wholly-owned assets are encumbered, see *Note 9 - Debt* for further discussion on debt and our current credit agreements.

Item 3. *Legal Proceedings*

The Company, including its construction joint ventures and its consolidated 50% owned subsidiaries, is now and may in the future be involved as a party to various legal proceedings that are incidental to the ordinary course of business. The Company regularly analyzes current information about these proceedings and, as necessary, provides 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 to have a material adverse impact on the Company's Consolidated Results of Operations, Financial Position or Cash Flows.

Item 4. *Mine Safety Disclosures*

Not applicable.

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 under the trading symbol “STRL”. On February 26, 2021, there were 753 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, and we do not anticipate paying any cash dividends. Additionally, our Credit Agreement restricts the payout of dividends. Whether or not we declare any dividends will be at the discretion of our Board of Directors considering then-existing conditions, including our financial condition and results of operations, capital requirements, bonding prospects, contractual restrictions (including those under our Credit Agreement), 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 2021 Annual Meeting of Stockholders.

Stock Repurchase Plan Information

On November 2, 2018, the Board of Directors approved a plan that authorized stock repurchases of up to 2 million shares of the Company’s common stock. Under the plan, the Company may repurchase its common stock in the open market or through privately negotiated transactions at such times and at such prices as determined to be in the Company’s best interest. The Company accounts for the repurchase of treasury shares under the cost method. This repurchase program expired on June 30, 2020. The Company repurchased zero and 250 thousand shares of its common stock during fiscal years 2020 and 2019, respectively. As mentioned in *Note 9 - Debt*, the Company’s Credit Agreement entered into on October 2, 2019 contains a covenant that limits the repurchase of common shares.

Issuer Purchases of Equity Securities

The following table shows the monthly number of shares of the Company’s common stock the Company repurchased from employees in the quarter ended December 31, 2020. These shares were repurchased from employees holding shares of the Company’s common stock that had been awarded to them by the Company and that were released from Company-imposed transfer restrictions. The repurchase was to enable the employees to satisfy the Company’s tax withholding obligations triggered by the release of the restrictions. The repurchase was made at the election of the employees pursuant to a procedure adopted by the Compensation and Talent Development Committee of the Board of Directors.

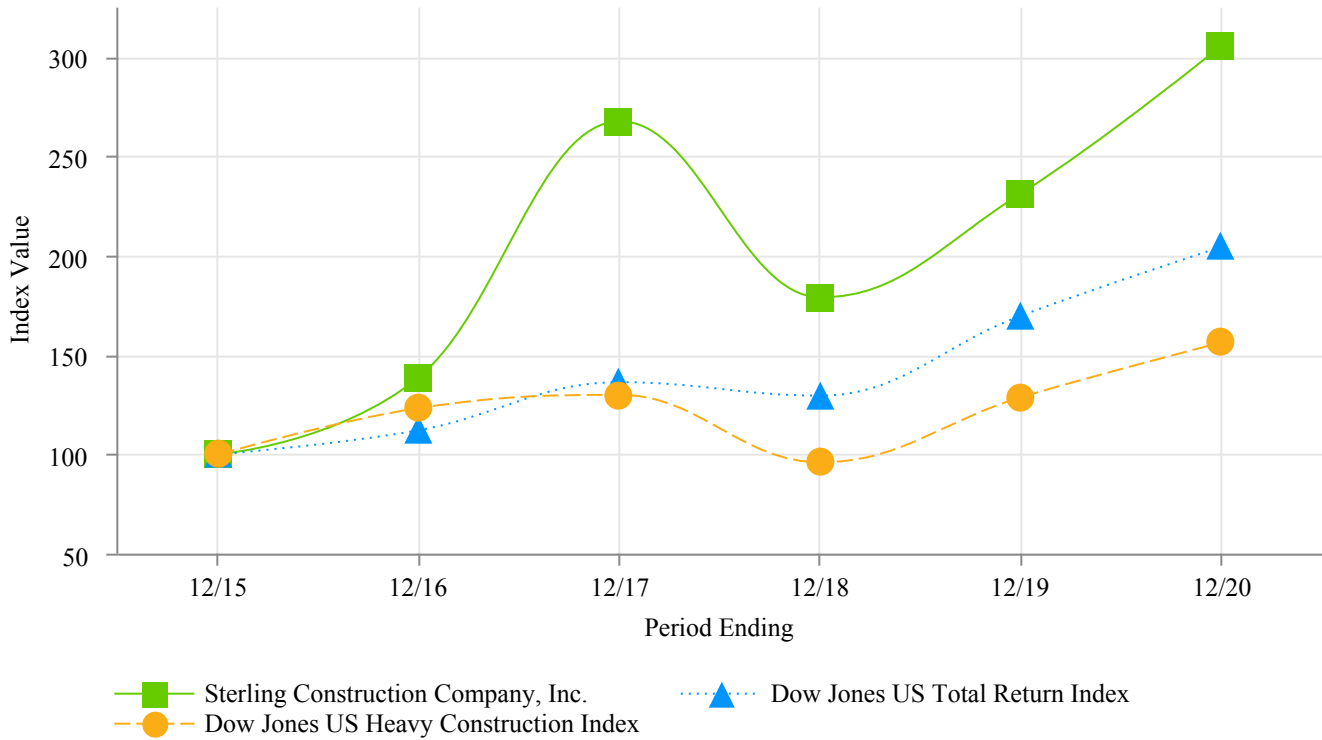
Period	Total Number of Shares Purchased	Average Price Paid Per Share
October 1 – October 31, 2020	—	\$ —
November 1 – November 30, 2020	1,101	\$ 15.99
December 1 – December 31, 2020	—	\$ —
Total	1,101	\$ 15.99

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 heavy 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 2015 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.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among Sterling Construction Company, Inc., the Dow Jones US Total Return Index and
the Dow Jones US Heavy Construction Index**



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The table below depicts the five-year performance of \$100 invested on December 31, 2015 in stock or index, including reinvestment of dividends.

	December 2015	December 2016	December 2017	December 2018	December 2019	December 2020
Sterling Construction Company, Inc.	\$ 100.00	\$ 139.14	\$ 267.76	\$ 179.11	\$ 231.58	\$ 306.09
Dow Jones US Total Return Index	\$ 100.00	\$ 112.25	\$ 136.38	\$ 129.60	\$ 169.96	\$ 204.63
Dow Jones US Heavy Construction Index	\$ 100.00	\$ 123.36	\$ 129.98	\$ 96.04	\$ 128.84	\$ 156.43

Item 6. [Reserved]

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

The following "Management's Discussion and Analysis of Financial Condition and Results of Operations" is provided to assist readers in understanding our financial performance during the periods presented and significant trends that may impact our future performance. This discussion should be read in conjunction with our Consolidated Financial Statements and the related notes thereto.

OVERVIEW

General—Sterling Construction Company, Inc. operates through a variety of subsidiaries within three segments specializing in Heavy Civil, Specialty Services and Residential projects in the United States (the "U.S."), primarily across the southern U.S., the Rocky Mountain States, California and Hawaii, as well as other areas with strategic construction opportunities. Heavy Civil includes infrastructure and rehabilitation projects for highways, roads, bridges, airfields, ports, light rail, water, wastewater and storm drainage systems. Specialty Services projects include construction site excavation and drainage, drilling and blasting for excavation, foundations for multi-family homes, parking structures and other commercial concrete projects. Residential projects include concrete foundations for single-family homes.

Plateau Acquisition—On October 2, 2019, we completed our acquisition of all of the issued and outstanding shares of capital stock of LK Gregory Construction, Inc. and Plateau Excavation, Inc., and all of the issued and outstanding equity interests in DeWitt Excavation, LLC (collectively, "Plateau") for aggregate consideration of \$427.5 million. Plateau is engaged in engineering and executing site development, and their services include surveying, clearing and grubbing, erosion control, grading, grassing, site excavation, storm drainage, sanitary sewer and water main installation, drilling and blasting, curb and gutter, paving, concrete work and landfill services, in each case to general contractors and developers engaged in construction services, and engineering services relating thereto. The results of Plateau are included within our Specialty Services segment. See *Note 3 - Plateau Acquisition* for further discussion.

Impact of COVID-19—The Company continues to monitor closely the actual and expected impacts of the COVID-19 pandemic on our business, financial condition and results of operations. Sterling's business has been identified as a component of "Essential Critical Infrastructure" per the National Cybersecurity and Infrastructure Agency, and to date, we have not experienced significant shutdowns of project sites or operational interruptions. Consistent with governmental orders and public health guidelines, the Company has continued to operate across its footprint. For the Company's office-based personnel, the Company is social distancing and, where practical, working from home. For personnel onsite at the Company's construction sites, the Company has taken mitigation measures to prevent the spread of COVID-19, including but not limited to, social distancing, wellness checks, providing sanitation stations and wearing personal protective equipment. While the Company has not incurred significant disruptions thus far from the COVID-19 pandemic, the pandemic may impact our business, consolidated results of operations and financial condition in the future. However, the significance of the impact on our operations going forward is not yet certain and depends on numerous evolving factors as discussed further in Part I, Item 1A "Risk Factors" in this annual report on Form 10-K.

MARKET OUTLOOK AND TRENDS

Heavy Civil—Sterling's Heavy Civil business is primarily driven by federal, state and municipal funding. Federal funds, on average, provide 50% of annual State Department of Transportation (DOT) capital outlays for highway and bridge projects. Several of the states in Sterling's key markets have instituted actions to further increase annual spending. In November 2020, various state and local transportation measures were passed securing, and in some cases increasing funding of major initiatives in Texas (\$7.5 billion) and California (\$520 million). In addition to the state locally funded actions, the \$305 billion 2015 federally funded Fixing America's Surface Transportation ("FAST") Act increased the annual federal highway investment by 15.1% over a five-year period from 2016 to 2020. In September 2020, Congress passed a one-year extension of the FAST Act which added an additional \$13.6 billion to the Highway Trust Fund. In October 2018, the Federal Aviation Administration reauthorized \$3.35 billion annually through 2023. This reauthorization also includes more than \$1 billion a year for airport infrastructure grants and about \$1.7 billion for disaster relief. Multiple infrastructure proposals are currently underway in both the federal House and the Senate. If passed, these bills could add additional multi-year funding for highways, rail and airports starting in late 2021 or early 2022.

Specialty Services—Sterling's Specialty Services business is primarily driven by investments from end users and developers. Key end users, including Amazon, Facebook, and Home Depot, have continued implementing publicly announced multi-year capital infrastructure campaigns. In our primary market in the southeastern United States, and specifically Georgia, the availability rate is at 6.5% and for nine consecutive quarters over 20 million square feet of new construction has commenced. The outlook for the multi-family market continues to decline, as developers face economic concerns due to the COVID-19 pandemic and the availability and affordability of starter single family homes continues to rise.

Residential—Continuing revenue growth of the Company’s Residential business is directly related to the growth of new home starts in its key markets. The Company’s core customer base is primarily made up of leading national home builders as well as regional and custom home builders. The Company has continued its expansion of the residential business into the Houston market and surrounding areas.

BACKLOG

At December 31, 2020, our Backlog of construction projects, made up of our Heavy Civil and Specialty Services segments, was \$1.2 billion, as compared to \$1.1 billion at December 31, 2019. The contracts in Backlog are typically completed in 6 to 36 months. Contracts in which we are the apparent low bidder for projects (“Unsigned Low-bid Awards”) are excluded from Backlog until the contract is executed by our customer. Unsigned Low-bid Awards were \$356.9 million at December 31, 2020 and \$273.5 million at the end of 2019. The combination of our Backlog and Unsigned Low-bid Awards, which we refer to as “Combined Backlog” totaled \$1.5 billion and \$1.3 billion as of December 31, 2020 and 2019, respectively. Backlog includes \$234.2 million and \$161.4 million attributable to our share of estimated revenues related to joint ventures where we are a noncontrolling joint venture partner at December 31, 2020 and 2019, respectively. We anticipate that approximately 64% of our Backlog will be recognized as revenues during 2021, with substantially all remaining recognized in the twelve months following.

Contracts-in-progress which were not substantially complete totaled approximately 200 at December 31, 2020 and 2019. These contracts are 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.

We anticipate that our markets will continue to improve, driven by the conditions discussed in Item 1 “Business.” Furthermore, we believe that the Company is well established in our particular markets and has the management depth and experience which gives us the ability to perform a broad range of work that will allow us to succeed in current market conditions and to continue to compete successfully for projects as they become available at acceptable profit margin levels.

Backlog and gross margin:

<i>(In thousands)</i>	Backlog	Gross Margin in Backlog
Fourth quarter of 2020	\$1,175,388	12.0%
Third quarter of 2020	\$1,238,141	12.4%
Second quarter of 2020	\$1,133,814	12.9%
First quarter of 2020	\$1,190,120	12.7%
Fourth quarter of 2019	\$1,068,025	11.5%

Our margin in Backlog has increased from 11.5% at December 31, 2019 to 12.0% at December 31, 2020, and our Combined Backlog margin increased from 11.0% at December 31, 2019 to 11.8% at December 31, 2020, driven by project mix of Heavy Civil and Specialty Services awards.

RESULTS OF OPERATIONS

Consolidated Results

Summary—For 2020, the Company had operating income of \$94.9 million, income before income taxes of \$65.4 million, net income attributable to Sterling common stockholders of \$42.3 million and net income per diluted share attributable to Sterling common stockholders of \$1.50.

Consolidated financial highlights for 2020 as compared to 2019 are as follows:

<i>(In thousands)</i>	Years Ended December 31,	
	2020	2019
Revenues	\$ 1,427,412	\$ 1,126,278
Gross profit	191,369	107,794
General and administrative expenses	(71,415)	(49,200)
Intangible asset amortization	(11,436)	(4,695)
Acquisition related costs	(1,026)	(4,311)
Other operating expense, net	(12,600)	(11,837)
Operating income	94,892	37,751
Interest, net	(29,216)	(15,544)
Loss on extinguishment of debt	(301)	(7,728)
Income before income taxes and noncontrolling interests	65,375	14,479
Income tax (expense) benefit	(22,471)	26,216
Less: Net income attributable to noncontrolling interests	(598)	(794)
Net income attributable to Sterling common stockholders	\$ 42,306	\$ 39,901
Gross margin	13.4 %	9.6 %

Revenues—Revenues increased \$301.1 million, or 26.7% in 2020 compared to the prior year. The increase was driven by a \$296.1 million increase in Specialty Services due to the inclusion of a full year of results from Plateau, which was acquired on October 2, 2019, and an \$11.6 million increase in Residential, partly offset by a \$6.5 million decrease in Heavy Civil.

Gross profit—Gross profit increased \$83.6 million, or 77.5%, in 2020 compared to the prior year. The Company's gross margin as a percent of revenue increased to 13.4% in 2020, as compared to 9.6% in the prior year. The increases in gross profit and gross margin as a percent of revenue are primarily driven by Specialty Services due to the inclusion of a full year of results from Plateau operations in 2020.

General and administrative expenses—General and administrative expenses increased \$22.2 million during 2020 to \$71.4 million from \$49.2 million in the prior year. This increase is primarily due to the inclusion of a full year of results from Plateau operations in 2020 and higher stock compensation and other corporate related costs.

Intangible asset amortization—Intangible asset amortization increased \$6.7 million during 2020 to \$11.4 million from \$4.7 million in the prior year, as a result of the acquisition of Plateau.

Acquisition related costs—The Company had acquisition related costs of \$1.0 million and \$4.3 million in the years ended 2020 and 2019, respectively, all of which related to the acquisition of Plateau.

Other operating expense, net—Other operating expense, net, includes 50% of earnings and losses related to Members' interest of consolidated 50% owned subsidiaries, earn-out expense, and other miscellaneous operating income or expense. Members' interest earnings are treated as an expense and increase the liability account. The change in other operating expense, net, was an increase of \$0.8 million during 2020 compared to the prior year. Members' interest earnings increased by \$1.3 million during 2020 to \$11.1 million from \$9.8 million in the prior year, as a result of improved margin mix from our 50% owned subsidiaries. Earn-out expense decreased by \$0.5 million during 2020 to \$1.5 million from \$2.0 million in the prior year.

Interest expense—Interest expense was \$29.4 million in 2020 compared to \$16.7 million in the prior year. The increase is due to borrowings related to the acquisition of Plateau.

Income taxes—The effective income tax rate was 34.4% in 2020 and there was a tax rate benefit in the prior year. The increase is primarily due to a reduction in the tax valuation allowance that reduced the effective income tax rate in 2019, additional state taxes in 2020 primarily related to Plateau, and an increase of non-deductible stock based compensation expense. Due to its net operating loss carryforwards, the Company had no cash payments for federal income taxes for 2020 or 2019. See *Note 13 - Income Taxes* for more information.

Segment Results

<i>(In thousands)</i>	Years Ended December 31,			
	2020	% of Revenues	2019	% of Revenues
Revenues				
Heavy Civil	\$ 753,824	52%	\$ 760,325	67%
Specialty Services	508,894	36%	212,824	19%
Residential	164,694	12%	153,129	14%
Total Revenues	<u>\$ 1,427,412</u>		<u>\$ 1,126,278</u>	
Operating Income				
Heavy Civil	\$ 4,536	0.6%	\$ 3,316	0.4%
Specialty Services	70,583	13.9%	18,207	8.6%
Residential	20,799	12.6%	20,539	13.4%
Subtotal	95,918	6.7%	42,062	3.7%
Acquisition related costs	(1,026)		(4,311)	
Total Operating Income	<u>\$ 94,892</u>	6.6%	<u>\$ 37,751</u>	3.4%

Heavy Civil

Revenues—Revenues were \$753.8 million for 2020, a decrease of \$6.5 million or 1%, compared to the prior year. The decrease was driven by lower aviation and other revenue, partly offset by higher heavy highway and water containment/treatment revenue in 2020 compared to the prior year.

Operating income—Operating income was \$4.5 million for 2020, an increase of \$1.2 million, compared to the prior year. The increase was the result of greater project mix shift to our 50% owned subsidiaries, partly offset by a margin shift from lower volume of aviation work to higher volume of lower margin heavy highway work and efficiency related costs associated with COVID-19.

Specialty Services

Revenues—Revenues were \$508.9 million for 2020, an increase of \$296.1 million or 139%, compared to the prior year. The increase was primarily attributable to the inclusion of a full year of results from Plateau operations in 2020 of \$312.6 million, partly offset by a \$16.5 million decrease in commercial revenues.

Operating income—Operating income was \$70.6 million for 2020, an increase of \$52.4 million, compared to the prior year. The increase was primarily attributable to the inclusion of a full year of operating income generated from Plateau operations in 2020.

Residential

Revenues—Revenues were \$164.7 million for 2020, an increase of \$11.6 million or 8%, compared to the prior year. The increase in revenue was primarily the result of the continued ramp-up of work in Houston.

Operating income—Operating income was \$20.8 million for 2020, an increase of \$0.3 million, compared to the prior year. The increase was driven by the ramp-up of operations and scale in Houston. Houston as a percentage of completed slabs was 13% for 2020 compared to 10% for the prior year. Operating income as a percent of revenue decreased 76 basis points compared to the prior year, driven by the ramp-up of operations and scale in Houston, temporary price concessions to our customers to mitigate a potential decrease in demand due to COVID-19, and an increase in lumber and concrete costs in 2020.

LIQUIDITY AND SOURCES OF CAPITAL

Cash—Cash at December 31, 2020 was \$66.2 million, and includes the following components:

<i>(In thousands)</i>	As of December 31,	
	2020	2019
Generally Available	\$ 26,419	\$ 29,659
Consolidated 50% Owned Subsidiaries	30,354	12,004
Construction Joint Ventures	9,412	4,070
Total Cash	<u>\$ 66,185</u>	<u>\$ 45,733</u>

The following tables set forth information about our cash flows and liquidity:

<i>(In thousands)</i>	Years Ended December 31,	
	2020	2019
Net cash provided by (used in):		
Operating activities	\$ 119,283	\$ 41,093
Investing activities	(30,491)	(410,386)
Financing activities	(68,340)	320,931
Net change in cash and cash equivalents	<u>\$ 20,452</u>	<u>\$ (48,362)</u>

Operating Activities—During 2020, net cash provided by operating activities was \$119.3 million compared to \$41.1 million in the prior year. Cash flows provided by operating activities were driven by higher net income, adjusted for various non-cash items and changes in accounts receivable, net contracts in progress and accounts payable balances (collectively, “Contract Capital”), as discussed below, and other accrued liabilities.

Changes in Contract Capital—The change in operating assets and liabilities varies due to fluctuations in operating activities and investments in Contract Capital. The changes in components of Contract Capital during the years ended December 31, 2020 and 2019 were as follows:

<i>(In thousands)</i>	Years Ended December 31,	
	2020	2019
Contracts in progress, net	\$ 65,963	\$ (5,188)
Accounts receivable	(8,552)	(10,089)
Receivables from and equity in construction joint ventures	(7,457)	1,524
Accounts payable	(42,392)	10,987
Change in Contract Capital, net	<u>\$ 7,562</u>	<u>\$ (2,766)</u>

During 2020, the change in Contract Capital increased liquidity by \$7.6 million. The Company’s Contract Capital fluctuations are impacted by the mix of projects in Backlog, seasonality, the timing of new awards and related payments for work performed and the contract billings to the customer as projects are completed. Contract Capital is also impacted at period-end by the timing of accounts receivable collections and accounts payable payments for projects.

Investing Activities—During 2020, net cash used in investing activities was \$30.5 million, compared to net cash used of \$410.4 million in the prior year. In 2020, the cash used in investing activities was driven by purchases of capital equipment and buildings and improvements. Capital equipment is acquired as needed to support changing levels of production activities and to replace retiring equipment.

Financing Activities—During 2020, net cash used in financing activities was \$68.3 million compared to net cash provided of \$320.9 million in the prior year. In 2020, the cash used in financing activities was driven by \$77.7 million of repayments on debt, primarily consisting of \$45.0 million in repayments on the term loan facility (“Term Loan Facility,” as defined below), \$20.0 million in repayments on the revolving credit facility (“Revolving Credit Facility,” as defined below) and \$12.5 million in payments on the combined promissory notes and deferred cash payments issued as part of the acquisition of Tealstone.

Credit Facilities, Debt, and Other Capital

General—In addition to our available cash, cash equivalents and cash provided by operations, from time to time we use borrowings to finance acquisitions, our capital expenditures and working capital needs.

Credit Facility—On October 2, 2019, the Company, as borrower, and certain of its subsidiaries, as guarantors, entered into a Credit Agreement (as amended, the “Credit Agreement”) with BMO Harris Bank N.A., as administrative agent (the “Agent”), Bank of America, N.A., as syndication agent, and BMO Capital Markets Corp. and BofA Securities, Inc., as joint lead arrangers and joint book runners. The Credit Agreement provides the Company with senior secured debt financing in an amount up to \$475 million in the aggregate, consisting of (i) a senior secured first lien revolving credit facility (the “Revolving Credit Facility”) in an aggregate principal amount of \$75 million (with a \$75 million limit for the issuance of letters of credit and a \$15 million sublimit for swing line loans) and (ii) a senior secured first lien term loan facility (the “Term Loan Facility”) in the amount of \$400 million (collectively, the “Credit Facility”). The obligations under the Credit Facility are secured by substantially all assets of the Company and the subsidiary guarantors, subject to certain permitted liens and interests of other parties. The Credit Facility will mature on October 2, 2024.

The Company obtained the Credit Facility in order to facilitate the transactions contemplated by the Plateau Acquisition, including to refinance the existing indebtedness of the Company, finance capital expenditures, finance working capital, finance acquisitions permitted under the Credit Agreement, finance other general corporate purposes and fund certain fees and expenses associated with the closing of the Credit Facility and the Plateau Acquisition.

On December 2, 2019, the Credit Agreement was amended to modify (i) the applicable margins with respect to Base Rate and London Inter-Bank Offered Rate (“LIBOR”) borrowings under the Credit Facility, (ii) the required amounts of mandatory prepayments of the Credit Facility with excess cash flow, (iii) the amounts of scheduled principal payments quarterly and at maturity on the Term Loan Facility, and (iv) the applications of partial prepayments of the Term Loan Facility on a ratable, weighted basis among all remaining scheduled principal payments on the Term Loan Facility. The modifications in (i)-(iii) mentioned above were pursuant to the customary “market flex” rights contained in the fee letter related to the Credit Agreement.

The Company is required to make mandatory prepayments on the Credit Facility with proceeds received from issuances of debt, events of loss and certain dispositions. The Company also is required to prepay the Credit Facility with its excess cash flow in an amount equal to (a) if the Total Leverage Ratio (as defined in the Credit Agreement) is greater than or equal to 2.50 to 1.00, 75% of excess cash flow, (b) if the Total Leverage Ratio is greater than or equal to 2.00 to 1.00 but less than 2.50 to 1.00, 50% of excess cash flow, (c) if the Total Leverage Ratio is greater than or equal to 1.50 to 1.00 but less than 2.00 to 1.00, 25% of excess cash flow and (d) if the Total Leverage Ratio is less than 1.50 to 1.00, 0% of excess cash flow, within 5 days after receipt of its annual audited financial statements.

The Credit Agreement contains various affirmative and negative covenants that may, subject to certain exceptions, restrict the ability of us and our subsidiaries to, among other things, grant liens, incur additional indebtedness, make loans, advances or other investments, make non-ordinary course asset sales, declare or pay dividends or make other distributions with respect to equity interests, purchase, redeem or otherwise acquire or retire capital stock or other equity interests, or merge or consolidate with any other person, among various other things. In addition, the Company is required to maintain the following financial covenants:

- a Total Leverage Ratio (as defined in the Credit Agreement) at the last day of each fiscal quarter not to be greater than 4.00 to 1.00 ending on December 31, 2019 through and including June 30, 2020, 3.75 to 1.00 ending on September 30, 2020, 3.50 to 1.00 ending on December 31, 2020 through and including March 31, 2021, 3.25 to 1.00 ending on June 30, 2021 through and including September 30, 2021, and 3.00 to 1.00 ending on December 31, 2021 and thereafter; and
- a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of not less than 1.20 to 1.00 as of the last day of each fiscal quarter of the Company, commencing with the fiscal quarter ending December 31, 2019.

The Revolving Credit Facility bears interest at either the base rate (“Base Rate”) plus a margin, or at a one-, two-, three-, six- or, if available, twelve-month LIBOR rate plus a margin, at the Company’s election. At December 31, 2020, the Company calculated interest using a one-month LIBOR rate and an applicable margin of 0.15% and 4.50% per annum, respectively. In addition to interest on debt borrowings, we are assessed quarterly commitment fees on the unutilized portion of the facility as well as letter of credit fees on outstanding instruments. Interest under the Revolving Credit Facility is payable (i) with respect to LIBOR borrowings, on the last day of each applicable interest period (one, two, three, six or twelve months), unless the applicable interest period is longer than three months, then on each day occurring every three months after the commencement of such interest period, and on the maturity date, and (ii) with respect to Base Rate borrowings, on the last day of every calendar quarter and on the maturity date. At December 31, 2020, we had no outstanding borrowings under the Revolving Credit

Facility, providing \$75 million of available capacity. During 2020, our weighted average interest rate on borrowings under the Revolving Credit Facility was approximately 6.68%. The Revolving Credit Facility may be repaid in whole or in part at any time, with final payment of all principal and interest then outstanding due on October 2, 2024.

Interest under the Term Loan Facility is payable at the same frequencies and bears interest at the same rate options as the Revolving Credit Facility. We continue to utilize an interest rate swap to hedge against \$350 million of the outstanding Term Loan Facility, which resulted in a weighted average interest rate of approximately 5.74% per annum during 2020. At December 31, 2020, we had \$355 million of outstanding borrowings under the facility. Principal payments on the Term Loan Facility total \$30 million, \$50 million, \$50 million, \$50 million and \$15 million for each of the years ending 2020, 2021, 2022, 2023, and 2024, respectively. Additionally, based on the December 31, 2020 Consolidated Financial Statements, the Company is required to make a \$32.7 million excess cash flow payment in the first quarter of 2021, of which the Company has prepaid \$15 million in the fourth quarter of 2020 and will make the remaining \$17.7 million payment in the first quarter of 2021. The Company's final payment under the Term Loan Facility is due on October 2, 2024, which will include the remaining \$172.5 million of outstanding principal and any related interest outstanding.

Debt Issuance Costs—The costs associated with the Term Loan Facility and Revolving Credit Facility are reflected on the Balance Sheets as a direct reduction from the related debt liability and amortized over the terms of the respective facilities.

Note Payable to Seller, Plateau Acquisition—As part of the Plateau Acquisition, the Company issued a \$10.0 million subordinated promissory note to one of the Plateau sellers that bears interest at 8% with interest payments due quarterly beginning January 1, 2020. The subordinated promissory note has no scheduled payments, however, it may be repaid in whole or in part at any time, subject to certain payment restrictions under a subordination agreement with the Agent under our Credit Agreement, without premium or penalty, with final payment of all principal and interest then outstanding due on April 2, 2025. At inception, the subordinated promissory note's interest rate approximated market.

Notes and Deferred Payments to Sellers, Tealstone Acquisition—At December 31, 2020 the Company had no balance remaining on the combined promissory notes and deferred cash payments issued as part of the Tealstone Acquisition. During the year ended December 31, 2020, the Company paid \$7.5 million of the deferred cash payments and \$5 million on promissory notes that were due on April 3, 2020.

Other Debt—During the second quarter of 2020, the Company's two 50% owned subsidiaries received three short-term Paycheck Protection Program loans (the "PPP Loans") totaling approximately \$9.8 million. The loans may be fully or partially forgiven if the funds are used for payroll related costs, interest on mortgages, rent, and utilities, and as long as our employee headcount and salary levels remain consistent with our baseline period over an eight to twenty-four week period following the date the loans were received. Any forgiveness of the loans requires approval by the Small Business Administration ("SBA"). If the SBA determines that the loans are not fully or partially forgiven, the balance is subject to a 1% interest rate and requires repayment. The PPP Loans have been classified as short-term debt under "Current Liabilities" on the Consolidated Balance Sheets at December 31, 2020, as we expect to submit forgiveness applications and receive a determination by the SBA within the next six months.

Compliance and Other—As of December 31, 2020, we were in compliance with all of our restrictive and financial covenants. The Company's debt is recorded at its carrying amount in the Consolidated Balance Sheets. As of December 31, 2020 and 2019, the carrying values of our debt outstanding approximated the fair values.

Borrowings—Based on our average borrowings for 2020 and our 2021 forecasted cash needs, we continue to believe that the Company has sufficient liquid financial resources to fund our requirements for the next year of operations. Furthermore, the Company is continually assessing ways to increase revenues and reduce costs to improve liquidity. However, in the event of a substantial cash constraint and if we were unable to secure adequate debt financing, our liquidity could be materially and adversely affected. Refer to Item 1A "Risk Factors" for further discussion of liquidity related risks.

Issuance Common Stock—On October 2, 2019, in connection with the acquisition of Plateau, the Company issued 1,244,813 shares of the Company's stock as consideration paid to the Plateau sellers. The value of the shares issued was \$16.2 million based on Sterling's closing stock price on October 1, 2019. See *Note 3 - Plateau Acquisition* for further discussion.

Bonding—As is customary in the construction business, we are required to provide surety bonds 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. We have pledged all proceeds and other rights under our construction contracts to our bond surety company. Events that affect the insurance and bonding markets may result in bonding becoming more difficult to

obtain in the future, or being available only at a significantly greater cost. To date, we have not encountered difficulties or material cost increases in obtaining new surety bonds.

Capital Strategy—The Company will continue to explore additional revenue growth and capital alternatives to improve leverage and strengthen its financial position in order to take advantage of trends in the civil infrastructure and specialty services markets. The Company expects to pursue strategic uses of its cash, such as, investing in projects or businesses that meet its gross margin targets and overall profitability and managing its debt balances.

Material Cash Requirements

The following table sets forth our material cash requirements from contractual obligations at December 31, 2020:

<i>(In thousands)</i>	Payments due by period				
	Total	<1 Year	1 - 3 Years	4 - 5 Years	>5 Years
Credit Facility	\$ 355,000	\$ 67,690	\$ 100,000	\$ 187,310	\$ —
Credit Facility interest	73,009	22,293	39,544	11,172	—
Other notes payable (inclusive of outstanding interest)	14,160	988	1,896	11,276	—
Members' interest subject to mandatory redemption and undistributed earnings ⁽¹⁾	51,290	51,290	—	—	—
Total	\$ 493,459	\$ 142,261	\$ 141,440	\$ 209,758	\$ —

⁽¹⁾ Mandatory redemption is based on the death or disability of the interest holders. Undistributed earnings can be distributed upon unanimous consent from the members and for tax distributions. At this time we cannot predict when such distributions will be made. The Company has purchased two separate \$20 million death and permanent total disability insurance policies to mitigate the Company's cash draw if such events were to occur.

Capital Expenditures—Capital equipment is acquired as needed by increased levels of production and to replace retiring equipment. Capital expenditures incurred in 2020 were \$33 million. Management expects capital expenditures in 2021 to be in the range of \$35 to \$40 million; however, the award of a project requiring significant purchases of equipment or other factors could result in increased expenditures.

NEW ACCOUNTING STANDARDS

See the applicable section of *Note 2 - Basis of Presentation and Significant Accounting Policies* for a discussion of new accounting standards.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of the financial condition and results of operations are based on the Company's Consolidated Financial Statements, which have been prepared in accordance with accounting policies generally accepted in the United States ("GAAP"). The preparation of these Consolidated Financial Statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. The Company continually evaluates its estimates based on historical experience and various other assumptions that the Company believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting estimates involve more significant judgment used in the preparation of the Consolidated Financial Statements.

Revenue Recognition

Performance Obligations Satisfied Over Time—Revenue for contracts that satisfy the criteria for over time recognition is recognized as the work progresses. The Company measures transfer of control of the performance obligation utilizing the cost-to-cost measure of progress, with cost of revenue including direct costs, such as materials and labor, and indirect costs that are attributable to contract activity. Under the cost-to-cost approach, the use of estimated costs to complete each performance obligation is a significant variable in the process of determining recognized revenue and is a significant factor in the accounting for such performance obligations. Significant estimates that impact the cost to complete each performance obligation are materials, components, equipment, labor and subcontracts; labor productivity; schedule durations, including subcontractor or supplier progress; contract disputes, including claims; achievement of contractual performance requirements; and contingencies, among others. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known, including, to the extent required, the reversal of profit recognized in prior periods and the recognition of losses expected to be incurred on performance obligations in progress. Due to the various

estimates inherent in contract accounting, actual results could differ from those estimates, which could result in material changes to the Company's Consolidated Financial Statements and related disclosures. See "Contract Estimates" within *Note 4 - Revenue from Customers* for further discussion.

Fair Value Measurements

The Company may use fair value measurements that involve the input of estimates that require significant judgment. The Company's use of these fair value measurements include:

- Determining the purchase price allocation for an acquired business;
- Goodwill impairment testing when a quantitative analysis is deemed necessary; and
- Long-lived asset (such as property, equipment and intangible assets) impairment testing when impairment indicators are present.

When performing quantitative fair value or impairment evaluations, the Company estimates the fair value of assets by considering the results of income-based and/or a market-based valuation method. Under the income-based method, a discounted cash flow valuation model uses recent forecasts to compare the estimated fair value of each asset to its carrying value. Cash flow forecasts are discounted using the weighted-average cost of capital for the applicable reporting unit at the date of evaluation. The weighted-average cost of capital is comprised of the cost of equity and the cost of debt with a weighting for each that reflects the Company's current capital structure. Preparation of long-term forecasts involve significant judgments involving consideration of backlog, expected future awards, customer attribution, working capital assumptions and general market trends and conditions. Significant changes in these forecasts or any valuation assumptions, such as the discount rate selected, could affect the estimated fair value of our assets and could result in impairment. Under the market-based method, market information such as multiples of comparable publicly traded companies and/or completed sales transactions are used to develop or validate our fair value conclusions, when appropriate and available.

Purchase Price Allocations—The aggregate purchase price for the acquisition of Plateau was allocated to the major categories of assets and liabilities acquired based upon their estimated fair values as of October 2, 2019, which were based, in part, upon internal and external valuations of certain assets, including specifically identified intangible assets and property and equipment. The valuations were based on the income-based and market-based valuation methods noted above. The excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired, totaling \$106.8 million, was recorded as goodwill. See *Note 3 - Plateau Acquisition* for further discussion.

Goodwill—Goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually, absent any indicators of impairment or when other actions require an impairment assessment. The Company performs the annual impairment assessment during the fourth quarter of each year based on balances as of October 1. During the fourth quarter of 2020, 2019 and 2018, the Company performed a qualitative assessment of goodwill, and based on this assessment, no indicators of impairment were present. Factors considered include macroeconomic, industry and competitive conditions, financial performance and reporting unit specific events. These are discussed in a number of places including Item 1A "Risk Factors." Our annual assessments indicated there was no impairment of goodwill during the years ended December 31, 2020, 2019 and 2018.

Long-lived Assets—Long-lived assets, which include property, equipment and acquired intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If a recoverability assessment is required, the estimated future cash flow associated with the asset or asset group will be compared to their respective carrying amounts to determine if an impairment exists. 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, 2020 and 2019, there were no events or changes in circumstances that would indicate a material impairment of our long-lived assets.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We continue to utilize a swap arrangement to hedge against interest rate variability associated with \$350 million of the \$355 million outstanding under the Term Loan Facility. The Company has designated its interest rate swap agreement as a cash flow hedging derivative. To the extent the derivative instrument is effective and the documentation requirements have been met, changes in fair value are recognized in other comprehensive income (loss) until the underlying hedged item is recognized in earnings. The fair value of the contract was a net liability of approximately \$7.1 million at December 31, 2020. For the \$5 million remaining portion of the Term Loan Facility not associated with the interest rate swap hedge, at December 31, 2020, a 100-basis point (or 1%) increase or decrease in the interest rate would increase or decrease interest expense by approximately \$50 thousand per year.

Other

Fair Value—The carrying values of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate their fair values because of the short-term nature of these instruments. At December 31, 2020, the fair value of the term loan, based upon the current market rates for debt with similar credit risk and maturities, approximated its carrying value as interest is based on LIBOR plus an applicable margin.

Inflation—Inflation generally has not had a material impact on our financial results; however, from time to time increases in oil, fuel, and steel prices have affected our cost of operations. Anticipated cost increases and reductions are considered in our bids to customers on proposed new construction projects.

Where we are the successful bidder on a Heavy Civil or Specialty Services project, we execute purchase orders with material suppliers and contracts with subcontractors covering the prices of most materials and services, other than oil and fuel products, thereby mitigating future price increases and supply disruptions. These purchase orders and contracts do not contain quantity guarantees and we have no obligation for materials and services beyond those required to complete the contracts with our customers. There can be no assurance that increases in prices of oil and fuel used in our business will be adequately covered by the estimated escalation we have included in our bids and there can be no assurance that all of our vendors will fulfill their pricing and supply commitments under their purchase orders and contracts with the Company. We adjust our total estimated costs on our projects when we believe it is probable that we will have cost increases which will not be recovered from customers, vendors or re-engineering.

Inflation affects our Residential projects minimally, as the time from starting construction to finishing is typically less than one month.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Sterling Construction Company, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Sterling Construction Company, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows for the year ended December 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated March 3, 2021 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provides a reasonable basis for our opinion.

Critical audit matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition

As described further in Note 2 to the financial statements, revenues derived from long-term contracts in the heavy-civil and specialty services segments are recognized as the performance obligations are satisfied over time. The Company uses a ratio of project costs incurred to estimated total costs for each contract to recognize revenue. Under the cost-to-cost approach, the determination of the progress towards completion requires management to prepare estimates of the costs to complete. In addition, the Company’s contracts may include variable consideration related to contract modifications through change orders or claims, and management must also estimate the variable consideration the Company expects to receive in order to estimate the total contract revenue. We identified revenue recognized over time to be a critical audit matter.

The principal considerations for our determination that revenue recognized over time is a critical audit matter is that auditing management’s estimate of the progress toward completion of its projects was complex and subjective. This is due to the considerable judgement required to evaluate management’s determination of the forecasted costs to complete its long-term contracts as future results may vary significantly from past estimates due to changes in facts and circumstances. In addition,

auditing the Company's measurement of variable consideration is also complex and highly judgmental and can have a material effect on the amount of revenue recognized.

Our audit procedures related to revenue over time included the following, among others.

- We obtained an understanding, evaluated the design, and tested the operating effectiveness of the Company's processes and controls related to contract revenue recognition.
- We tested the Company's cost-to-cost estimates by evaluating the appropriate application of the cost-to-cost method, testing the significant assumptions used to develop the estimated cost to complete and testing the completeness and accuracy of the underlying data.
- We tested the estimated variable consideration by evaluating the appropriate application of the most likely amount method, and tracing amounts to supporting documentation.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2001.

Houston, Texas

March 3, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Sterling Construction Company, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Sterling Construction Company, Inc (a Delaware corporation) (and subsidiaries) (the “Company”) as of December 31, 2020, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2020, and our report dated March 3, 2021 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and limitations of internal control over financial reporting

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

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

/s/ GRANT THORNTON LLP

Houston, Texas
March 3, 2021

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)

	Years Ended December 31,		
	2020	2019	2018
Revenues	\$ 1,427,412	\$ 1,126,278	\$ 1,037,667
Cost of revenues	(1,236,043)	(1,018,484)	(927,335)
Gross profit	191,369	107,794	110,332
General and administrative expense	(71,415)	(49,200)	(48,220)
Intangible asset amortization	(11,436)	(4,695)	(2,400)
Acquisition related costs	(1,026)	(4,311)	—
Other operating expense, net	(12,600)	(11,837)	(17,101)
Operating income	94,892	37,751	42,611
Interest income	161	1,142	1,017
Interest expense	(29,377)	(16,686)	(12,350)
Loss on extinguishment of debt	(301)	(7,728)	—
Income before income taxes	65,375	14,479	31,278
Income tax (expense) benefit	(22,471)	26,216	(1,738)
Net income	42,904	40,695	29,540
Less: Net income attributable to noncontrolling interests	(598)	(794)	(4,353)
Net income attributable to Sterling common stockholders	<u>\$ 42,306</u>	<u>\$ 39,901</u>	<u>\$ 25,187</u>
Net income per share attributable to Sterling common stockholders:			
Basic	\$ 1.52	\$ 1.50	\$ 0.94
Diluted	\$ 1.50	\$ 1.47	\$ 0.93
Weighted average common shares outstanding:			
Basic	27,859	26,671	26,903
Diluted	28,195	27,119	27,194

The accompanying Notes are an integral part of these Consolidated Financial Statements.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Years Ended December 31,		
	2020	2019	2018
Net income	\$ 42,904	\$ 40,695	\$ 29,540
Other comprehensive income, net of tax			
Change in interest rate swap, net of tax (Note 10)	(5,055)	(209)	—
Total comprehensive income	37,849	40,486	29,540
Less: Comprehensive income attributable to noncontrolling interests	(598)	(794)	(4,353)
Comprehensive income attributable to Sterling common stockholders	\$ 37,251	\$ 39,692	\$ 25,187

The accompanying Notes are an integral part of these Consolidated Financial Statements.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Assets		
Current assets:		
Cash and cash equivalents (\$26,122 and \$7,538 related to variable interest entities (“VIEs”))	\$ 66,185	\$ 45,733
Accounts receivable (\$25,789 and \$19,241 related to VIEs)	177,424	168,872
Contract assets (\$8,370 and \$12,257 related to VIEs)	84,975	94,679
Receivables from and equity in construction joint ventures (\$9,708 and \$7,406 related to VIEs)	16,653	9,196
Other current assets (\$1,493 and \$503 related to VIEs)	16,306	11,790
Total current assets	361,543	330,270
Property and equipment, net (\$6,010 and \$5,619 related to VIEs)	126,668	116,030
Operating lease right-of-use assets (\$4,213 and \$3,817 related to VIEs)	16,515	13,979
Goodwill (\$1,501 and \$1,501 related to VIEs)	192,014	191,892
Other intangibles, net	244,887	256,323
Deferred tax asset, net	7,817	26,012
Other non-current assets, net	3,250	183
Total assets	<u>\$ 952,694</u>	<u>\$ 934,689</u>
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable (\$19,505 and \$18,213 related to VIEs)	\$ 95,201	\$ 137,593
Contract liabilities (\$17,678 and \$8,177 related to VIEs)	114,019	57,760
Current maturities of long-term debt (\$6,793 and \$39 related to VIEs)	77,434	42,473
Current portion of long-term lease obligations (\$1,801 and \$1,838 related to VIEs)	7,588	7,095
Income taxes payable	—	1,212
Accrued compensation (\$2,141 and \$1,521 related to VIEs)	18,013	13,727
Other current liabilities (\$1,374 and \$1,429 related to VIEs)	9,629	6,393
Total current liabilities	321,884	266,253
Long-term debt (\$53 and \$2 related to VIEs)	291,249	390,627
Long-term lease obligations (\$2,412 and \$1,979 related to VIEs)	8,958	6,976
Members’ interest subject to mandatory redemption and undistributed earnings	51,290	49,003
Other long-term liabilities (\$722 and \$0 related to VIE’s)	10,584	619
Total liabilities	683,965	713,478
Commitments and contingencies (Note 12)		
Stockholders’ equity:		
Common stock, par value \$0.01 per share; 38,000 shares authorized, 28,279 and 28,290 shares issued, 28,184 and 27,772 shares outstanding	283	283
Additional paid in capital	256,423	251,019
Treasury stock, at cost: 95 and 518 shares	(1,445)	(6,142)
Retained earnings (deficit)	17,273	(25,033)
Accumulated other comprehensive loss	(5,264)	(209)
Total Sterling stockholders’ equity	267,270	219,918
Noncontrolling interests	1,459	1,293
Total stockholders’ equity	268,729	221,211
Total liabilities and stockholders’ equity	<u>\$ 952,694</u>	<u>\$ 934,689</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Years Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 42,904	\$ 40,695	\$ 29,540
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	32,785	20,740	16,770
Amortization of debt issuance costs and non-cash interest	3,193	3,393	3,250
Gain on disposal of property and equipment	(1,495)	(527)	(580)
Loss on debt extinguishment	301	4,334	—
Deferred taxes	19,439	(27,398)	1,450
Stock-based compensation expense	11,643	3,788	3,064
Change in interest rate swap	265	(30)	—
Changes in operating assets and liabilities (Note 18)	10,248	(3,902)	(14,020)
Net cash provided by operating activities	<u>119,283</u>	<u>41,093</u>	<u>39,474</u>
Cash flows from investing activities:			
Plateau acquisition, net of cash acquired	—	(396,323)	—
Capital expenditures	(32,864)	(15,397)	(13,171)
Proceeds from sale of property and equipment	2,373	1,334	1,789
Net cash used in investing activities	<u>(30,491)</u>	<u>(410,386)</u>	<u>(11,382)</u>
Cash flows from financing activities:			
Cash received from credit facility	—	430,000	—
Repayments of debt	(77,745)	(87,621)	(11,555)
Distributions to noncontrolling interest owners	(432)	(7,360)	(1,350)
Purchase of treasury stock	—	(3,201)	(4,731)
Debt issuance costs	—	(10,688)	—
Other	9,837	(199)	(314)
Net cash (used in) provided by financing activities	<u>(68,340)</u>	<u>320,931</u>	<u>(17,950)</u>
Net change in cash and cash equivalents	20,452	(48,362)	10,142
Cash and cash equivalents at beginning of period	45,733	94,095	83,953
Cash and cash equivalents at end of period	<u>\$ 66,185</u>	<u>\$ 45,733</u>	<u>\$ 94,095</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ 26,941	\$ 11,566	\$ 10,829
Cash paid during the period for income taxes	\$ 4,745	\$ 94	\$ 276
Non-cash items:			
Share consideration given for acquisitions	\$ —	\$ 16,195	\$ —
Notes and deferred payments to sellers	\$ —	\$ 10,000	\$ —
Tax basis election	\$ —	\$ 5,015	\$ —

The accompanying Notes are an integral part of these Consolidated Financial Statements.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in thousands)

STERLING CONSTRUCTION COMPANY, INC. STOCKHOLDERS

	Common Stock			Treasury Stock		Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Sterling Stockholders' Equity	Non-controlling Interests	Total
	Shares	Amount	Additional Paid in Capital	Shares	Amount					
Balance at December 31, 2017	27,051	\$ 271	\$ 231,183	—	\$ —	\$ (90,121)	\$ —	\$ 141,333	\$ 4,856	\$ 146,189
Net income	—	—	—	—	—	25,187	—	25,187	4,353	29,540
Stock-based compensation	40	—	3,064	—	—	—	—	3,064	—	3,064
Distributions to owners	—	—	—	—	—	—	—	—	(1,350)	(1,350)
Purchase of Treasury Stock	(467)	—	—	467	(4,731)	—	—	(4,731)	—	(4,731)
Shares withheld for taxes	(27)	—	(452)	—	—	—	—	(452)	—	(452)
Balance at December 31, 2018	26,597	\$ 271	\$ 233,795	467	\$ (4,731)	\$ (64,934)	\$ —	\$ 164,401	\$ 7,859	\$ 172,260
Net income	—	—	—	—	—	39,901	—	39,901	794	40,695
Change in interest rate swap	—	—	—	—	—	—	(209)	(209)	—	(209)
Stock-based compensation	(1)	—	3,788	—	—	—	—	3,788	—	3,788
Distributions to owners	—	—	—	—	—	—	—	—	(7,360)	(7,360)
Purchase of Treasury Stock	(250)	—	—	250	(3,201)	—	—	(3,201)	—	(3,201)
Stock issued for Plateau acquisition	1,245	12	16,183	—	—	—	—	16,195	—	16,195
Issuance of stock	273	—	(2,599)	(273)	2,751	—	—	152	—	152
Shares withheld for taxes	(92)	—	(148)	74	(961)	—	—	(1,109)	—	(1,109)
Balance at December 31, 2019	27,772	\$ 283	\$ 251,019	518	\$ (6,142)	\$ (25,033)	\$ (209)	\$ 219,918	\$ 1,293	\$ 221,211
Net income	—	—	—	—	—	42,306	—	42,306	598	42,904
Change in interest rate swap	—	—	—	—	—	—	(5,055)	(5,055)	—	(5,055)
Stock-based compensation	—	—	11,643	—	—	—	—	11,643	—	11,643
Distributions to owners	—	—	—	—	—	—	—	—	(432)	(432)
Issuance of stock	546	—	(6,012)	(546)	6,542	—	—	530	—	530
Shares withheld for taxes	(134)	—	(140)	123	(1,845)	—	—	(1,985)	—	(1,985)
Other	—	—	(87)	—	—	—	—	(87)	—	(87)
Balance at December 31, 2020	28,184	\$ 283	\$ 256,423	95	\$ (1,445)	\$ 17,273	\$ (5,264)	\$ 267,270	\$ 1,459	\$ 268,729

The accompanying Notes are an integral part of these Consolidated Financial Statements.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(\$ and share values in thousands, except per share data)

1. NATURE OF OPERATIONS

Business Summary

Sterling Construction Company, Inc., (“Sterling,” “the Company,” “we,” “our” or “us”), a Delaware corporation, operates through a variety of subsidiaries within three segments specializing in Heavy Civil, Specialty Services and Residential projects in the United States (the “U.S.”), primarily across the southern U.S., the Rocky Mountain States, California and Hawaii, as well as other areas with strategic construction opportunities. Heavy Civil includes infrastructure and rehabilitation projects for highways, roads, bridges, airfields, ports, light rail, water, wastewater and storm drainage systems. Specialty Services projects include construction site excavation and drainage, drilling and blasting for excavation, foundations for multi-family homes, parking structures and other commercial concrete projects. Residential projects include concrete foundations for single-family homes.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Presentation Basis—The accompanying Consolidated Financial Statements are presented in accordance with accounting policies generally accepted in the United States (“GAAP”) and reflect all wholly owned subsidiaries and those entities the Company is required to consolidate. See the “Consolidated 50% Owned Subsidiaries” and “Construction Joint Ventures” sections of this Note for further discussion of the Company’s consolidation policy for those entities that are not wholly owned. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. Values presented within tables (excluding per share data) are in thousands. Reclassifications have been made to historical financial data in the Consolidated Financial Statements to conform to the current year presentation.

Estimates and Judgments—The preparation of the accompanying Consolidated Financial Statements in conformity with GAAP requires management to make estimates and judgments 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 accounting estimates of the Company require a higher degree of judgment than others in their application. These include the recognition of revenue and earnings from construction contracts over time, the valuation of long-lived assets, goodwill, and purchase accounting estimates. Management continually evaluates all of its estimates and judgments based on available information and experience; however, actual results could differ from these estimates.

Significant Accounting Policies

Revenue Recognition—Our revenue is derived from long-term contracts for customers in our heavy civil and specialty services business segments, as well as short-term projects for customers in our residential business segment. Accounting treatment for these contracts in accordance with Accounting Standards Update (“ASU”) 2014-09 (Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*), is as follows:

- *Performance Obligations Satisfied Over Time (Heavy Civil and Specialty Services)*

Recognition of Performance Obligations—A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in the new revenue standard. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Heavy civil projects typically span between 12 to 36 months, and specialty services projects are between 6 to 24 months. The majority of our contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. Some contracts have multiple performance obligations, most commonly due to the contract covering multiple phases of the project life cycle (design and construction).

Revenues are recognized as our obligations are satisfied over time, using the ratio of project costs incurred to estimated total costs for each contract because of the continuous transfer of control to the customer as all of the work is performed at the customer’s site and, therefore, the customer controls the asset as it is being constructed. This continuous transfer of control to the customer is further supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay the Company for costs incurred plus a reasonable profit and take control of any work in process. This cost-to-cost measure is used because management considers it to be the best

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

available measure of progress on these contracts. Contract costs include all direct material, labor, subcontract and other costs and those indirect costs determined to relate to contract performance, such as indirect salaries and wages, equipment repairs and depreciation, insurance and payroll taxes.

Items Excluded from Cost-to-Cost—Pre-contract costs are generally not material and are charged to expense as incurred, but in certain cases pre-contract recognition may be deferred if specific probability criteria are met. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Remaining Performance Obligations (“RPOs”)—RPOs represent the amount of revenues we expect to recognize in the future from our contract commitments on projects and are hereafter referred to as “Backlog”. Backlog includes the entire expected revenue values for joint ventures we consolidate and our proportionate value for those we proportionately consolidate. Backlog may not be indicative of future operating results, and projects included in Backlog may be canceled, modified or otherwise altered by customers. See *Note 4 - Revenue from Customers*, for further discussion.

Variable Consideration—Contract modifications through change orders, claims and incentives are routine in the performance of the Company’s contracts to account for changes in the contract specifications or requirements. In most instances, contract modifications are not distinct from the existing contract due to the significant integration of services provided in the contract and are accounted for as a modification of the existing contract and performance obligation. Either the Company or its customers may initiate change orders, which may include changes in specifications or designs, manner of performance, facilities, equipment, materials, sites and period of completion of the work. 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 approved contract prices that the Company seeks to collect from its 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.

The Company estimates variable consideration for a performance obligation at the most likely amount to which the Company expects to be entitled (or the most likely amount the Company expects to incur in the case of liquidated damages), utilizing estimation methods that best predict the amount of consideration to which the Company will be entitled (or will incur in the case of liquidated damages). The Company includes variable consideration in the estimated transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur or when the uncertainty associated with the variable consideration is resolved. The Company’s estimates of variable consideration and determination of whether to include estimated amounts in transaction price are based largely on an assessment of its anticipated performance and all information (historical, current and forecasted) that is reasonably available to the Company.

The effect of variable consideration on the transaction price of a performance obligation is recognized as an adjustment to revenue on a cumulative catch-up basis. To the extent unapproved change orders and claims reflected in transaction price (or excluded from transaction price in the case of liquidated damages) are not resolved in the Company’s favor, or to the extent incentives reflected in transaction price are not earned, there could be reductions in, or reversals of, previously recognized revenue.

- *Performance Obligations Satisfied at a Point-in-Time (Residential)*

Revenue for our residential contracts is recognized at a point in time and utilizes an output measure for performance based on the completion of a unit of work (e.g., completion of concrete foundation). The time from starting construction to completion is typically two weeks or less. Upon fulfillment of the performance obligation, the customer is provided an invoice (or equivalent) demonstrating transfer of control to the customer.

Accounts Receivable—Receivables are generally based on amounts billed to the customer in accordance with contractual provisions. Receivables increased by \$8,552 compared to December 31, 2019, primarily due to timing of receipts and increased revenue. Receivables are written off based on individual credit evaluation and specific circumstances of the customer, when such treatment is warranted. The Company performs a review of outstanding receivables, historical collection information and existing economic conditions to determine if there are potential uncollectible receivables. At December 31, 2020 and 2019, our allowance for our estimate of expected credit losses was zero.

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.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Contracts in Progress—For performance obligations satisfied over time, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., biweekly or monthly) or upon achievement of contractual milestones. Typically, Sterling bills for advances or deposits from its customers before revenue is recognized, resulting in contract liabilities. However, the Company occasionally bills subsequent to revenue recognition, resulting in contract assets.

Many of the contracts under which the Company performs work also contain retainage provisions. Retainage refers to that portion of our billings held for payment by the customer pending satisfactory completion of the project. Unless reserved, the Company assumes that all amounts retained by customers under such provisions are fully collectible. At December 31, 2020 and 2019, contract assets included \$44,412 and \$52,124 of retainage, respectively, and contract liabilities included \$33,856 and \$27,251 of retainage, respectively. Retainage on active contracts is classified as current regardless of the term of the contract and is generally collected within one year of the completion of a contract. We anticipate collecting approximately 68% of our December 31, 2020 retainage in 2021. These assets and liabilities are reported on the Consolidated Balance Sheet within “Contract Assets” and “Contract Liabilities” on a contract-by-contract basis at the end of each reporting period.

Contract assets decreased by \$9,704 compared to December 31, 2019, primarily due to a decrease in retainage. Contract liabilities increased by \$56,259 compared to December 31, 2019, primarily due to the timing of advance billings and work progression, partly offset by an increase in retainage. Revenue recognized for the year ended December 31, 2020 that was included in the contract liability balance on December 31, 2019 was \$444,213. Revenue recognized for the year ended December 31, 2019 that was included in the contract liability balance on December 31, 2018 was \$274,341.

Consolidated 50% Owned Subsidiaries—The Company has 50% ownership interests in two subsidiaries that it fully consolidates as a result of its exercise of control of the entities. The results attributable to the 50% portions that the Company does not own are eliminated within “Other operating expense, net” within the Consolidated Statements of Operations and an associated liability is established within “Members’ interest subject to mandatory redemption and undistributed earnings” within the Consolidated Balance Sheets. These subsidiaries also have individual mandatory redemption provisions which, under circumstances that are certain to occur, obligate the Company to purchase the remaining 50% interests. These purchase obligations are also recorded in “Members’ interest subject to mandatory redemption and undistributed earnings” on the Consolidated Balance Sheets.

Construction Joint Ventures—In the ordinary course of business, the Company executes specific projects and conducts certain operations through joint venture arrangements (referred to as “joint ventures”). The Company has various ownership interests in these joint ventures, with such ownership typically proportionate to the Company’s decision making and distribution rights.

Each joint venture is assessed at inception and on an ongoing basis as to whether it qualifies as a Variable Interest Entity (“VIE”) under the consolidations guidance in ASC Topic 810. If at any time a joint venture qualifies as a VIE, the Company performs a qualitative assessment to determine whether the Company is the primary beneficiary of the VIE and therefore needs to consolidate the VIE.

If the Company determines it is not the primary beneficiary of the VIE or only has the ability to significantly influence, rather than control the joint venture, it is not consolidated. The Company accounts for unconsolidated joint ventures using a pro-rata basis in the Consolidated Statements of Operations and as a single line item (“Receivables from and equity in construction joint ventures”) in the Consolidated Balance Sheets. This method is a permissible modification of the equity method of accounting which is a common practice in the construction industry.

Cash and Restricted Cash—Our cash is comprised of highly liquid investments with maturities of three months or less. Restricted cash of approximately \$6,500 and \$4,800 is included in “Other current assets” on the Consolidated Balance Sheets at December 31, 2020 and 2019, respectively. This primarily represents cash deposited by the Company into separate accounts and designated as collateral for standby letters of credit in the same amount in accordance with contractual agreements.

Property and Equipment—Property and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives, including buildings and improvements (5 to 39 years) and plant and field equipment (5 to 20 years). Renewals and betterments that substantially extend the useful life of an asset are capitalized and depreciated. Leasehold improvements are depreciated over the lesser of the useful life of the asset or the applicable lease term. See *Note 7 - Property and Equipment* for disclosure of the components of property and equipment.

Lease Arrangements—In the ordinary course of business, the Company enters into a variety of lease arrangements, including operating and finance leases.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- *Operating & Finance Leases*—The Company determines if an arrangement is a lease at inception. The operating lease right-of-use (“ROU”) assets are included within the Company’s non-current assets and lease liabilities are included in current or non-current liabilities on the Company’s Consolidated Balance Sheets. Finance leases are included in “Property and equipment,” “Current maturities of long-term debt,” and “Long-term debt” on the Company’s Consolidated Balance Sheets. ROU assets represent the Company’s right to use, or control the use of, a specified asset for the lease term. Lease liabilities are the Company’s obligation to make lease payments arising from a lease and are measured on a discounted basis. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term on the commencement date. The operating lease ROU asset includes any lease payments made and initial direct costs incurred and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments continues to be recognized on a straight-line basis over the lease term.

Goodwill—Goodwill represents the excess of the cost of companies acquired over the fair value of their net assets at the dates of acquisition. Goodwill is not amortized, but instead is reviewed for impairment at least annually at a reporting unit level, absent any interim indicators of impairment. Interim testing for impairment is performed if indicators of potential impairment exist. We perform our annual impairment assessment during the fourth quarter of each year which typically consists of a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its net book value, including goodwill. Factors used in our qualitative assessment include, but are not limited to, macroeconomic conditions, market conditions, cost factors, overall financial performance and Company and reporting unit specific events. If we identify a potential impairment in our qualitative assessment, we perform a quantitative assessment by comparing the fair value of the applicable reporting unit to its net book value, including goodwill. To determine the fair value of our reporting units and test for impairment, we utilize an income approach (discounted cash flow method) as we believe this is the most direct approach to incorporate the specific economic attributes and risk profiles of our reporting units into our valuation model. We generally do not utilize a market approach, given the lack of relevant information generated by market transactions involving comparable businesses. However, to the extent market indicators of fair value become available, we would consider such market indicators in our discounted cash flow analysis and determination of fair value. Refer to *Note 8 - Goodwill and Other Intangible Assets* for our disclosure regarding goodwill impairment testing.

Evaluating Impairment of Other Intangible Assets and Other Long-Lived Assets—Our finite-lived intangible assets are amortized over their estimated remaining useful economic lives. Our project-related intangible assets are amortized as the applicable projects progress, customer relationships are amortized utilizing an accelerated method based on the pattern of cash flows expected to be realized, taking into consideration expected revenues and customer attrition, and our other intangibles are amortized utilizing a straight-line method. When events or changes in circumstances indicate that finite-lived intangible and other long-lived assets may be impaired, an evaluation is performed. If the asset or asset group fails the recoverability test, we will perform a fair value measurement to determine and record an impairment charge. See *Note 8 - Goodwill and Other Intangible Assets* for further discussion.

Federal and State Income Taxes—We determine deferred income tax assets and liabilities using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. We recognize the financial statement benefit of a tax position only after determining the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. As a result of the Company’s analysis, management has determined the Company does not have any material uncertain tax positions. The Company’s policy is to recognize interest related to any underpayment of taxes as interest expense and penalties as administrative expense. Refer to *Note 13 - Income Taxes* for further information regarding our federal and state income taxes.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU 2016-13 to add the guidance in ASC 326 on the impairment of financial instruments. The ASU introduces an impairment model (known as the current expected credit loss (“CECL”) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The ASU is also intended to reduce the complexity of GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments. The amendments in the ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted this guidance effective January 1, 2020 and noted no material impact to the Company’s Consolidated Financial Statements.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. PLATEAU ACQUISITION

General—On October 2, 2019, Sterling consummated the acquisition (the “Plateau Acquisition”) of all of the issued and outstanding shares of capital stock of LK Gregory Construction, Inc. and Plateau Excavation, Inc., and all of the issued and outstanding equity interests in DeWitt Excavation, LLC. The Plateau Acquisition was accounted for using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*.

Purchase Consideration—Sterling completed the Plateau Acquisition for a purchase price of \$427,533, net of cash acquired, detailed as follows:

Cash consideration transferred, net of \$2,425 of cash acquired	\$ 375,000
Target working capital adjustment	21,323
Equity consideration transferred (1,245 shares at \$13.01 per share ⁽¹⁾)	16,195
Note payable to seller (See Note 9 - Debt)	10,000
Tax basis election	5,015
Total consideration	<u>\$ 427,533</u>

⁽¹⁾ Sterling’s closing stock price on October 1, 2019

Purchase Price Allocation—The aggregate purchase price noted above was allocated to the assets and liabilities acquired based upon their estimated fair values at the acquisition closing date, which were based, in part, upon an external appraisal and valuation of certain assets, including specifically identified intangible assets. The excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired totaling \$106,784 was recorded as goodwill.

The following table summarizes our purchase price allocation at the acquisition closing date, net of cash acquired:

Net tangible assets:

Accounts receivable	\$ 61,110
Contract assets	13,035
Other current assets	249
Property and equipment, net	65,492
Other non-current assets, net	10
Accounts payable	(22,039)
Contract liabilities	(7,790)
Other current and non-current liabilities	(7,918)
Total net tangible assets	<u>102,149</u>
Identifiable intangible assets	218,600
Goodwill	106,784
Total consideration transferred	<u>\$ 427,533</u>

Identifiable Intangible Assets—Intangible assets identified as part of the Plateau Acquisition are reflected in the table below and are recorded at their estimated fair value, as determined by the Company’s management, based on available information which includes a valuation from external experts. The estimated useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows.

	Weighted Average Life (Years)	October 2, 2019 Fair Value
Customer relationships	25	\$ 191,800
Trade name	25	24,800
Non-compete agreements	5	2,000
Total		<u>\$ 218,600</u>

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Supplemental Pro Forma Information (Unaudited)—The following unaudited pro forma combined financial information (“the pro forma financial information”) gives effect to the Plateau Acquisition, accounted for as a business combination using the purchase method of accounting. The pro forma financial information reflects the Plateau Acquisition and related events as if they occurred at the beginning of the period, and gives effect to pro forma events that are: directly attributable to the acquisition, factually supportable and expected to have a continuing impact on the combined results of Sterling and Plateau following the Plateau Acquisition. The pro forma financial information includes adjustments to (1) exclude transaction costs that were included in historical results and are expected to be non-recurring, (2) include additional intangibles amortization and net interest expense associated with the Plateau Acquisition and (3) include the pro forma results of Plateau for the years ended December 31, 2019 and 2018. This pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the pro forma events taken place on the dates indicated. Further, the pro forma financial information does not purport to project the future operating results of the combined company following the Plateau Acquisition.

	Years Ended December 31,	
	2019	2018
Pro forma revenue	\$ 1,358,736	\$ 1,326,854
Pro forma net income attributable to Sterling ⁽¹⁾	\$ 90,408	\$ 54,282

⁽¹⁾ Pro forma net income attributable to Sterling does not include any non-cash income tax expense, as we had a valuation allowance in 2018 and 2019. Additionally, in 2019 we had a reversal of the valuation allowance on our net deferred tax assets. See *Note 13 - Income Taxes* for a further discussion of the reversal.

4. REVENUE FROM CUSTOMERS

Backlog—The following table presents the Company’s backlog, by segment:

	December 31,	
	2020	2019
Heavy Civil Backlog	\$ 898,183	\$ 834,049
Specialty Services Backlog	277,205	233,976
Total Heavy Civil and Specialty Services Backlog	\$ 1,175,388	\$ 1,068,025

The Company expects to recognize approximately 64% of its backlog as revenue during the next twelve months, and the balance thereafter.

Revenue Disaggregation—The following tables present the Company’s revenues disaggregated by major end market and contract type:

	Years Ended December 31,		
	2020	2019	2018
Revenues by major end market			
Heavy Highway	\$ 526,561	\$ 483,175	\$ 513,376
Aviation	109,894	141,371	111,824
Water Containment and Treatment	69,922	65,795	66,928
Other	47,447	69,984	73,510
Heavy Civil Revenues	753,824	760,325	765,638
Land Development	397,253	84,637	—
Commercial	111,641	128,187	120,333
Specialty Services Revenues	508,894	212,824	120,333
Residential Revenues	164,694	153,129	151,696
Total Revenues	\$ 1,427,412	\$ 1,126,278	\$ 1,037,667
Revenues by contract type			
Fixed-Unit Price	\$ 843,401	\$ 708,638	\$ 733,047
Lump Sum	389,045	262,237	146,874
Residential and Other	194,966	155,403	157,746
Total Revenues	\$ 1,427,412	\$ 1,126,278	\$ 1,037,667

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Each of these contract types presents advantages and disadvantages. Typically, the Company assumes more risk with lump-sum contracts. However, these types of contracts offer additional profits if the work is completed for less than originally estimated. Under fixed-unit price contracts, the Company's profit may vary if actual labor-hour costs vary significantly from the negotiated rates. Also, because some contracts can provide little or no fee for managing material costs, the components of contract cost can impact profitability.

Variable Consideration

The Company has projects that it is in the process of negotiating, or awaiting final approval of, unapproved change orders and claims with its customers. The Company is proceeding with its contractual rights to recoup additional costs incurred from its customers based on completing work associated with change orders, including change orders with pending change order pricing, or claims related to significant changes in scope which resulted in substantial delays and additional costs in completing the work. Unapproved change order and claim information has been provided to the Company's customers and negotiations with the customers are ongoing. If additional progress with an acceptable resolution is not reached, legal action will be taken. Based upon the Company's review of the provisions of its contracts, specific costs incurred and other related evidence supporting the unapproved change orders and claims, together in some cases as necessary with the views of the Company's outside claim consultants, the Company concluded it was appropriate to include in project price amounts of \$7,142 and \$3,000, at December 31, 2020 and 2019, respectively, relating to unapproved change orders and claims. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Contract Estimates

Accounting for long-term contracts and programs involves the use of various techniques to estimate total contract revenue and costs. For long-term contracts, the Company estimates the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognizes such profit over the life of the contract. Contract estimates are based on various assumptions to project the outcome of future events that often span several years. These assumptions include labor productivity and availability, the complexity of the work to be performed, the cost and availability of materials and the performance of subcontractors. Changes in job performance, job conditions and estimated profitability, including those changes arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Changes in estimated revenues and gross margin resulted in a net increase of \$7,439 for the year ended December 31, 2020, a net decrease of \$9,044 for the year ended December 31, 2019 and a net increase of \$7,098 for the year ended December 31, 2018, included in "Operating income" on the Consolidated Statements of Operations. The 2019 decrease primarily related to a project for the construction of three separate bridges in Texas.

5. CONSOLIDATED 50% OWNED SUBSIDIARIES

The Company has 50% ownership interests in two subsidiaries ("Myers" and "RHB") that it fully consolidates as a result of its exercise of control over the entities. The earnings attributable to the 50% portions the Company does not own were \$11,100, \$9,800 and \$15,100 for 2020, 2019 and 2018, respectively, and are eliminated within "Other operating expense, net" in the Consolidated Statements of Operations. Any undistributed earnings for partners are included in "Members' interest subject to mandatory redemption and undistributed earnings" within the Consolidated Balance Sheets and are mandatorily payable at the time of the noncontrolling owners' death or permanent disability.

These two subsidiaries have individual mandatory redemption provisions which, under circumstances outlined in the partner agreements, are certain to occur and obligate the Company to purchase each partner's remaining 50% interests for \$20,000 (\$40,000 in the aggregate). The Company has purchased two separate \$20,000 death and permanent total disability insurance policies to mitigate the Company's cash draw if such events were to occur. These purchase obligations are also recorded in "Members' interest subject to mandatory redemption and undistributed earnings" on the Consolidated Balance Sheets.

The liability consists of the following:

	<u>As of December 31,</u>	
	<u>2020</u>	<u>2019</u>
Members' interest subject to mandatory redemption	\$ 40,000	\$ 40,000
Net accumulated earnings	11,290	9,003
Total liability	\$ 51,290	\$ 49,003

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company must determine whether any of its entities, including these two 50% owned subsidiaries, in which it participates, is a VIE. The Company determined that Myers is a VIE and that the Company is the primary beneficiary because pursuant to the terms of the Myers Operating Agreement, the Company is exposed to the majority of potential losses of the partnership.

Summary financial information for Myers is as follows:

	Years Ended December 31,		
	2020	2019	2018
Revenues	\$ 200,674	\$ 205,615	\$ 193,677
Operating income	\$ 4,796	\$ 6,372	\$ 8,819
Net income	\$ 2,382	\$ 3,196	\$ 4,415

6. CONSTRUCTION JOINT VENTURES

Joint ventures with a controlling interest—As discussed in *Note 2 - Basis of Presentation and Significant Accounting Policies*, we consolidate any venture that is determined to be a VIE for which we are the primary beneficiary, or which we otherwise effectively control. The equity held by the remaining owners and their portions of net income (loss) are reflected in stockholders' equity on the Consolidated Balance Sheets line item "Noncontrolling interests" and in the Consolidated Statements of Operations line item "Net income attributable to noncontrolling interests," respectively. The Company determined that a joint venture in which RLW is a 51% owner is a VIE and the Company is the primary beneficiary.

Summary financial information for this construction joint venture is as follows:

	Years Ended December 31,	
	2020	2019
Revenues	\$ 15,800	\$ 6,903
Operating income	\$ 1,271	\$ 467
Net income	\$ 1,278	\$ 471

Joint ventures with a noncontrolling interest—The Company accounts for unconsolidated joint ventures using a pro-rata basis in the Consolidated Statements of Operations and as a single line item ("Receivables from and equity in construction joint ventures") in the Consolidated Balance Sheets. This method is a permissible modification of the equity method of accounting which is a common practice in the construction industry. Combined financial amounts of joint ventures in which the Company has a noncontrolling interest and the Company's share of such amounts which are included in the Company's Consolidated Financial Statements are shown below:

	As of December 31,	
	2020	2019
Current assets	\$ 143,608	\$ 92,710
Current liabilities	\$ (141,295)	\$ (86,705)
Sterling's receivables from and equity in construction joint ventures	\$ 16,653	\$ 9,196

	Years Ended December 31,		
	2020	2019	2018
Revenues	\$ 198,497	\$ 158,291	\$ 115,441
Income before tax	\$ 22,517	\$ 20,449	\$ 8,097
Sterling's noncontrolling interest:			
Revenues	\$ 88,825	\$ 76,419	\$ 55,134
Income before tax	\$ 10,061	\$ 8,170	\$ 4,104

The caption "Receivables from and equity in construction joint ventures" includes undistributed earnings and receivables owed to the Company. Undistributed earnings are typically released to the joint venture partners after the customer accepts the project as completed and any warranty period, if any, has passed.

Other—The use of joint ventures exposes us to a number of risks, including the risk that our partners may be unable or unwilling to provide their share of capital investment to fund the operations of the venture or complete their obligations to us,

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the venture, or ultimately, the customer. Differences in opinions or views among joint venture partners could also result in delayed decision-making or failure to agree on material issues, which could adversely affect the business and operations of the joint venture. In addition, agreement terms may subject us to joint and several liability for our venture partners, and the failure of our venture partners to perform their obligations could impose additional performance and financial obligations on us. The aforementioned factors could result in unanticipated costs to complete the projects, liquidated damages or contract disputes, including claims against our partners.

7. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	As of December 31,	
	2020	2019
Construction and transportation equipment	\$ 231,799	\$ 217,945
Buildings and improvements	21,025	14,641
Land	3,891	3,891
Office equipment	3,012	2,767
Total property and equipment	259,727	239,244
Less accumulated depreciation	(133,059)	(123,214)
Total property and equipment, net	<u>\$ 126,668</u>	<u>\$ 116,030</u>

Depreciation Expense—Depreciation expense is primarily included within cost of revenues and was approximately \$21,300, \$16,000 and \$14,400 for 2020, 2019 and 2018, respectively.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Reporting Units—The Company’s reporting units consist of its Heavy Civil, Specialty Services and Residential segments. Goodwill is not amortized, but instead is reviewed for impairment at least annually during the fourth quarter of each year at the reporting level, absent any interim indicators of impairment or other factors requiring an assessment.

Annual Impairment Assessment—For our 2020 annual impairment test we performed a qualitative assessment, using information as of October 1. Under current guidance, we are permitted to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test. We determined there were no factors indicating the need to perform a quantitative goodwill impairment test and concluded that it is more likely than not the fair value of our reporting units is greater than their carrying value and thus there was no impairment to goodwill.

In addition to our annual review, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value of a reporting unit may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant adverse changes in the business climate which may be indicated by a decline in our market capitalization or decline in operating results. No impairments were recorded to our goodwill during the years ended December 31, 2020, 2019 and 2018. No material events or changes occurred between the testing date and year end to trigger a subsequent impairment review.

At December 31, 2020 and 2019, we had goodwill with a carrying amount of \$192,014 and \$191,892, respectively. The following table presents goodwill by reportable segment:

	December 31, 2020	December 31, 2019
Goodwill		
Heavy Civil	\$ 54,806	\$ 54,806
Specialty Services	106,783	106,661
Residential	30,425	30,425
Total Goodwill	<u>\$ 192,014</u>	<u>\$ 191,892</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Other Intangible Assets

The following table presents our acquired finite-lived intangible assets, including the weighted-average useful lives for each major intangible asset category and in total:

	Weighted Average Life (Years)	December 31, 2020		December 31, 2019	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	25	\$ 232,623	\$ (16,360)	\$ 232,623	\$ (6,911)
Trade name	23	30,107	(3,209)	30,107	(1,692)
Non-compete agreements	5	2,487	(761)	2,487	(291)
Total	24	<u>\$ 265,217</u>	<u>\$ (20,330)</u>	<u>\$ 265,217</u>	<u>\$ (8,894)</u>

During the years ended December 31, 2020, 2019 and 2018, we have amortized approximately \$11,400, \$4,700, and \$2,400 respectively. Amortization expense is anticipated to be approximately \$11,500, \$11,300, \$11,200, \$11,100, and \$10,700 for 2021, 2022, 2023, 2024 and 2025, respectively.

9. DEBT

The Company's outstanding debt was as follows:

	As of December 31,	
	2020	2019
Term Loan Facility	\$ 355,000	\$ 400,000
Revolving Credit Facility	—	20,000
Credit Facility	<u>355,000</u>	<u>420,000</u>
Note payable to seller, Plateau Acquisition	10,000	10,000
Notes and deferred payments to sellers, Tealstone Acquisition	—	12,230
Other debt	10,397	805
Total debt	<u>375,397</u>	<u>443,035</u>
Less - Current maturities of long-term debt	(77,434)	(42,473)
Less - Unamortized debt issuance costs	(6,714)	(9,935)
Total long-term debt	<u>\$ 291,249</u>	<u>\$ 390,627</u>

Credit Facility—On October 2, 2019, the Company, as borrower, and certain of its subsidiaries, as guarantors, entered into a credit agreement (as amended, the “Credit Agreement”) with BMO Harris Bank N.A., as administrative agent (the “Agent”), Bank of America, N.A., as syndication agent, and BMO Capital Markets Corp. and BofA Securities, Inc., as joint lead arrangers and joint book runners. The Credit Agreement provides the Company with senior secured debt financing in an amount up to \$475,000 in the aggregate, consisting of (i) a senior secured first lien revolving credit facility (the “Revolving Credit Facility”) in an aggregate principal amount of \$75,000 (with a \$75,000 limit for the issuance of letters of credit and a \$15,000 sublimit for swing line loans) and (ii) a senior secured first lien term loan facility (the “Term Loan Facility”) in the amount of \$400,000 (collectively, the “Credit Facility”). The obligations under the Credit Facility are secured by substantially all assets of the Company and the subsidiary guarantors, subject to certain permitted liens and interests of other parties. The Credit Facility will mature on October 2, 2024.

The Company obtained the Credit Facility in order to facilitate the transactions contemplated by the Plateau Acquisition, including to refinance the existing indebtedness of the Company, finance capital expenditures, finance working capital, finance acquisitions permitted under the Credit Agreement, finance other general corporate purposes and fund certain fees and expenses associated with the closing of the Credit Facility and the Plateau Acquisition.

On December 2, 2019, the Credit Agreement was amended to modify (i) the applicable margins with respect to Base Rate and London Inter-Bank Offered Rate (“LIBOR”) borrowings under the Credit Facility, (ii) the required amounts of mandatory prepayments of the Credit Facility with excess cash flow, (iii) the amounts of scheduled principal payments quarterly and at maturity on the Term Loan Facility, and (iv) the applications of partial prepayments of the Term Loan Facility on a ratable, weighted basis among all remaining scheduled principal payments on the Term Loan Facility. The modifications in (i)-(iii)

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mentioned above were pursuant to the customary “market flex” rights contained in the fee letter related to the Credit Agreement.

The Company is required to make mandatory prepayments on the Credit Facility with proceeds received from issuances of debt, events of loss and certain dispositions. The Company also is required to prepay the Credit Facility with its excess cash flow in an amount equal to (a) if the Total Leverage Ratio (as defined in the Credit Agreement) is greater than or equal to 2.50 to 1.00, 75% of excess cash flow, (b) if the Total Leverage Ratio is greater than or equal to 2.00 to 1.00 but less than 2.50 to 1.00, 50% of excess cash flow, (c) if the Total Leverage Ratio is greater than or equal to 1.50 to 1.00 but less than 2.00 to 1.00, 25% of excess cash flow and (d) if the Total Leverage Ratio is less than 1.50 to 1.00, 0% of excess cash flow, within 5 days after receipt of its annual audited financial statements.

The Credit Agreement contains various affirmative and negative covenants that may, subject to certain exceptions, restrict the ability of us and our subsidiaries to, among other things, grant liens, incur additional indebtedness, make loans, advances or other investments, make non-ordinary course asset sales, declare or pay dividends or make other distributions with respect to equity interests, purchase, redeem or otherwise acquire or retire capital stock or other equity interests, or merge or consolidate with any other person, among various other things. In addition, the Company is required to maintain the following financial covenants:

- a Total Leverage Ratio (as defined in the Credit Agreement) at the last day of each fiscal quarter not to be greater than 4.00 to 1.00 ending on December 31, 2019 through and including June 30, 2020, 3.75 to 1.00 ending on September 30, 2020, 3.50 to 1.00 ending on December 31, 2020 through and including March 31, 2021, 3.25 to 1.00 ending on June 30, 2021 through and including September 30, 2021, and 3.00 to 1.00 ending on December 31, 2021 and thereafter; and
- a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of not less than 1.20 to 1.00 as of the last day of each fiscal quarter of the Company, commencing with the fiscal quarter ending December 31, 2019.

The Revolving Credit Facility bears interest at either the base rate (“Base Rate”) plus a margin, or at a one-, two-, three-, six- or, if available, twelve-month LIBOR rate plus a margin, at the Company’s election. At December 31, 2020, the Company calculated interest using a one-month LIBOR rate and an applicable margin of 0.15% and 4.50% per annum, respectively. In addition to interest on debt borrowings, we are assessed quarterly commitment fees on the unutilized portion of the facility as well as letter of credit fees on outstanding instruments. Interest under the Revolving Credit Facility is payable (i) with respect to LIBOR borrowings, on the last day of each applicable interest period (one, two, three, six or twelve months), unless the applicable interest period is longer than three months, then on each day occurring every three months after the commencement of such interest period, and on the maturity date, and (ii) with respect to Base Rate borrowings, on the last day of every calendar quarter and on the maturity date. At December 31, 2020, we had no outstanding borrowings under the Revolving Credit Facility, providing \$75,000 of available capacity. During 2020, our weighted average interest rate on borrowings under the Revolving Credit Facility was approximately 6.68%. The Revolving Credit Facility may be repaid in whole or in part at any time, with final payment of all principal and interest then outstanding due on October 2, 2024.

Interest under the Term Loan Facility is payable at the same frequencies and bears interest at the same rate options as the Revolving Credit Facility. We continue to utilize an interest rate swap to hedge against \$350,000 of the outstanding Term Loan Facility, which resulted in a weighted average interest rate of approximately 5.74% per annum during 2020. At December 31, 2020, we had \$355,000 of outstanding borrowings under the facility. Principal payments on the Term Loan Facility total \$30,000, \$50,000, \$50,000, \$50,000 and \$15,000 for each of the years ending 2020, 2021, 2022, 2023, and 2024, respectively. Additionally, based on the Company’s December 31, 2020 Consolidated Financial Statements, the Company is required to make a \$32,700 excess cash flow payment in the first quarter of 2021, of which the Company has prepaid \$15,000 in the fourth quarter of 2020 and will make the remaining \$17,700 payment in the first quarter of 2021. The Company’s final payment under the Term Loan Facility is due on October 2, 2024, which will include the remaining \$172,500 of outstanding principal and any related interest outstanding.

Debt Issuance Costs—The costs associated with the Term Loan Facility and Revolving Credit Facility are reflected on the Balance Sheets as a direct reduction from the related debt liability and amortized over the terms of the respective facilities. Amortization of debt issuance costs was \$2,920, \$2,307 and \$2,073 for the years ended December 31, 2020, 2019 and 2018, respectively, and was recorded as interest expense. Additionally, due to an early payment of \$15,000 on the Term Loan Facility in the fourth quarter of 2020, we recorded a loss on extinguishment of \$301 related to debt issuance costs.

Note Payable to Seller, Plateau Acquisition—As part of the Plateau Acquisition, the Company issued a \$10,000 subordinated promissory note to one of the Plateau sellers that bears interest at 8% with interest payments due quarterly beginning January 1, 2020. The subordinated promissory note has no scheduled payments, however, it may be repaid in whole or in part at any time, subject to certain payment restrictions under a subordination agreement with the Agent under our Credit

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Agreement, without premium or penalty, with final payment of all principal and interest then outstanding due on April 2, 2025. At inception, the subordinated promissory note's interest rate approximated market.

Notes and Deferred Payments to Sellers, Tealstone Acquisition—At December 31, 2020 the Company had no balance remaining on the combined promissory notes and deferred cash payments issued as part of the Tealstone Acquisition. During the year ended December 31, 2020, the Company paid \$7,500 of deferred cash payments and \$5,000 on promissory notes that were due on April 3, 2020. Accreted interest for the period was \$273, \$1,086, and \$1,177 for the years ended December 31, 2020, 2019 and 2018, respectively, and was recorded as interest expense.

Other Debt—During the second quarter of 2020, the Company's two 50% owned subsidiaries received three short-term Paycheck Protection Program loans (the "PPP Loans") totaling approximately \$9,800. The loans may be fully or partially forgiven if the funds are used for payroll related costs, interest on mortgages, rent and utilities, and as long as our employee headcount and salary levels remain consistent with our baseline period over an eight to twenty-four week period following the date the loans were received. Any forgiveness of the loans requires approval by the Small Business Administration ("SBA"). If the SBA determines that the loans are not fully or partially forgiven, the balance is subject to a 1% interest rate and requires repayment. The PPP Loans have been classified as short-term debt under "Current Liabilities" on the Consolidated Balance Sheets at December 31, 2020, as we expect to submit forgiveness applications and receive a determination by the SBA within the next six months.

Compliance and Other—As of December 31, 2020, we were in compliance with all of our restrictive and financial covenants. The Company's debt is recorded at its carrying amount in the Consolidated Balance Sheets. As of December 31, 2020 and 2019, the carrying values of our debt outstanding approximated the fair values.

10. FINANCIAL INSTRUMENTS

Interest Rate Derivative—We continue to utilize a swap arrangement to hedge against interest rate variability associated with \$350,000 of the \$355,000 outstanding under the Term Loan Facility. The Company has designated its interest rate swap agreement as a cash flow hedging derivative. To the extent the derivative instrument is effective, changes in fair value are recognized in other comprehensive income (loss) ("OCI") until the underlying hedged item is recognized in earnings. At December 31, 2020 the accumulated other comprehensive income (loss) ("AOCI") related to the swap was a net loss of \$6,821.

Derivatives Disclosures

Fair Value—Financial instruments are required to be categorized within a valuation hierarchy based upon the lowest level of input that is significant to the fair value measurement. The three levels of the valuation hierarchy are as follows:

- Level 1—Fair value is based on quoted prices in active markets.
- Level 2—Fair value is based on internally developed models that use, as their basis, readily observable market parameters. Our derivative positions are classified within level 2 of the valuation hierarchy as they are valued using quoted market prices for similar assets and liabilities in active markets. These level 2 derivatives are valued utilizing an income approach, which discounts future cash flow based on current market expectations and adjusts for credit risk.
- Level 3—Fair value is based on internally developed models that use, as their basis, significant unobservable market parameters. The Company did not have any level 3 classifications at December 31, 2020 or December 31, 2019.

The following table presents the fair value of the interest rate derivative by valuation hierarchy and balance sheet classification:

	December 31, 2020				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivative Assets								
Other current assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 216	\$ —	\$ 216
Other non-current assets	—	—	—	—	—	—	—	—
Total assets at fair value	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 216	\$ —	\$ 216
Derivative Liabilities								
Other current liabilities	\$ —	\$ (4,427)	\$ —	\$ (4,427)	\$ —	\$ (61)	\$ —	\$ (61)
Other non-current liabilities	—	(2,629)	—	(2,629)	—	(398)	—	(398)
Total liabilities at fair value	\$ —	\$ (7,056)	\$ —	\$ (7,056)	\$ —	\$ (459)	\$ —	\$ (459)

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The carrying values of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate their fair values because of the short-term nature of these instruments. At December 31, 2020 and December 31, 2019, the fair value of the term loan, based upon the current market rates for debt with similar credit risk and maturities, approximated its carrying value as interest is based on LIBOR plus an applicable margin.

OCI—The following table presents the total value recognized in OCI and reclassified from AOCI into earnings during the years ending December 31, 2020 and 2019 for derivatives designated as cash flow hedges:

	Year Ended December 31, 2020			Year Ended December 31, 2019		
	Before Tax Amount	Tax Amount	Net of Tax Amount	Before Tax Amount	Tax Amount	Net of Tax Amount
Net gain (loss) recognized in OCI	\$ (10,103)	\$ 2,273	\$ (7,830)	\$ (243)	\$ 57	\$ (186)
Net amount reclassified from AOCI into earnings ⁽¹⁾	3,555	(780)	2,775	(30)	7	(23)
Change in other comprehensive income	<u>\$ (6,548)</u>	<u>\$ 1,493</u>	<u>\$ (5,055)</u>	<u>\$ (273)</u>	<u>\$ 64</u>	<u>\$ (209)</u>

⁽¹⁾ Net unrealized losses totaling \$4,192 are anticipated to be reclassified from AOCI into interest expense during the next 12 months due to settlement of the associated underlying obligations.

11. LEASE OBLIGATIONS

The Company has operating and finance leases primarily for construction and transportation equipment, as well as office space. The Company's leases have remaining lease terms of one month to eight years, some of which include options to extend the leases for up to ten years.

The components of lease expense is as follows:

	Years Ended December 31,	
	2020	2019
Operating lease cost	\$ 8,541	\$ 8,594
Short-term lease cost	13,109	18,032
Finance lease cost:		
Amortization of right-of-use assets	204	213
Interest on lease liabilities	28	20
Total finance lease cost	<u>\$ 232</u>	<u>\$ 233</u>

Supplemental cash flow information related to leases is as follows:

	Years Ended December 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 8,296	\$ 8,127
Operating cash flows from finance leases	28	20
Financing cash flows from finance leases	204	213
Right-of-use assets obtained in exchange for lease obligations (noncash):		
Operating leases	\$ 8,450	\$ 8,955
Finance leases	\$ —	\$ 816

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Supplemental balance sheet information related to leases is as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Operating Leases		
Operating lease right-of-use assets	\$ 16,515	\$ 13,979
Current portion of long-term lease obligations	\$ 7,588	\$ 7,095
Long-term lease obligations	8,958	6,976
Total operating lease liabilities	\$ 16,546	\$ 14,071
Finance Leases		
Property and equipment, at cost	\$ 1,479	\$ 1,479
Accumulated depreciation	(702)	(482)
Property and equipment, net	\$ 777	\$ 997
Current maturities of long-term debt	\$ 188	\$ 204
Long-term debt	372	560
Total finance lease liabilities	\$ 560	\$ 764
Weighted Average Remaining Lease Term		
Operating leases	3.2	2.5
Finance leases	3.2	4.0
Weighted Average Discount Rate		
Operating leases	5.7 %	6.0 %
Finance leases	4.2 %	4.2 %

Maturities of lease liabilities are as follows:

Year Ending December 31,	<u>Operating Leases</u>	<u>Finance Leases</u>
2021	\$ 7,085	\$ 208
2022	5,492	161
2023	2,969	154
2024	1,270	77
2025	542	—
Thereafter	1,014	—
Total lease payments	\$ 18,372	\$ 600
Less imputed interest	(1,826)	(40)
Total	\$ 16,546	\$ 560

12. COMMITMENTS AND CONTINGENCIES

Insurance

The Company carries insurance policies to cover various risks, primarily general liability, automobile liability, workers' compensation and employee medical expenses under which we are liable to reimburse the insurance company for a portion of each claim paid.

Property and Casualty—Payments for general liability and workers' compensation claim amounts generally range from the first \$2 to \$250 per occurrence for Workers' Compensation, and \$100 per occurrence for General Liability. We accrue for probable losses, both reported and unreported, that are reasonably estimable using actuarial methods based on historic trends, modified, if necessary, by recent events. Changes in our loss assumptions caused by changes in actual experience would affect our assessment of the ultimate liability and could have an effect on our operating results and financial position for payments up to \$350 per occurrence collective for general liability and workers' compensation, with a maximum aggregate liability of \$4,000 combined casualty losses per year. The Company also maintains commercial insurance coverage in excess of the limits

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
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of our primary commercial automobile, general liability and employers' liability policies, in the amount of \$75,000. The Company also maintains a guaranteed cost program for Workers' Compensation, General Liability and Automobile Liability. Utilizing internal actuarial models, the insurance carriers established, and applied to the exposure base, a fixed rate to ascertain the premium cost to the Company. These premium costs are auditable at the conclusion of the policy term to account for discrepancies in the estimated and actual policy exposure, however not for any losses incurred during the policy term. The guaranteed cost program maintained by the Company does carry a deductible, however in a small enough amount as to expose the Company to unsubstantial and immaterial risk for any one loss incurred.

Medical—The Company maintains fully insured and self-insured medical benefit plans, which provides medical benefits to employees electing coverage under the plans. Under its self-insured plans, the Company has stop-loss coverage per claim to limit the exposure arising from these claims. Self-insured claims filed and claims incurred but not reported are accrued based upon management's estimates of the ultimate cost of claims incurred using actuarial assumptions followed in the insurance industry and historical experience. Although management believes it has the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insured liabilities.

Guarantees

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

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

The Company's Certificate of Incorporation provides for indemnification of its officers and directors. The Company has a directors and officers insurance policy that limits their exposure to litigation against them in their capacities as such.

Litigation

The Company, including its construction joint ventures and its consolidated 50% owned subsidiaries, is now and may in the future be involved as a party to various legal proceedings that are incidental to the ordinary course of business. Management, after consultation with legal counsel, does not believe that the outcome of these actions will have a material impact on the Consolidated Financial Statements of the Company. There are no significant unresolved legal issues as of December 31, 2020 and 2019.

Purchase Commitments

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

Earn-out Liabilities

The Company has an earn-out agreement with Tealstone's former owners which began on the April 3, 2017 acquisition date and extends through March 31, 2021, and is subject to a maximum earn-out of \$15,000 over that period. The initial annual performance period for the Tealstone earn-out ended March 31, 2018. The Tealstone earn-out liability is determined based on Tealstone's net income performance against established benchmarks. In 2020, 2019 and 2018 the expense related to the earn-out obligation was \$1,500, \$2,000 and \$1,900, respectively, recorded in "Other operating expense, net" on the Consolidated Statements of Operations. This liability is included in other current liabilities on the accompanying Consolidated Balance Sheets.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. INCOME TAXES

Provision for Income Taxes

The Company and its subsidiaries are based in the U.S. and file federal and various state income tax returns. The components of the provision for income taxes were as follows:

	Years Ended December 31,		
	2020	2019	2018
Current tax expense	\$ 3,032	\$ 1,182	\$ 288
Deferred tax (benefit) expense	19,439	(27,398)	1,450
Income tax (benefit) expense	<u>\$ 22,471</u>	<u>\$ (26,216)</u>	<u>\$ 1,738</u>

Due to the net operating loss carryforwards, the Company expects no cash payments for federal tax income taxes for expense for 2020 and 2019. The Company makes cash payments for state income taxes in states in which the Company does not have net operating loss carry forwards.

Effective Tax Rate

The items comprising the difference between income taxes computed at the U.S. federal statutory rates in effect for 2020, 2019 and 2018 and our effective tax rates were as follows:

	Years Ended December 31,					
	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Tax expense at the U.S. federal statutory rate	\$ 13,729	21.0 %	\$ 3,041	21.0 %	\$ 6,568	21.0 %
State income taxes, net of federal benefits	5,149	7.9 %	1,670	11.5 %	364	1.2 %
Taxes on subsidiaries' and joint ventures' earnings allocated to noncontrolling interests owners	(141)	(0.2)%	(2,241)	(15.5)%	(4,097)	(13.1)%
Valuation allowance	—	— %	(29,375)	(202.9)%	(1,013)	(3.2)%
Executive compensation, including stock incentives	1,881	2.9 %	805	5.6 %	26	0.1 %
Other permanent differences	1,853	2.8 %	(116)	(0.8)%	(110)	(0.4)%
Income tax (benefit) expense	<u>\$ 22,471</u>	<u>34.4 %</u>	<u>\$ (26,216)</u>	<u>(181.1)%</u>	<u>\$ 1,738</u>	<u>5.6 %</u>

The 2020 effective income tax rate varied from the statutory rate primarily as a result of state income taxes, nondeductible compensation and other permanent differences. The decrease from the U.S. federal statutory rate in 2019 was primarily a result of the reversal of the valuation allowance on our net deferred tax assets. The 2018 effective income tax rate varied from the statutory rate primarily as a result of a change in the valuation allowance on our net deferred tax assets exclusive of deferred tax liabilities on indefinite lived assets and net income attributable to noncontrolling interest owners, which is taxable to those owners rather than the Company.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred Tax Assets and Liabilities

The components of deferred tax assets and liabilities were as follows:

	Long Term	
	As of December 31,	
	2020	2019
Assets related to:		
Accrued compensation and other	\$ 4,743	\$ 3,981
Noncontrolling interests	1,860	1,812
Deferred revenue	—	922
Members interest liabilities	9,131	11,328
Right of use liabilities	3,687	3,253
Derivative Liability	1,557	—
Deferred Payments	2,223	—
Net operating loss carryforwards	14,316	19,801
Total deferred tax assets	37,517	41,097
Liabilities related to:		
Depreciation of property and equipment	(16,490)	(7,911)
Right of use assets	(3,680)	(3,232)
Amortization of tax basis goodwill	(7,099)	(3,091)
Other	(2,431)	(851)
Total deferred tax liabilities	\$ (29,700)	\$ (15,085)
Net total deferred tax asset	\$ 7,817	\$ 26,012

Net Operating Loss—At December 31, 2020 the Company had federal and state net operating loss (“NOL”) carryforwards of \$58,719 and \$36,381, respectively, which expire at various dates in the next 18 years for U.S. federal income tax and in the next 8 to 18 years for the various state jurisdictions where we operate. Such NOL carryforwards expire beginning in 2028 through 2039.

Valuation Allowance—The Company performs an analysis at the end of each reporting period to determine whether it is more likely than not deferred tax assets will be realized in future years. In performing its assessments in prior periods, a full valuation allowance was recorded as a result of objective negative evidence which included historical losses from 2013 to 2016 and the first quarter of 2017 and associated limits on ability to consider other subjective evidence such as projections for future growth. During 2019, the Company achieved eleven of the last twelve consecutive quarters of pre-tax income and is projecting sufficient future taxable income to be available to utilize all NOLs prior to their expiration. Deferred tax liabilities were a consideration in the analysis of whether to apply a valuation allowance because taxable temporary differences may be used as a source of taxable income to support the realization of deferred tax assets. A deferred tax liability that relates to an asset with an indefinite life, such as goodwill, may not be considered a source of income and should not be netted against deferred tax assets for valuation allowance purposes. As a result of this analysis, the Company believed that there was sufficient positive evidence that outweighed any negative evidence and therefore released the full valuation allowance in the fourth quarter of 2019.

Uncertain Tax Positions

As a result of the Company’s analysis, management has determined that the Company does not have any material uncertain tax positions. The Company’s U.S. federal income tax returns for 2018 and later years are open and subject to examination by the I.R.S. In addition, the Company’s state income tax returns for 2017 and later years are open and subject to examination. Additionally, federal and state NOLs may be adjusted by the taxing authorities for the 2013 and later tax years.

14. STOCKHOLDERS' EQUITY

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

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

Treasury Stock—On November 2, 2018, the Board of Directors approved a plan that authorized stock repurchases of up to 2,000 shares of the Company's common stock. Under the plan, the Company may repurchase its common stock in the open market or through privately negotiated transactions at such times and at such prices as determined to be in the Company's best interest. The Company accounts for the repurchase of treasury shares under the cost method. This repurchase program expired on June 30, 2020. As mentioned in *Note 9 - Debt*, the Company's Credit Agreement entered into on October 2, 2019 contains various usual and customary covenants including one that limits the repurchase of common shares. Under the plan, the Company repurchased 0, 250 and 467 shares of its common stock during fiscal years 2020, 2019, and 2018, respectively. See *Note 15 - Stock Incentive Plan*, for a discussion of share repurchases transferred into treasury stock resulting from tax withholding requirements under our stock incentive plan.

AOCI—During the years ended December 31, 2020 and 2019, changes to AOCI were a result of net gains (losses) recognized in OCI and amounts reclassified from AOCI into earnings related to our interest rate derivative. See *Note 10 - Financial Instruments* for further discussion of our cash flow hedge.

Stock Offerings—On October 2, 2019, in connection with the Plateau Acquisition, the Company issued 1,245 shares of the Company's stock as consideration paid to the Plateau sellers. The value of the shares issued was \$16,195 based on Sterling's closing stock price on October 1, 2019. See *Note 3 - Plateau Acquisition* for further discussion of the Plateau Acquisition purchase consideration.

15. STOCK INCENTIVE PLAN

General—The Company has stock incentive plans (the "Stock Incentive Plans") administered by the Compensation and Talent Development Committee of the Board of Directors. Under the Stock Incentive Plans, the Company can issue shares to employees and directors in the form of restricted stock awards ("RSAs"), restricted stock units ("RSUs"), and performance share units ("PSUs"). Compensation expense recognized related to the Company's Stock Incentive Plans was \$11,572, \$3,761 and \$3,064 for 2020, 2019 and 2018, respectively. Under our 2018 Stock Incentive Plan, we are authorized to issue 1,800 shares, and assuming PSU vestings occur at maximum payout with vesting dates through 2024, no authorized shares remained available under our Stock Incentive Plans for future grants at December 31, 2020. The Company intends to propose an increase in the amount of authorized shares under the 2018 Stock Incentive Plan at its 2021 annual meeting of stockholders.

During 2019, the Company implemented an Employee Stock Purchase Plan ("ESPP"). Under the ESPP, employees may make quarterly purchases of shares at a discount through regular payroll deductions for up to 15% of their compensation, subject to a \$25 maximum purchase per year. The shares are purchased at 85% of the closing price per share on the last trading day of the calendar quarter. Included within total stock-based compensation expense is \$71 and \$27 of expense related to the ESPP, for 2020 and 2019, respectively. ESPP expense represents the difference between the fair value on the date of purchase and the price paid. At December 31, 2020, 748 authorized shares remained available for issuance under the ESPP.

Total equity-based compensation expense recognized related to the Company's Stock Incentive Plans and the ESPP was \$11,643, \$3,788 and \$3,064 for 2020, 2019 and 2018, respectively, primarily recognized within general and administrative expenses. At December 31, 2020, there was approximately \$10,800 of unrecognized compensation cost related to equity-based grants, which is expected to be recognized over a weighted-average period of 2.3 years. The Company recognizes forfeitures as they occur, rather than estimating expected forfeitures.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

RSAs—The Company’s RSA awards may not be sold or otherwise transferred until certain restrictions have lapsed, which is generally over a three-year graded vesting period for employees and over one year for Directors. The total initial fair value for these awards is determined based upon the market price of our stock at the grant date and is expensed on a straight-line basis over the vesting period. During 2020, we recognized \$653 of compensation expense. The following table presents RSA activity:

	Number of Shares	Weighted Average Fair Value Per Share
RSAs		
Balance at December 31, 2019	83	11.91
Granted	51	8.73
Vested	(71)	11.22
Forfeited	(8)	15.50
Balance at December 31, 2020	55	9.26

During 2019, 52 RSAs were granted with a weighted-average grant-date fair value per share of \$12.06. During 2018, 49 RSAs were granted with a weighted-average grant-date fair value per share of \$11.64. The total fair value of RSAs that vested during 2020, 2019 and 2018 was \$799, \$1,261 and \$1,107, respectively.

RSUs—The Company’s RSU awards may not be sold or otherwise transferred until certain restrictions have lapsed, which is generally over a three-year graded vesting period. The total initial fair value for these awards is determined based upon the market price of our stock at the grant date and is expensed on a straight-line basis over the vesting period. During 2020, we recognized \$2,614 of compensation expense. The following table presents RSU activity:

	Number of Shares	Weighted Average Fair Value Per Share
RSUs		
Balance at December 31, 2019	344	13.78
Granted	169	13.52
Vested	(213)	13.72
Forfeited	(13)	11.67
Balance at December 31, 2020	287	13.77

During 2019, 261 RSUs were granted with a weighted-average grant-date fair value per share of 12.14. During 2018, 248 RSUs were granted with a weighted-average grant-date fair value per share of 16.08. The total fair value of RSUs that vested during 2020, 2019 and 2018 were \$2,918, \$1,709, and \$392, respectively.

PSUs—The Company’s performance-based share awards are subject to the achievement of specified financial based performance targets and are generally based upon EPS and vest over three years. The total initial fair value for these awards is determined based upon the market price of our stock at the grant date applied to the total number of shares. This fair value is expensed and adjusted over the vesting period based on the level of payout expected to be achieved. As a result of financial performance conditions met during 2020, we recognized \$8,305 of compensation expense.

During 2020, 2019 and 2018, PSU shares totaling 176, 310 and 890, respectively, were granted with a weighted-average grant-date fair value per share of \$14.06, \$11.81 and \$11.64, respectively. During 2020, upon vesting and achievement of certain performance goals, we distributed 133 PSUs with a weighted-average grant-date fair value per share of \$12.20. The total fair value of PSUs that vested during 2020 and 2019 was \$1,620 and \$948, respectively. No PSUs vested in 2018.

Shares Withheld for Taxes—The Company withheld 123, 74 and 8 shares for taxes on RSU and PSU stock-based compensation vestings for \$1,845, \$964 and \$92 during 2020, 2019 and 2018, respectively. The Company withheld 11, 17 and 28 shares for taxes on RSA stock-based compensation vestings for \$140, \$255 and \$361 during 2020, 2019 and 2018, respectively.

Warrants—On April 3, 2017, the Company issued warrants (the “Warrants”) to the lenders under the Oaktree Facility (the “Holders”) pursuant to which such holders have the right to purchase, for a period of 5 years from the date of issuance, up to an aggregate of 1,000 shares of the Company’s common stock (the “Warrant Shares”) at an initial exercise price of \$10.25 per share, subject to adjustment for stock splits, combinations and similar recapitalization events and weighted-average anti-dilution

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

upon the issuance by the Company of shares of common stock or rights, options or convertible securities exercisable for common stock in the future at a price below the exercise price of the Warrants.

The Company valued these Warrants using the Black-Scholes model, which is a type 3 fair value measurement. The key assumptions used in the Black-Scholes Model and fair value output are summarized in the table below:

	April 3, 2017
Stock price at grant date	\$ 8.88
Exercise option price	\$ 10.25
Expected term of warrants (in years)	5
Expected volatility rate	48.29 %
Risk-free rate	1.88 %
Expected dividend yield	— %
Total fair value	\$ 3,500

During 2020, certain holders of warrants elected the cashless exercise option, and the Company issued 110 common shares on the exercise of 470 warrants with a market value of \$1,477. There were no exercises during 2019 or 2018.

16. EARNINGS PER SHARE

Basic net income per share attributable to Sterling common stockholders is computed by dividing net income attributable to Sterling common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per common share attributable to Sterling common stockholders is the same as basic net income per share attributable to Sterling common stockholders but includes dilutive unvested stock awards and warrants using the treasury stock method. The following table reconciles the numerators and denominators of the basic and diluted per common share computations for net income attributable to Sterling common stockholders:

	Years Ended December 31,		
	2020	2019	2018
Numerator:			
Net income attributable to Sterling common stockholders	\$ 42,306	\$ 39,901	\$ 25,187
Denominator:			
Weighted average common shares outstanding — basic	27,859	26,671	26,903
Shares for dilutive unvested stock and warrants	336	448	291
Weighted average common shares outstanding — diluted	28,195	27,119	27,194
Basic net income per share attributable to Sterling common stockholders	\$ 1.52	\$ 1.50	\$ 0.94
Diluted net income per share attributable to Sterling common stockholders	\$ 1.50	\$ 1.47	\$ 0.93

17. RETIREMENT BENEFITS

Defined Contribution Plans

The Company maintains a defined contribution profit-sharing plan (401(k) plan) covering substantially all non-union persons employed by the Company, whereby employees may contribute a percentage of compensation, limited to maximum allowed amounts under the Internal Revenue Code. The 401(k) plan provides for a discretionary employer contribution and is determined annually by the Company's board of directors. The Company made matching contributions for the year ended December 31, 2020 and 2019 of \$3,250 and \$2,842, respectively, and \$2,700 for the year ended December 31, 2018.

Multi-Employer Pension Plans

As of December 31, 2020, the Company had approximately 2,600 employees, including 2,200 field personnel. We had 300 employees, or 13% of total employees, that were union members covered by collective bargaining agreements.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company contributes to a number of multi-employer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Company chooses to stop participating in some of its multi-employer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table presents our participation in these plans:

Pension Trust Fund	Pension Plan Employer Identification Number	Pension Protection Act (“PPA”) Certified Zone Status ⁽¹⁾		FIP / RP Status Pending/ Implemented ⁽²⁾	Contributions			Surcharge Imposed	Expiration Date of Collective Bargaining Agreement ⁽³⁾
		2020	2019		2020	2019	2018		
Pension Trust Fund for Operating Engineers Pension Plan	94-6090764	Yellow	Yellow	Yes	\$ 2,278	\$ 2,314	\$ 1,932	No	Various
Carpenter Funds Administrative Office	94-6050970	Red	Red	Yes	915	547	748	No	Various
Laborers Pension Trust for Northern California	94-6277608	Green	Green	Yes	787	857	880	No	Various
Cement Mason Pension Trust Fund For Northern California	94-6277669	Yellow	Yellow	Yes	426	320	504	No	Various
All other funds ⁽⁴⁾					7,571	7,144	7,283		
Total Contributions:					<u>\$11,977</u>	<u>\$11,182</u>	<u>\$11,347</u>		

- (1) The most recent PPA zone status available in 2020 and 2019 is for the plan’s year-end during 2019 and 2018, respectively. The zone status is based on information that we received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an Accumulated Funding Deficiency in the current year or projected into the next six years, plans in the yellow zone are less than 80 percent funded and plans in the green zone are at least 80 percent funded.
- (2) Indicates whether the plan has a financial improvement plan (“FIP”) or a rehabilitation plan (“RP”) which is either pending or has been implemented.
- (3) Lists the expiration date(s) of the collective-bargaining agreement(s) to which the plans are subject.
- (4) These funds include multi-employer plans for pensions and other employee benefits. The total individually insignificant multi-employer pension costs contributed were \$1,252, \$829 and \$1,300 for 2020, 2019 and 2018, respectively, and are included in the contributions to all other funds along with contributions to other types of benefit plans. Other employee benefits include certain coverage for medical, prescription drug, dental, vision, life and accidental death and dismemberment, disability and other benefit costs.

We currently have no intention of withdrawing from any of the multi-employer pension plans in which we participate.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

18. SUPPLEMENTAL CASH FLOW INFORMATION

Operating assets and liabilities

The following table summarizes the changes in the components of operating assets and liabilities:

	Years Ended December 31,		
	2020	2019	2018
Accounts receivable	\$ (8,552)	\$ (10,089)	\$ (7,203)
Contracts in progress, net	65,963	(5,188)	(8,288)
Receivables from and equity in construction joint ventures	(7,457)	1,524	659
Other current and non-current assets	(7,861)	43	924
Accounts payable	(42,392)	10,987	1,969
Accrued compensation and other liabilities	8,260	(839)	(4,038)
Members' interest subject to mandatory redemption and undistributed earnings	2,287	(340)	1,957
Changes in operating assets and liabilities	<u>\$ 10,248</u>	<u>\$ (3,902)</u>	<u>\$ (14,020)</u>

19. CONCENTRATION OF RISK AND ENTERPRISE WIDE DISCLOSURES

Contract Revenues—The following table shows contract revenues generated from customers that accounted for more than 10% of the Company's consolidated revenues:

	Years Ended December 31,					
	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Utah Department of Transportation ("UDOT")	*	*	\$135,496	12.0 %	\$153,276	14.8 %

*Represents less than 10% of revenues

Contract Receivables—At December 31, 2020, a customer in our Specialty Services segment accounted for 11% of the Company's outstanding contract receivables with a receivable balance of \$19,807. At December 31, 2019, the same customer accounted for 11% of the Company's outstanding contract receivables with a receivable balance of \$18,700.

The Company's revenue and receivables are entirely derived from the construction of U.S. projects and all of the Company's assets are held domestically within the U.S.

20. RELATED PARTY TRANSACTIONS

The Company has limited related party transactions. The most significant transactions relate to the Company's Ralph L. Wadsworth Construction ("RLW") subsidiary and its executive management who own or have an ownership interest in certain real estate and other companies. RLW has historically performed construction contracts, leased properties, or has provided professional and other services for entities owned by the executive managers of RLW. The total RLW related party revenue related to construction contracts totaled \$0, \$6,400 and \$15,300 in 2020, 2019 and 2018, respectively. RLW leases its main office and equipment maintenance shop for its Utah operations for an annual cost of approximately \$900. The office and shop leases expire in 2022. Additionally, the Company had other individually insignificant miscellaneous transactions with related parties including facility and equipment leases from management who own or have an ownership interest in real estate and equipment companies.

21. SEGMENT INFORMATION

The Company's internal and public segment reporting are aligned based upon the services offered by its operating segments. The Company's operations consist of three reportable segments: Heavy Civil, Specialty Services and Residential. The Company's Chief Operating Decision Maker evaluates the performance of the operating segment based upon revenue and income from operations. Each segment's income from operations reflects corporate costs, allocated based primarily upon revenue.

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents total revenues, depreciation and amortization, and income from operations by reportable segment for the years ended December 31, 2020, 2019 and 2018:

	Years Ended December 31,		
	2020	2019	2018
Revenues			
Heavy Civil	\$ 753,824	\$ 760,325	\$ 765,638
Specialty Services	508,894	212,824	120,333
Residential	164,694	153,129	151,696
Total Revenues	<u>\$ 1,427,412</u>	<u>\$ 1,126,278</u>	<u>\$ 1,037,667</u>
Depreciation and Amortization			
Heavy Civil	\$ 11,191	\$ 12,839	\$ 13,492
Specialty Services	19,745	6,059	1,439
Residential	1,849	1,842	1,839
Total Depreciation and Amortization	<u>\$ 32,785</u>	<u>\$ 20,740</u>	<u>\$ 16,770</u>
Operating Income			
Heavy Civil	\$ 4,536	\$ 3,316	\$ 17,044
Specialty Services	70,583	18,207	4,629
Residential	20,799	20,539	20,938
Subtotal	95,918	42,062	42,611
Acquisition related costs	(1,026)	(4,311)	—
Total Operating Income	<u>\$ 94,892</u>	<u>\$ 37,751</u>	<u>\$ 42,611</u>

The following table presents total assets by reportable segment at December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Assets		
Heavy Civil	\$ 288,529	\$ 270,646
Specialty Services	580,335	577,377
Residential	83,830	86,666
Total Assets	<u>\$ 952,694</u>	<u>\$ 934,689</u>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures include, but are not limited to, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the issuer's management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company's principal executive officer and principal financial officer reviewed and evaluated the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2020. Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective at December 31, 2020 to ensure that the information required to be disclosed by the Company in this annual report on Form 10-K is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to the Company's management including the principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

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

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Attestation Report of the Registered Public Accounting Firm

Grant Thornton LLP, the independent registered public accounting firm that audited our Consolidated Financial Statements included in this annual report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, included in Item 15 "Exhibits and Financial Statement Schedules" under the heading "Reports of the Company's Independent Registered Public Accounting Firm."

Changes in Internal Control over Financial Reporting

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Based on the most recent evaluation, we have concluded that

no changes in our internal control over financial reporting occurred during the three months ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Internal control over financial reporting may not prevent or detect all errors and all fraud. Also, projections of any evaluation of effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item will be contained in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A relating to our 2021 annual meeting of stockholders and is incorporated herein by reference. Our code of business conduct is available at www.strlco.com under Investor Relations—Code of Business Conduct and is available in print to any stockholder who requests a copy. Amendments to or waivers of our code of business conduct granted to any of our directors or executive officers will be published promptly on our website. Such information will remain on our website for at least 12 months.

The table below identifies and sets forth the information required under Regulation 14A for each of the Company’s directors and executive officers:

Name	Current or Former Experience	Director Since
Thomas M. White	Former Chairman of Cardinal Logistics Holdings; Former CFO of Hub Group, Inc.	2018
Joseph A. Cutillo	Chief Executive Officer of the Company	2017
Roger A. Cregg	Former President and CEO of AV Homes, Inc.; Director of Comerica Incorporated	2019
Marian M. Davenport	Former Chair of Infrastructure Committee for City of Houston Fourth Ward Redevelopment Authority; Former Director and Executive Director of Genesys Works	2014
Raymond F. Messer	Chairman Emeritus and Former CEO, Walter P Moore	2017
Dana C. O’Brien	Senior Vice President and General Counsel of The Brinks Company	2019
Charles R. Patton	Executive Vice President — External Affairs of American Electric Power Company, Inc.	2013
Dwayne A. Wilson	Former Senior Vice President of Fluor Corporation; Director of Ingredion, Inc. and Crown Holdings	2020
Ronald A. Ballschmiede	Executive Vice President, Chief Financial Officer & Chief Accounting Officer of the Company	N/A
Mark D. Wolf	General Counsel, Chief Compliance Officer & Corporate Secretary of the Company	N/A

Item 11. Executive Compensation

Information required by this item will be contained in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A relating to our 2021 annual meeting of stockholders and is incorporated herein by reference.

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

Information required by this item will be contained in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A relating to our 2021 annual meeting of stockholders and is incorporated herein by reference.

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

Information required by this item will be contained in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A relating to our 2021 annual meeting of stockholders and is incorporated herein by reference.

Item 14. *Principal Accounting Fees and Services*

Information required by this item will be contained in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A relating to our 2021 annual meeting of stockholders and is incorporated herein by reference.

PART IV

Item 15. *Exhibits, and Financial Statement Schedules*

Financial Statements

The following Consolidated Financial Statements and Reports of Independent Registered Public Accounting Firm included under Item 8 of Part II of this report are herein incorporated by reference:

Reports of the Company's Independent Registered Public Accounting Firm
Consolidated Statements of Operations—For the years ended December 31, 2020, 2019 and 2018
Consolidated Statements of Comprehensive Income—For the years ended December 31, 2020, 2019 and 2018
Consolidated Balance Sheets—As of December 31, 2020 and 2019
Consolidated Statements of Cash Flows—For the years ended December 31, 2020, 2019 and 2018
Consolidated Statements of Stockholders' Equity—For the years ended December 31, 2020, 2019 and 2018
Notes to Consolidated Financial Statements

Financial Statement Schedules

All schedules have been omitted because the schedules are not applicable, the required information is not in amounts sufficient to require submission of the schedule, or the information required is shown in the Consolidated Financial Statements or notes thereto previously included under Item 8 of Part II of this report.

Exhibits

The Exhibit Index, starting on the next page, and Exhibits being filed are submitted as part of this report.

EXHIBIT INDEX

Number	Exhibit Title
2.1	Stock Purchase Agreement, dated March 8, 2017, by and among Sterling Construction Company, Inc. the sellers identified therein, Gary Roger Engasser II, as sellers' representative and the principals identified therein (incorporated by reference to Exhibit 2.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, filed on March 9, 2017 (SEC File No. 1-31993)).
2.2	Equity Purchase Agreement, dated as of August 13, 2019, by and among Greg K. Rogers, Philip P. Travis, as trustee of the Lorin L. Rogers 2018 Trust, Kimberlin Rogers 2018 Trust, Gregory K. Rogers 2018 Trust and Mary K. Rogers 2018 Trust, LK Gregory Construction, Inc., Plateau Excavation, Inc., and DeWitt Excavation, LLC (incorporated by reference to Exhibit 2.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, filed on August 16, 2019 (SEC File No. 1-31993)).
3.1	Certificate of Incorporation of Sterling Construction Company, Inc. as amended through April 28, 2017 (incorporated by reference to Exhibit 3 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, filed on May 3, 2017 (SEC File No. 1-31993)).
3.2	Amended and Restated Bylaws of Sterling Construction Company, Inc. (incorporated by reference to Exhibit 3.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, filed on March 8, 2018 (SEC file No. 1-31993)).
4.1	Form of Common Stock Certificate of Sterling Construction Company, Inc. (incorporated by reference to Exhibit 4.5 to Sterling Construction Company, Inc.'s Form 8-A, filed on January 11, 2006 (SEC File No. 1-31993)).
4.2	Registration Rights Agreement, dated April 3, 2017, by and among Sterling Construction Company, Inc., OCM Sterling NE Holdings, LLC and OCM Sterling E. Holdings, LLC (incorporated by reference to Exhibit 4.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, filed on April 4, 2017 (SEC File No. 1-31993)).
4.3	Form of Warrant, issued April 3, 2017, by Sterling Construction Company, Inc. to OCM Sterling NE Holdings, LLC or OCM Sterling E. Holdings, LLC (incorporated by reference to Exhibit 4.1 to Sterling Construction Company, Inc.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2017, filed on May 3, 2017 (SEC File No. 1-31993)).
4.4	Description of Securities Registered Under Section 12 (incorporated by reference to Exhibit 4.4 to Sterling Construction Company, Inc.'s Form 10-K filed on March 3, 2020 (SEC File No. 1-31993)).
10.1 ⁽¹⁾	Sterling Construction Company, Inc. 2019 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, filed on May 8, 2019 (SEC File No. 1-31993)).
10.2 ⁽¹⁾	Sterling Construction Company, Inc. 2018 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, filed on May 8, 2018 (SEC File No. 1-31993)).
10.3.1 ⁽¹⁾	Standard Non-Employee Director Compensation adopted by the Board of Directors to be effective May 2, 2018 (incorporated by reference to Exhibit 10.1.1 to Sterling Construction Company, Inc.'s Quarterly Report on Form 10-Q for quarter ended September 30, 2018, filed November 6, 2018 (SEC File No. 1-31993)).
10.3.2 ⁽¹⁾	Form of Non-Employee Director Restricted Stock Agreement (incorporated by reference to Exhibit 10.2.2 to Sterling Construction Company, Inc.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2018, filed on May 8, 2018 (SEC File No. 1-31993)).
10.4 ⁽¹⁾	Executive Employment Agreement dated December 12, 2018 between Sterling Construction Company, Inc. and Joseph A. Cutillo (incorporated by reference to Exhibit 10.3 to Sterling Construction Company, Inc.'s Form 10-K filed on March 5, 2019 (SEC File No. 1-31993)).
10.5 ⁽¹⁾	Executive Employment Agreement dated December 12, 2018 between Sterling Construction Company, Inc. and Ronald A. Ballschmiede (incorporated by reference to Exhibit 10.4 to Sterling Construction Company, Inc.'s Form 10-K filed on March 5, 2019 (SEC File No. 1-31993)).
10.6 ⁽¹⁾	Executive Employment Agreement dated December 12, 2018 between Sterling Construction Company, Inc. and Richard E. Chandler, Jr. (incorporated by reference to Exhibit 10.5 to Sterling Construction Company, Inc.'s Form 10-K filed on March 5, 2019 (SEC File No. 1-31993)).
10.6.1 ⁽¹⁾⁽²⁾	Executive Employment Offer dated July 27, 2020 between Sterling Construction Company, Inc. and Mark Wolf.
10.7.1 ⁽¹⁾	Program Description - 2017 Executive Incentive Compensation Program (incorporated by reference to Exhibit 10.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K filed on February 15, 2017 (SEC File No. 1-31993)).
10.7.2 ⁽¹⁾	Form of 2017 Executive Incentive Compensation Program Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 to Sterling Construction Company, Inc.'s Current Report on Form 8-K filed on February 15, 2017 (SEC File No. 1-31993)).

10.7.3 ⁽¹⁾	Program Description - Stock Repurchase Program (incorporated by reference to Exhibit 10.6.7 to Sterling Construction Company, Inc.'s Form 10-K filed on March 5, 2019 (SEC File No. 1-31993)).
10.7.4 ⁽¹⁾	Plan Description - Senior Executive Incentive Compensation Plan (adopted 2018) (incorporated by reference to Exhibit 10.5.5 to Sterling Construction Company Inc.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2018, filed on May 8, 2018 (SEC File No. 1-31993)).
10.7.5 ⁽¹⁾	Form of 2018 Long-Term Incentive Award Agreement (incorporated by reference to Exhibit 10.5.6 to Sterling Construction Company, Inc.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2018, filed on May 8, 2018 (SEC File No. 1-31993)).
10.8 ⁽¹⁾	Plan Description - Senior Executive Incentive Compensation Plan (adopted 2019) (incorporated by reference to Exhibit 10.1 to Sterling Construction Company, Inc.'s Quarterly Report on Form 10-Q filed on May 7, 2019 (SEC File No. 1-31993)).
10.9 ⁽¹⁾	Form of Long-Term Incentive Award Agreement (adopted 2019) (incorporated by reference to Exhibit 10.9 to Sterling Construction Company, Inc.'s Form 10-K filed on March 3, 2020 (SEC File No. 1-31993)).
10.10	Credit Agreement, dated as of October 2, 2019, by and among Sterling Construction Company, Inc., the subsidiaries of the Company party thereto as Guarantors, the Lenders party thereto, BMO Harris Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, and BMO Capital Markets Corp. and BofA Securities, Inc., as Joint Lead Arrangers and Joint Book Runners (incorporated by reference to Exhibit 10.1 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, filed on October 2, 2019 (SEC File No. 1-31993)).
10.11	First Amendment to Credit Agreement, dated December 2, 2019, by and among Sterling Construction Company, Inc., the subsidiaries of the Company party thereto as Guarantors, the Lenders party thereto and BMO Harris Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.11 to Sterling Construction Company, Inc.'s Form 10-K filed on March 3, 2020 (SEC File No. 1-31993)).
21.1 ⁽²⁾	Subsidiaries of the registrant.
23.1 ⁽²⁾	Consent of Grant Thornton LLP.
31.1 ⁽²⁾	Certification of Joseph A. Cutillo, Chief Executive Officer of Sterling Construction Company, Inc.
31.2 ⁽²⁾	Certification of Ronald A. Ballschmiede, Executive Vice President & Chief Financial Officer of Sterling Construction Company, Inc.
32.1 ⁽³⁾	Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) of Joseph A. Cutillo, Chief Executive Officer of Sterling Construction Company, Inc.
32.2 ⁽³⁾	Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) of Ronald A. Ballschmiede, Executive Vice President & Chief Financial Officer of Sterling Construction Company, Inc.
101.INS	XBRL Instance Document—The instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

⁽¹⁾ Management contract, compensatory plan or arrangement

⁽²⁾ Filed herewith

⁽³⁾ Furnished herewith

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 3, 2021.

Sterling Construction Company, Inc.

By: /s/ Joseph A. Cutillo
Joseph A. Cutillo, Chief Executive Officer
(Duly Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 3, 2021.

Signature	Title
<u>/s/ Joseph A. Cutillo</u> Joseph A. Cutillo	Chief Executive Officer (Principal Executive Officer) Director
<u>/s/ Ronald A. Ballschmiede</u> Ronald A. Ballschmiede	Executive Vice President, Chief Financial Officer and Chief Accounting Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ Thomas M. White</u> Thomas M. White	Director and Non-Executive Chairman
<u>/s/ Roger A. Cregg</u> Roger A. Cregg	Director
<u>/s/ Marian M. Davenport</u> Marian M. Davenport	Director
<u>/s/ Raymond F. Messer</u> Raymond F. Messer	Director
<u>/s/ Dana C. O'Brien</u> Dana C. O'Brien	Director
<u>/s/ Charles R. Patton</u> Charles R. Patton	Director
<u>/s/ Dwayne A. Wilson</u> Dwayne A. Wilson	Director