PROFIRE ENERGY INC
Form 424B4
July 02, 2018
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-225508

PROSPECTUS

Profire Energy, Inc.

7,500,000 Shares

Common Stock

The selling stockholders named herein are offering 7,500,000 shares of our common stock in this offering. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

Our common stock is listed on the Nasdaq Capital Market under the symbol PFIE. On June 28, 2018, the last reported sale price of our common stock was $3.80 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 6 of this prospectus.

	Per Share	Total
Public offering price	$ 3.25	$ 24,375,000
Underwriting discounts and commissions(1)	$ 0.17875	$ 1,340,625
Proceeds to selling stockholders, before expenses	$ 3.07125	$ 23,034,375

(1) In addition, we have agreed to reimburse the underwriters for certain expenses. See Underwriting on page 23 of this prospectus for additional information.

The underwriters may also purchase up to 1,125,000 additional shares of common stock from one of the selling stockholders, at the public offering price, less the underwriting discounts and commissions, within 30 days from the date of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation

to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on or about July 3, 2018.

Sole Book-Running Manager

Roth Capital Partners

Co-Managers

Lake Street Capital Markets **Chardan**

The date of this prospectus is June 28, 2018.

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Neither we, the selling stockholders nor the underwriters have authorized any other person to provide you with different or additional information other than that contained in this prospectus. We, the selling stockholders and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may provide. The selling stockholders are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus or such other date stated in this prospectus, and our business, financial condition, results of operations and/or prospects may have changed since those dates.

For investors outside the United States: Neither we, nor the selling stockholders, nor the underwriters have done anything that would permit this public offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of our common stock and the distribution of this prospectus outside of the United States.

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PROSPECTUS SUMMARY

This summary does not contain all of the information you should consider before investing in our common stock. You should read the entire prospectus, including the risks discussed under the caption Risk Factors and our consolidated financial statements and the related notes included elsewhere in this prospectus, for important information regarding our company and our common stock before making the decision to invest. Except where the context otherwise requires, all references herein to the Company , Profire , we , us , our , or similar words and phrases are to Profire Energy, Inc. and its wholly-owned consolidated subsidiary, taken together.

Overview

We are an oilfield technology company providing products that enhance the efficiency, safety, and compliance of the oil and gas industry. We specialize in the creation of burner-management systems used on a variety of oilfield forced-air and natural-draft fire tube vessels. We sell our products and services primarily throughout North America. Our experienced team of industry service professionals also provides supporting services for our products.

Principal Products and Services

In the oil and natural gas industry, there are numerous demands for heat generation and control. Applications such as combustors, enclosed flares, gas production units, treaters, glycol and amine reboilers, indirect line-heaters, heated tanks, process heaters require heat as part of their production or processing functions, which is provided by a burner flame. This burner flame is integral to the process of separating, treating, storing, and transporting oil and gas. Factors such as the American Petroleum Institute gravity, presence of hydrates, temperature and hydrogen sulfide content contribute to the requirement for heat in oil and gas production and processing applications. Our burner-management systems help ignite, monitor, and manage this burner flame, which can be done remotely, reducing the need for employee interaction with the burner, such as for the purposes of re-ignition or temperature monitoring. In addition, our burner-management systems can help reduce gas emissions by quickly reigniting a failed fame.

Oil and gas producers can use our burner-management systems to achieve increased safety, greater operational efficiencies, and improved compliance with changing industry regulations. Without burner-management systems, an employee must discover and reignite an extinguished burner flame, then restart the application manually. Therefore, without burner-management systems, all application monitoring is done directly on-site. Such on-site monitoring can result in the interruption of production for longer periods of time, risk in reigniting a flame, which can lead to burns and explosions, and the possibility of raw gas being vented into the atmosphere when the flame fails. In addition, without a burner-management system, burners often run longer, incurring significant fuel costs. We believe there is a growing trend in the oil and gas industry toward enhanced control, process automation, and data logging, largely for improved efficiency and operational cost savings, and partly for potential regulatory-satisfaction purposes. Our burner-management systems are designed to be always on stand by to make sure the burner flame is lit and managed properly, which can reduce how often a burner is running and may reduce fuel costs. We continue to assess compliance-interest in the industry, and we believe that enhanced burner-management products and services can help our customers be compliant with such regulatory requirements, where applicable.

In addition to selling products, we train and dispatch service technicians to service burner flame installations in Canada and throughout the United States.

We initially developed our first burner-management system in 2005. Since then, we have released several iterations of our initial burner-management system, increasing features and capabilities, while maintaining compliance with Canadian Standards Association and Underwriters Laboratories ratings.

Our burner-management systems have become widely used in Western Canada and throughout many regions in the United States. We have sold our burner-management systems to many large energy companies, including Anadarko, Chesapeake, ConocoPhillips, Devon, Encana, XTO, CNRL, Shell and others. Our systems have also been sold or installed in other parts of the world, including France, Italy, Ukraine, India, Nigeria, the Middle East, Australia, and Brazil. While we have an interest in expanding our long-term international distribution capabilities, our current principal focus is on the North American oil and gas market.

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Product Extension: PF3100

The PF3100 is a burner-management system which is designed to operate, monitor, and control more complex, multi-faceted oilfield appliances. The PF3100 is an advanced system designed to work with other of our engineered modules thus allowing the system to expertly manage a wide variety of applications.

Throughout the industry, Programmable Logic Controllers, or PLCs, are used to operate and manage custom-built oilfield applications. Though capable, PLCs can be expensive, tedious, and difficult to use. The PF3100 can help manage and synchronize custom applications helping oilfield producers meet deadlines and improve profitability through an off-the-shelf solution with dynamic customization. We are selling the PF3100 for initial use in the oil and gas industry s natural-draft and forced-draft applications.

We frequently assess market needs by participating in industry conferences and soliciting feedback from existing and potential customers, which enables us to provide quality solutions to the oil and gas producing companies we serve.

Upon identifying a potential market need, we begin researching the market and developing products that might have feasibility for future sale.

Additional Complementary Products

In addition to our burner-management systems, we also sell complementary oilfield products to help facilitate improved oilfield safety and efficiency. Such products help manage fuel flow (e.g., valves and fuel-trains), meter air flow (e.g., airplates), generate power on-site (e.g., solar packages), ignite and direct flame (e.g., flare stack igniter and nozzles), and other necessary functions. We have invested heavily to develop innovative complementary products which we anticipate will help bolster continued long-term growth. Some of these products are resold from third parties (e.g., solar packages), while some are proprietary (e.g., flare stack igniter) or patent-pending (e.g., inline pilot and valve technologies).

Chemical-Management Systems

In addition to the burner-management systems and complementary technologies we have sold historically, we acquired the assets of VIM Injection Management in November 2014, which extended our product offering to include chemical-management systems.

Chemical injection is used for a wide variety of purposes in the oil and gas industry including down-hole inhibition of wax, hydrates, and corrosion agents, so that product can flow more efficiently to the wellhead. Once at the wellhead, chemical injection can also be used to further process the oil or gas before it is sent into a pipeline, and with other applications.

Currently, a variety of pumps are used to meter the chemicals injected, but are often inaccurate in injecting the proper amount of chemical, as they may not account for all of the variables that affect how much chemical should be injected (e.g., pressure, hydrogen sulfide concentration, etc.) nor the optimal efficiency rates of varying pump systems.

Inaccurate injection levels are problematic because the chemicals injected are expensive, and over-injection causes unnecessary expense for producers. Under-injection can also be problematic because it often results in the creation of poor product (i.e., with wax, hydrate, or corrosion agents) and causes problems with pipeline audits.

Our chemical-management systems monitor and manage the chemical-injection process to ensure that optimal levels of chemicals are injected. This improves the efficiency of the pump and production quality of the well, improves safety for workers that would otherwise be exposed to these chemicals, and improves compliance with pipeline operators. Like our burner-management systems, our chemical-management systems can be monitored and managed remotely via supervisory control and data acquisition or other remote-communication systems. We hold a U.S. patent related to our chemical-management system and its process for supplying a chemical agent to a process fluid.

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Selling Stockholders

As of May 31, 2018, the selling stockholders named herein, together with their affiliates, held approximately 50.10% of our outstanding shares of common stock. After giving effect to this offering and assuming no exercise of the underwriters option to purchase up to 1,125,000 additional shares of our common stock, the selling stockholders, together with their affiliates, will own approximately 34.45% of our outstanding common stock. See Selling Stockholders on page 22 of this prospectus.

Corporate Information

We were originally incorporated in the State of Nevada on May 5, 2003. Our principal executive offices are located at 321 South 1250 West, Suite 1, Lindon, Utah 84042. Our telephone number at that location is (801) 796-5127. Our Internet address is www.profireenergy.com. We are not including the information contained on our website as part of, or incorporating it by reference into, this prospectus.

THE OFFERING

Common stock offered by the selling stockholders:	7,500,000 shares
Common stock to be outstanding after the offering:	47,932,549 shares
Over-allotment option offered by one selling stockholder:	The underwriters have a 30-day option to purchase up to 1,125,000 additional shares of common stock from one of the selling stockholders at the public offering price, less the underwriting discounts and commissions, solely to cover over-allotments, if any.
Use of proceeds:	We will not receive any proceeds from the sale of shares of our common stock offered by the selling stockholders under this prospectus. See Use of Proceeds on page 20 of this prospectus.
Lock-up agreements:	The selling stockholders named herein are agreeing to enter into lock-up agreements with Roth Capital Partners, LLC, as representative of the several underwriters named herein, for a period of 365 days from the date of this prospectus. See Underwriting beginning on page 23 of this prospectus.
Nasdaq Capital Market symbol:	PFIE
Risk factors:	See Risk Factors beginning on page 6 of this prospectus and in the documents incorporated by reference herein for a discussion of the factors you should consider carefully before deciding to invest in shares of our common stock.

Unless we indicate otherwise, all information in this prospectus is based on 47,932,549 shares of common stock issued and outstanding as of May 31, 2018 and excludes as of that date:

- 568,066 shares of our common stock issuable upon the exercise of outstanding stock options under our 2014 Equity Incentive Plan, or the 2014 plan, at a weighted-average exercise price of $1.88;
- 432,413 shares of our common stock issuable upon the settlement and vesting of outstanding restricted stock units under the 2014 plan; and
- 2,643,097 shares of our common stock reserved for future issuance under the 2014 plan.

Unless otherwise indicated, the information in this prospectus assumes:

- no exercise by the underwriters of their option to purchase additional shares from one of the selling stockholders; and

no exercise of the outstanding stock options and no settlement of the restricted stock units under the 2014 Plan, as described above.

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SUMMARY FINANCIAL DATA

The following table sets forth, for the periods and dates indicated, our summary condensed consolidated statements of operations and balance sheets data. The summary financial data has been derived from our unaudited condensed consolidated financial statements and accompanying notes for the three months ended March 31, 2018 and March 31, 2017, as well as our audited historical consolidated financial statements for the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016. This information is only a summary. You should read this data in conjunction with our historical financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report filed on Form 10-K, Quarterly Reports filed on Form 10-Q and other information on file with the U.S. Securities and Exchange Commission, or SEC, that is incorporated by reference in this prospectus. For more details on how you can obtain our SEC reports and other information, you should read the section of this prospectus entitled Where You Can Find More Information. The results included here are not necessarily indicative of future performance.

	Three Months Ended March 31,		Year Ended December 31,	Nine-Month Transition Period Ended December 31,
	2018	2017	2017	2016
	(unaudited)			
Statement of Operations Data:				
Revenues	12,169,718	7,824,495	38,286,376	15,987,186
Cost of sales	6,039,577	3,457,322	18,022,469	7,887,148
Gross profit	6,130,141	4,367,173	20,263,907	8,100,038
Operating expenses	3,873,840	3,296,131	13,424,487	8,438,272
Income (loss) from operations	2,256,301	1,071,042	6,839,420	(338,234)
Other income	113,747	27,965	283,809	189,554
Net income (loss) before income taxes	2,370,048	1,099,007	7,123,229	(148,680)
Income tax expense (benefit)	493,820	498,936	2,673,694	(226,733)
Net income	1,876,228	600,071	4,449,535	78,053
Net comprehensive income (loss)	1,603,864	711,472	5,059,816	(450,008)
Basic earnings per share	0.04	0.01	0.09	0.00
Fully diluted earnings per share	0.04	0.01	0.09	0.00
Basic weighted average number of shares outstanding	48,670,305	50,632,275	49,365,592	52,857,299
Fully diluted weighted average number of shares outstanding	49,744,101	51,287,405	49,858,435	53,483,110
Balance Sheets Data (as of end of period):				
Total assets	50,614,718	44,657,551	47,989,059	43,108,859
Total liabilities	4,397,553	2,695,348	3,941,635	1,720,542
Total stockholders equity	46,217,165	41,962,203	44,047,424	41,388,317
Statement of Cash Flows Data:				
Net cash provided by (used in):				
Operating activities	1,452,939	1,964,946	7,712,811	2,383,713
Investing activities	(579,157)	(522,677)	(805,508)	(10,687,142)

Financing activities	(9,359)	(318,904)	(3,239,007)	(3,597,805)

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RISK FACTORS

An investment in our common stock involves certain risks. You should carefully consider all of the information set forth in this prospectus. In particular, you should evaluate the following risk factors before making an investment in our common stock. If any of the following circumstances actually occur, our business, financial condition and results of operations could be materially and adversely affected. If that occurs, the trading price of our common stock could decline, and you could lose all or part of your investment.

Risks Relating to Our Business

Changes in the level of capital-spending by our customers could materially and adversely impact our business and financial condition.

Our principal customers are oil and natural gas exploration and production companies and the original equipment manufacturers, or OEM s, that supply the exploration and production companies with burner related equipment. Thus, the results of our operations and financial condition depend on the level of capital spending by our customers. The energy industry s level of capital spending is tied to the prevailing commodity prices of natural gas and crude oil, because the amount of crude oil and natural gas that our customers can economically produce also depends on the prevailing prices for those commodities. Volatility in commodity prices may make our customers reluctant to invest in oilfields where our products would be used. Although our products may enhance the operational efficiency of producing wells, a prolonged or substantial downturn in market price could lead to reductions or delays in the capital spending of our customers and therefore reduce the demand for our products and services, which could materially and adversely impact our results of operations, financial condition and cash flow.

We depend on our customers willingness to make operating and capital expenditures to transport, refine and produce oil and natural gas. Industry conditions are influenced by numerous factors over which we have no control, such as:

- the level of oil and gas production;
- the demand for oil and gas related products;
- domestic and worldwide economic conditions;
- political instability in the Middle East and other oil producing regions;
- the actions of the Organization of Petroleum Exporting Countries;
- the price of foreign imports of oil and gas, including liquefied natural gas;
- natural disasters or weather conditions, such as hurricanes;

technological advances affecting energy consumption;

the level of oil and gas inventories;

the cost of producing oil and gas;

the price and availability of alternative fuels;

merger and divestiture activity among oil and gas producers; and

governmental regulations.

These and other industry conditions could influence our customers willingness to make operating and capital expenditures to transport, refine and produce oil and natural gas. If our customers reduce or eliminate such operating and capital expenditures, it may adversely affect our business and financial condition.

Changes in foreign exchange rates in countries where our business operates could have a material adverse impact on our business and financial condition.

A portion of our consolidated revenue and consolidated operating income is in Canadian dollars. As a result, we are subject to significant risks, including:

- Canadian currency exchange risks resulting from changes in Canadian currency exchange rates and the execution of controls in this area; and
- limitations on our ability to reinvest earnings from operations in the United States to fund our operations in Canada.

The Canadian Dollar, or CAD, lost substantial value compared to the United States Dollar, or USD, during the nine-month transition period ended December 31, 2016 and negatively impacted our financial results. However, rates rebounded during the year ended December 31, 2017, which positively impacted our financial results. If the volatility in the CAD/USD exchange rate causes another devaluation, it could have a material adverse impact on our business and financial condition.

The competitive nature of the oilfield services industry could lead to an increase of direct competitors.

As our segment within the oil and gas exploration and production industry grows and matures we expect additional companies will seek to enter this market. New entrants to our industry may be more highly capitalized, better recognized or better situated to take advantage of market opportunities. Any failure by us to adequately compete against current and future competitors could have a material adverse effect on our business, financial condition and results of operations.

We may not realize all of the anticipated benefits of our acquisitions, joint ventures or divestitures, or these benefits may take longer to realize than expected.

Our future business strategies may include growth through the acquisitions of other businesses. We may not be able to identify attractive acquisition opportunities or successfully acquire those opportunities that are identified. Even if we are successful in integrating future acquisitions into existing operations, we may not derive the benefits, such as administrative or operational synergy or earnings, that were expected from such acquisitions, which may result in the commitment of capital resources without the expected returns on the capital. Additionally, the competition for acquisition opportunities may increase which in turn would increase our cost of making acquisitions.

In pursuing our business strategy, from time to time we evaluate targets and enter into agreements regarding possible acquisitions. To be successful, we conduct due diligence to identify valuation issues and potential loss contingencies, negotiate transaction terms, complete transactions and manage post-closing matters such as the integration of acquired businesses. However, we may incur unanticipated costs or expenses following a completed acquisition, including post-closing asset impairment charges, expenses associated with eliminating duplicate facilities, litigation, and other liabilities.

The risks associated with our past or future acquisitions also include the following:

- the business culture of the acquired business may not match well with our culture;
- we may fail to retain, motivate and integrate key management and other employees of an acquired business;
- we may experience problems in retaining customers and integrating customer bases;

we may experience complexities associated with managing the combined businesses; and

successfully consolidating multiple physical locations.

The anticipated benefits of these acquisitions may not be realized, if at all, and we may incur significant time and costs beyond those anticipated with the integration of new acquisitions to the existing business. If we are unable to accomplish the integration and management of the combined business successfully, or achieve a substantial portion of the anticipated benefits of these acquisitions within the time frames anticipated by management, it could have a material adverse effect on our business and financial condition.

Many of these factors will be outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management s time and attention. They may also delay the realization of the benefits we anticipate when we enter into a transaction. Failure to implement our acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our business and financial condition.

Our operations involve operating hazards, which, if not insured or indemnified against, could harm our results of operations and financial condition.

Our operations are subject to hazards inherent in our technology s use in oilfield service operations, oilfield development and oil production activities, including fire, explosions, blowouts, spills and damage or loss from natural disasters, each of which could result in substantial damage to the oil-producing formations and oil wells, production facilities, other property, equipment and the environment or in personal injury or loss of life. These hazards could also result in the suspension of purchasing, or in claims by employees, customers or third parties which could have a material adverse effect on our financial condition.

Some of these risks are either not insurable or insurance is available only at rates that we consider uneconomical. Although we will maintain liability insurance in an amount that we consider consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits. We may not always be successful in obtaining contractual indemnification from our customers, and customers who provide contractual indemnification protection may not maintain adequate insurance or otherwise have the financial resources necessary to support their indemnification obligations. Our insurance or indemnification arrangements may not adequately protect us against liability or loss from all the hazards of our operations. The occurrence of a significant event that we have not fully insured or indemnified against or the failure of a customer to meet its indemnification obligations to us could materially and adversely affect our results of operations and financial condition.

Changes to governmental regulation of the oil and gas industry could materially and adversely affect our business.

If the laws and regulations governing oil and natural gas exploration and production were to become less stringent, we could experience a decline in the demand for our products, which we expect would materially and adversely impact our results of operations and financial condition. These regulations are subject to change and new regulations may curtail or eliminate customer activities in certain areas where we currently operate.

Furthermore, our operations are affected by local, provincial, state, federal and foreign laws and other regulations relating to oil, gas and electric standards. Such standards can be related to safety, environmental protection, or other regulatory dimensions for the oil and gas industry. Any change in local, provincial, state, federal and foreign laws and other regulations could adversely affect our business and financial condition

Our international operations subject us to certain operating risks, which could adversely impact our results of operations and financial condition.

Our international operations involve additional risks not associated with our domestic operations. We intend to continue our expansion into international oil and gas producing areas. The effect on our international operations from the risks we describe will not be the same in all countries and jurisdictions. Risks associated with our operations outside of the United States include risks of:

- multiple, conflicting, and changing laws and regulations, export and import restrictions, and employment laws;

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- regulatory requirements, and other government approvals, permits, and licenses;
- potentially adverse tax consequences;
- political and economic instability, including wars and acts of terrorism, political unrest, boycotts, curtailments of trade and sanctions, and other business restrictions;
- expropriation, confiscation or nationalization of assets;
- renegotiation or nullification of existing contracts;
- difficulties and costs in recruiting and retaining individuals skilled in international business operations;
- foreign exchange restrictions;
- foreign currency fluctuations;
- foreign taxation;
- the inability to repatriate earnings or capital;
- changing foreign and domestic monetary policies;
- cultural and communication challenges;
- industry-process changes in heating and flow of oil;
- regional economic downturns;
- foreign governmental regulations favoring or requiring the awarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction that may harm our ability to compete; and

compliance with anti-corruption and anti-bribery laws, including the U.S. Foreign Corrupt Practices Act.

Our business has potential liability for litigation, personal injury and property damage claims assessments.

Most of our products are used in hazardous production applications and involve exposure to inherent risks, including explosions and fires, where an accident or a failure of a product could result in liability for personal injury, loss of life, property damage, pollution or other environmental hazards or loss of production. Litigation may arise from a catastrophic occurrence at a location where our equipment and services are used. This litigation could result in large claims for damages, including consequential damages, and could impair the market s acceptance of our products. The frequency and severity of such incidents could affect our operating costs, insurability and relationships with customers, employees and regulators. These occurrences could result in substantial costs and diversion of our management s attention and resources, which could have an adverse effect on our business.

Our business may be subject to product liability claims or product recalls, which could be expensive and could result in a diversion of management s attention.

The oil industry experiences significant product liability claims. As an installer and servicer of oilfield combustion management technologies and related products, we face an inherent business risk of exposure to product liability claims in the event that our products, or the equipment into which our products are incorporated, could malfunction and result in personal injury or death. We may be named in product liability claims even if there is no evidence that our technology, products or services caused or contributed to the accidents. Product liability claims could result in significant losses as a result of expenses incurred in defending claims or the awarding of damages. In addition, we may be required to participate in recalls involving our products if any of our products prove to be defective, or we may voluntarily initiate a recall or make payments related to such claims as a result of various industry or business practices, or in an effort to maintain good customer relationships. Our product liability insurance may not be sufficient to cover all product liability claims, such claims may exceed our insurance coverage limits or such insurance may not continue to be available on commercially reasonable terms, if at all. Any product liability claim brought against us could have a material adverse effect on our reputation and business.

Uninsured or underinsured claims or litigation or an increase in our insurance premiums could adversely impact our results of operations.

Although we maintain insurance protection for certain risks in our business and operations, we are not fully insured against all possible risks, nor are all such risks insurable. It is possible an unexpected judgment could be rendered against us for which we could be uninsured or underinsured and damages could be beyond the amounts we currently have reserved or anticipate incurring. Significant increases in the cost of insurance and more restrictive coverage may have an adverse impact on our results of operations. In addition, we may not be able to maintain adequate insurance in the future at rates we consider reasonable or that our insurance coverage will be adequate to cover future claims and assessments that may arise.

Our assets and operations, as well as the assets and operations of our customers, could be adversely affected by weather and other natural phenomena.

Our assets and operations could be adversely affected by natural phenomena, such as tornados, earthquakes, wildfire, floods, and landslides. A significant disruption in our operations or the operations of our customers due to weather or other natural phenomena could adversely affect our business and financial condition.

Liability to customers under warranties may materially and adversely affect our earnings.

We provide warranties as to the proper operation and conformance to specifications of the products we sell. Failure of our products to operate properly, or to meet specifications may increase our costs by requiring additional engineering resources and services, replacement of parts and equipment or monetary reimbursement to a customer. We have in the past received warranty claims and we expect to continue to receive them in the future. To the extent that we incur substantial warranty claims in any period, our reputation, our ability to obtain future business and our earnings could be adversely affected.

Some of our products use equipment and materials that are available from a limited number of suppliers.

We purchase equipment provided by a limited number of manufacturers. During periods of high demand, these manufacturers may not be able to meet our requests for timely delivery, resulting in delayed deliveries of equipment and higher prices for equipment. There are a limited number of suppliers for certain materials used in burner

management systems, our largest product line. Although these materials are generally available, supply disruptions may occur due to factors beyond our control. Such disruptions, delayed deliveries, and higher prices could limit our ability to meet our customers needs, or could increase the related costs, thus possibly reducing revenues and profits.

Dependence on contract manufacturing and outsourcing other portions of our supply chain may adversely affect our ability to bring products to market and damage our reputation.

As part of our efforts to streamline operations and to cut costs, we outsource our manufacturing processes and other functions and continue to evaluate additional outsourcing. If our contract manufacturers or other outsourcers fail to perform their obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market and our reputation could suffer. For example, during a market upturn, our contract manufacturers may be unable to meet our demand requirements, which may prevent us from fulfilling our customers orders on a timely basis. The ability of these manufacturers to perform is largely outside of our control.

Additionally, changing or replacing our contract manufacturers or other outsourcers could cause disruptions or delays.

We are exposed to risks of delay, cancellation, and nonpayment by customers in the ordinary course of our business activities.

We are exposed to risks of loss in the event of delay, cancellation, and nonpayment by our customers. Our customers are subject to their own operating and regulatory risks and may be highly leveraged. We may experience financial losses in our dealings with other parties. Any delay and any increases in the cancellation of contracts or nonpayment by our customers and/or counterparties could adversely affect our results of operations and financial condition. In addition, the same factors that may lead to a reduction in our potential customers spending may also increase our exposure to the risks of nonpayment and nonperformance by our existing customers. A significant reduction in our customers liquidity may result in a decrease in their ability to pay or otherwise perform their obligations to us. Any increase in nonpayment or nonperformance by our customers, either as a result of recent changes in financial and economic conditions or otherwise, could have an adverse impact on the operating results and adversely affect liquidity.

Our ability to successfully commercialize our technology and products may be materially adversely affected if we are unable to obtain and maintain effective intellectual property rights for our technologies and planned products, or if the scope of the intellectual property protection is not sufficiently broad.

Our success depends in part on our ability to obtain and maintain patent and other intellectual property protection with respect to our proprietary technology and products. In recent years, patent rights have been the subject of significant litigation. As a result, the issuance, scope, validity, enforceability and commercial value of the patent rights is highly uncertain. Pending and future patent applications may not result in patents being issued which protect our technology or products or which effectively prevent others from commercializing competitive technologies and products. Changes in either the patent laws or interpretation of the same, especially in jurisdictions which we hope to secure protection, may diminish the value of patents or narrow the scope of patent protection. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications, in the United States and other jurisdictions, such discoveries are typically not published until 18 months after filing, or in some cases not at all. Therefore, we may not have been the first to make the inventions claimed in our patents or pending patent applications, or we may not have been the first to file for patent protection of such inventions.

Even if the patent applications we rely on are issued as patents, they may not be issued in a form that will provide us with any meaningful protection, prevent competitors from competing with us or otherwise provide us with any competitive advantage. Our competitors may be able to circumvent our patents by developing similar or alternative technologies or products in a non-infringing manner. The issuance of a patent is not conclusive as to its scope, validity or enforceability, and patents may be challenged in the courts or patent offices in the United States and internationally. Such challenges may result in patent claims being narrowed, invalidated or held unenforceable, which could limit our ability to stop, or prevent us from stopping, others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of our technology and products. As a result, our patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours, or otherwise provide us with a competitive advantage.

While we are not currently engaged in any material intellectual property litigation, in the future we may commence lawsuits against others if we believe they have infringed our rights. We may not be successful in any such litigation. Our involvement in any intellectual property litigation could require the expenditure of substantial time and other resources, may adversely affect the development of sales of our products or intellectual property, our capital resources, or may divert the efforts of our technical and management personnel, and could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to protect or enforce our intellectual property rights throughout the world.

Filing, prosecuting and defending our patents throughout the world would be prohibitively expensive. Competitors may use our technologies, in jurisdictions where we have not obtained patent protection to develop their own products, and may export otherwise infringing products to territories where we have patent protection but where enforcement is not as strong as in the United States. These products may compete with our products in

jurisdictions where we do not have any issued patents, and our intellectual property rights may not be effective or sufficient to prevent them from so competing. Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries may not favor the enforcement of patents and other intellectual property protection, which could make it difficult for us to stop the infringement of any patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce any patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

If we are unable to protect the confidentiality of our trade secrets, the value of our technology could be materially adversely affected, harming our business and competitive position.

Some of our proprietary intellectual property is not protected by any patent, copyright or patent or copyright applications, and, despite our precautions, it may be possible for third parties to obtain and use such intellectual property without authorization. We rely upon confidential proprietary information, including trade secrets, unpatented know-how, technology, software, and other proprietary information, to develop and maintain our competitive position. Any disclosure to, or misappropriation by, third parties of our confidential proprietary information could enable competitors to quickly duplicate or surpass our technological achievements, thus eroding our competitive position in the market. We seek to protect our confidential proprietary information, in part, by confidentiality agreements with our employees and our collaborators and consultants. We also have agreements with our employees and selected consultants that obligate them to assign their inventions to us.

These agreements are designed to protect our proprietary information; however, our trade secrets and other confidential information could be disclosed or competitors could otherwise gain access to our trade secrets, or that technology relevant to our business could be independently developed by a person that is not a party to such agreements. Furthermore, if the employees, consultants or collaborators that are parties to these agreements breach or violate the terms of these agreements, we may not have adequate remedies for any such breach or violation, and we could lose our trade secrets through such breaches or violations. Further, our trade secrets could be disclosed, misappropriated or otherwise become known or be independently discovered by our competitors. In addition, intellectual property laws in foreign countries may not protect trade secrets and confidential information to the same extent as the laws of the United States. If we are unable to prevent disclosure of the intellectual property related to our technologies to third parties, we may not be able to establish or maintain a competitive advantage in our market, which would harm our ability to protect our rights and have a material adverse effect on our business.

Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of our business.

Our commercial success depends upon our ability and the ability of our distributors, contract manufacturers, and suppliers to manufacture, market, and sell our products, and to use our proprietary technologies without infringing, misappropriating or otherwise violating the proprietary rights or intellectual property of third parties. While we are not aware of any issued or pending patent applications that could restrict our ability to operate, we may in the future become party to, or be threatened with, adversarial proceedings or litigation regarding intellectual property rights with respect to our products and technology. Third parties may assert infringement claims against us based on existing or future intellectual property rights. If we are found to infringe a third party s intellectual property rights, we may be temporarily or permanently prohibited from commercializing our products that are held to be infringing. We might, if possible, also be forced to redesign our products so that we no longer infringe the third party intellectual property rights, or we could be required to obtain a license from such third party to continue developing and marketing our products and technology. We may also elect to enter into such a license in order to settle pending or threatened litigation. However, we may not be able to obtain any required license on commercially reasonable terms or at all.

Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us, and could require us to pay significant royalties and other fees. We could be forced, including by court order, to cease commercializing the infringing technology or product. In addition, we could be found liable for monetary damages. A finding of infringement could prevent us from commercializing our products or force us to cease some of our business operations, which could materially harm our business.

Even if we are successful in defending against intellectual property claims, litigation or other legal proceedings relating to such claims may cause us to incur significant expenses, and could distract our technical and management personnel from their normal responsibilities. Such litigation or proceedings could substantially decrease our operating profits and reduce our resources available for development activities. We may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. As a result of their substantially greater financial resources, some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can. Uncertainties resulting from the initiation and continuation of litigation or other intellectual property related proceedings could have a material adverse effect on our ability to compete in the marketplace.

If we do not develop and commercialize new competitive products, our revenue may decline.

To remain competitive in the market for oilfield technologies, we must continue to develop and commercialize new products. If we are not able to develop commercially competitive products in a timely manner in response to industry demands, our business and revenues will be adversely affected. Our future ability to develop new products depends on our ability to:

- design and commercially produce products that meet the needs of our customers;
- attract and retain talented research-and-development management and personnel;
- successfully market new products; and
- protect our proprietary designs from our competitors.

We may encounter resource constraints or technical or other difficulties that could delay introduction of new products and services. Our competitors may introduce new products before we do and achieve a competitive advantage.

Additionally, the time and expense invested in product development may not result in commercial products or provide revenues. Our inability to enhance existing products in a timely manner or to develop and introduce new products that incorporate new technologies, conform to stringent regulatory standards and performance requirements, and achieve market acceptance in a timely manner could negatively impact our competitive position. New product development or modification is costly, involves significant research, development, time and expense and may not necessarily result in the successful commercialization of any new products. Moreover, we may experience operating losses after new products are introduced and commercialized because of high start-up costs, unexpected manufacturing costs or problems, or lack of demand.

New technologies could render our existing products obsolete.

New developments in technology may negatively affect the development or sale of some or all of our products or make our products obsolete. Our success depends upon our ability to design, develop and market new or modified technologies and related products.

Our business and financial condition could be negatively impacted if we lose the services of certain members of senior management.

Our development to date has largely depended, and in the future will continue to largely depend, on the efforts of our senior management. We currently do not have key-person insurance on any of our senior management team. Thus, the loss of any member of our senior management could impair our ability to execute our business plan and could therefore have a material adverse effect on our business, results of operations and financial condition.

Failing to attract and retain skilled employees could impair our growth potential and profitability.

Our ability to remain productive and profitable depends substantially on our ability to attract and retain skilled employees. Our ability to scale our operations is in part, and at times, impacted by our ability to increase our labor force. The demand for skilled oilfield employees is high and the supply is limited. As a result of the volatility of the oil field services and technology industry, our ability to offer competitive wages and retain skilled employees may be diminished.

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A portion of our total compensation program for key personnel has historically included awards of options to buy our common stock or other equity-based awards. If the price of our common stock performs poorly, such performance may adversely affect our ability to retain or attract key personnel. In addition, if we are unable to continue to provide attractive equity compensation awards or other compensation incentives for any reason, we may be unable to retain and motivate existing personnel and recruit new personnel.

If we are unable to expand in existing or into new markets, our ability to grow our business as profitably as planned could be materially and adversely affected.

We may not be able to expand our market share in our existing markets or successfully enter new or contiguous markets especially in light of industry volatility. In addition, such expansion could adversely affect our profitability and results of operations. If we are unable to enter into new markets, our business could be materially and adversely affected.

If we are unable to manage growth effectively, our business, results of operations and financial condition could be materially and adversely affected.

Our ability to successfully expand to new markets, or expand our penetration in existing markets, depends on a number of factors including:

- our ability to market our products and services to new customers;
- our ability to provide large-scale support and training materials for a growing customer base;
- our ability to hire, train and assimilate new employees;
- the adequacy of our financial resources; and
- our ability to correctly identify and exploit new geographical markets and to successfully compete in those markets.

We may not be able to achieve our planned expansion and our products may not gain access to new markets or be accepted in new marketplaces. We may not achieve greater market penetration in existing markets and we may not achieve planned operating results, or results comparable to those we experience in existing markets, in the new markets we enter.

Disruptions, failures or security breaches of our information technology infrastructure could have a negative impact on our operations.

Information technology is critically important to our business operations. We use information technology to manage all business processes including manufacturing, financial, logistics, sales, marketing and administrative functions. These processes collect, interpret and distribute business data and communicate internally and externally with employees, suppliers, customers and others.

We invest in industry standard security technology to protect our data and business processes against risk of data security breach and cyber-attack. Our data security managONT-SIZE: 10pt; FONT-FAMILY: times new roman"> (357) -- (449) --

Net income	$5,140	$3,797	$8,257	$6,308
Net income per share:				
Basic	$0.39	$0.35	$0.63	$0.58
Diluted	$0.37	$0.32	$0.60	$0.54
Weighted average number of common shares outstanding used in computing per share amounts:				
Basic	13,110,500	10,969,513	13,089,682	10,944,654
Diluted	13,783,307	11,783,284	13,695,000	11,768,881

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

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

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance at January 1, 2008	13,007	$ 130	$ 147,786	$ (9,304)	$ 138,612
Net income	--	--	--	8,257	8,257
Stock issued upon option exercises	90	1	122	--	123
Excess tax benefits from exercise of stock options	--	--	233	--	233
Issuance and amortization of restricted stock	21	0	125	--	125
Stock-based compensation expense	--	--	108	--	108
Expenditures related to 2007 equity offering	--	--	(143)	--	(143)
Balance at June 30, 2008	13,118	$ 131	$ 148,231	$ (1,047)	$ 147,315

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

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

	Six months ended June 30, 2008	2007
Net income	$ 8,257	$ 6,308
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	6,552	4,661
Loss (gain) on sale of property and equipment	102	(377)
Deferred tax expense	2,495	3,078
Stock-based compensation expense	233	858
Excess tax benefits from exercise of stock options	(233)	--
Interest expense accreted on minority interest	252	--
Minority interest in net earnings of subsidiary	449	--
Other changes in operating assets and liabilities:		
Increase in contracts receivable	(9,222)	(8,011)
Increase in costs and estimated earnings in excess of billings on uncompleted contracts	(2,157)	(3,404)
(Increase) decrease in other current assets	380	(418)
Increase in accounts payable	3,549	6,700
Increase in billings in excess of costs and estimated earnings on uncompleted contracts	8,001	3,260
Increase (decrease) in other accrued expenses	949	(1,486)
Net cash provided by operating activities	19,607	11,169
Cash flows from investing activities:		
Additions to property and equipment	(11,056)	(16,634)
Proceeds from sale of property and equipment	671	865
Purchases of short-term securities, available for sale	--	(49,512)
Sales of short-term securities, available for sale	54	45,975
Net cash used in investing activities	(10,331)	(19,306)
Cash flows from financing activities:		
Cumulative daily drawdowns – Credit Facility	120,000	25,000
Cumulative daily reductions – Credit Facility	(125,062)	(30,062)
Payments received on note receivable	121	154
Excess tax benefits from exercise of stock options	233	--
Issuance of common stock pursuant to the exercise of options	123	175
Expenditures related to 2007 equity offering	(143)	--
Net cash used by financing activities	(4,728)	(4,733)
Net increase (decrease) in cash and cash equivalents	4,548	(12,870)
Cash and cash equivalents at beginning of period	80,649	28,466
Cash and cash equivalents at end of period	$ 85,197	$ 15,596
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$ 97	$ 44
Cash paid during the period for taxes	$ 1,500	$ 90

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

STERLING CONSTRUCTION COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)

1. Basis of Presentation

Sterling Construction Company, Inc. ("Sterling" or "the Company") is a leading heavy civil construction company that specializes in the building, reconstruction and repair of transportation and water infrastructure in large and growing markets in Texas and Nevada. Our transportation infrastructure projects include highways, roads, bridges and light rail, and our water infrastructure projects include water, wastewater and storm drainage systems. We provide general contracting services primarily to public sector clients utilizing our own employees and equipment for activities including excavating, paving, pipe installation, and asphalt and concrete placement. We purchase the necessary materials for our contracts, perform approximately three-quarters of the work required by our contracts with our own crews, and generally engage subcontractors only for ancillary services.

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

The condensed consolidated financial statements included herein have been prepared by Sterling, without audit, in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The condensed consolidated financial statements reflect, in the opinion of management, all normal recurring adjustments necessary to present fairly the Company's financial position at June 30, 2008 and the results of operations and cash flows for the periods presented. Certain information and note disclosures prepared in accordance with generally accepted accounting principles have been either condensed or omitted pursuant to SEC rules and regulations. Interim results may be subject to significant seasonal variations and the results of operations for the six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year.

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

Certain insignificant reclassifications of prior year amounts have been made to conform to current year presentation.

2. Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates, judgments and assumptions are continually evaluated based on available information and experience; however, actual amounts could differ from those estimates.

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

revenue recognition
contracts and retainage receivables
inventories
impairment of long-term assets
income taxes
self-insurance; and
stock-based compensation

The Company's significant accounting policies are more fully described in Note 1 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. There have been no material changes to such significant accounting policies.

3. Recent Accounting Pronouncements

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

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157) which establishes a framework for measuring fair value and requires expanded disclosure about the information used to measure fair value. The statement which was effective for financial statements issued after November 15, 2007, applies whenever other statements require or permit assets or liabilities to be measured at fair value, and does not expand the use of fair value accounting in any new circumstances. In February 2008, the FASB delayed the effective date by which companies must adopt certain provisions of SFAS 157 related to non-financial assets and liabilities to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of this standard did not have a material impact on our financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment to FASB Statement No. 115 ("SFAS No. 159"). This statement allows a company to irrevocably elect fair value as a measurement attribute for certain financial assets and financial liabilities with changes in fair value recognized in the results of operations. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. While the Company is required by other generally accepted accounting principles to measure certain assets and liabilities at fair value, it has elected not to apply the provisions of SFAS No. 159.

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

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4. Cash and Cash Equivalents and Short-term Investments:

The Company considers all highly liquid investments with original or remaining maturities of three months or less at the time of purchase to be cash equivalents. Included in cash and cash equivalents at June 30, 2008 and December 31, 2007 are uninsured temporary cash investments of $84.9 million and $21.9 million, respectively, in money market funds stated at fair value. Additionally, the Company maintains cash in bank deposit accounts that at times, including June 30, 2008, may exceed federally insured limits.

The Company classifies any short-term investments as securities available for sale in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". At June 30, 2008, the Company had no short-term securities available for sale.

5. Inventories

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

6. Property and Equipment (in thousands)

	June 30, 2008	December 31, 2007
Construction equipment	$ 91,595	$ 83,739
Transportation equipment	11,104	9,279
Buildings	1,562	1,573
Office equipment	563	602
Construction in progress	2,342	856
Land	2,718	2,718
Water rights	200	200
	110,084	98,967
Less accumulated depreciation	(33,839)	(26,578)
	$ 76,245	$ 72,389

Construction in progress at June 30, 2008 consists of third-party costs incurred in construction of an office addition and shop buildings.

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7. Income per Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per common share is computed giving effect to all potentially dilutive common stock options and warrants using the treasury stock method. At June 30, 2008 and 2007, there were 82,300 and 81,300, respectively, common stock options with a weighted average exercise price per share of $24.90 and $25.02, respectively, that were excluded from the calculation of diluted income per share as they were anti-dilutive. The following table reconciles the numerators and denominators of the basic and diluted net income per common share computations for the three and six months ended June 30, 2008 and June 30, 2007, respectively, (in thousands, except per share data):

	Three months ended June 30,			
		2008		2007
Numerator:				
Net income	$	5,140	$	3,797
Denominator:				
Weighted average common shares outstanding – basic		13,111		10,970
Shares for dilutive stock options, restricted stock andwarrants		673		813
Weighted average common shares outstanding and assumedconversions – diluted		13,783		11,783
Basic earnings per common share:	$	0.39	$	0.35
Diluted earnings per common share:	$	0.37	$	0.32

	Six months ended June 30,			
		2008		2007
Numerator:				
Net income	$	8,257	$	6,308
Denominator:				
Weighted average common shares outstanding – basic		13,090		10,945
Shares for dilutive stock options, restricted stock andwarrants		605		824
Weighted average common shares outstanding and assumedconversions – diluted		13,695		11,769
Basic earnings per common share:	$	0.63	$	0.58
Diluted earnings per common share:	$	0.60	$	0.54

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8. Stock-Based Compensation Plans and Warrants

The Company has five stock plans, only two of which currently have stock options outstanding, which are administered by the Compensation Committee of the Board of Directors. In general, the plans provide for all options to be issued with a per-share exercise price equal to the fair market value of a share of common stock on the date of grant. The original terms of the options typically do not exceed 10 years. Stock options generally vest over a three to five year period. Note 8 – Stock Options and Warrants of the Notes to the Consolidated Financial Statements contained in the Annual Report on Form 10-K for the year ended December 31, 2007 should be referred to for additional information regarding the stock-based incentive plans.

We recorded compensation expense of $233,000 and $858,000 for the six-month periods ended June 30, 2008 and 2007, respectively, (including $125,000 and $93,000, respectively, related to restricted stock grants to independent directors and certain employees discussed below). For the quarters ended June 30, 2008 and 2007, we recorded $128,000 and $308,000, respectively, (including $73,000 and $50,000, respectively, related to restricted stock grants to non-employee directors and certain employees). Unrecognized compensation expense related to stock options at June 30, 2008 and 2007 was $435,000 and $556,000, respectively, to be recognized over a weighted average period of approximately 2.4 and 2.2 years, respectively. Proceeds received by the Company from the exercise of 3,000 and 90,190 options for the three and six months ended June 30, 2008, respectively were approximately $3,000 and $123,000, respectively. No options were granted in the six months ended June 30, 2008 or 2007.

Unrecognized compensation expense related to restricted stock awards at June 30, 2008 and 2007 was $348,000 and $175,000, respectively, to be recognized over a weighted average period of 1.6 and 0.8 years. In May 2008 and 2007, the six non-employee directors of the Company were each granted 2,564 and 1,598 shares of restricted stock, respectively, at the market price on the date of grant, or $19.50 and $21.90, respectively, which will be recognized ratably over the one year restriction period. In March 2008, five employees were granted an aggregated total of 5,672 shares of restricted stock at $18.16 per share resulting in an expense of $103,000 to be recognized ratably over the five year restriction period.

At June 30, 2008, there were 453,106 shares covered by outstanding stock options and 356,266 shares covered by outstanding stock warrants.

9. Income Taxes

The Company and its subsidiaries file consolidated income tax returns in the United States federal jurisdiction and in certain states. With few exceptions, the Company is no longer subject to federal tax examinations for years prior to 2004. The Company's policy is to recognize interest related to any underpayment of taxes as interest expense, and penalties as administrative expenses. No interest or penalties have been accrued at June 30, 2008 and 2007.

In its 2005 tax return, the Company used net operating tax loss carryforwards ("NOL") that would have expired during that year instead of deducting compensation expense that originated in 2005 as the result of stock option exercises. Whether the Company can choose not to take deductions for compensation expense in the tax return and to instead use otherwise expiring NOLs is considered by management to be an uncertain tax position. In the event that the IRS examines the 2005 tax return and determines that the compensation expense is a required deduction in the tax return, then the Company would deduct the compensation expense instead of the NOL used in the period; however there would be no cash impact on tax paid due to the increased compensation deduction. In addition, there would be no interest or penalties due as a result of the change. Based on the Company's detailed analysis, management has determined that it is more likely than not this position will be sustained upon examination, and this uncertain tax

position was determined to have a measurement of $0.

The effective income tax rates were 33.6% and 33.4% of income before income taxes and minority interest for the three and six months ended June 30, 2008 and 33.5% and 33.7% for the comparable periods in 2007. The difference between the effective tax rates and the statutory rate of 35% is the result of various miscellaneous permanent differences, including the portion of earnings of subsidiary taxed to the minority interest owner, offset by the revised Texas franchise tax effective since July 1, 2007.

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10. Acquisition of Road and Highway Builders, LLC

On October 31, 2007, the Company purchased a 91.67% interest in Road and Highway Builders, LLC (“RHB”) and all of the outstanding capital stock of Road and Highway Builders Inc. ("RHB Inc.") then an inactive Nevada Corporation. The results of RHB and RHB Inc. are included in the Company's consolidated results for the three and six months ended June 30, 2008, but not in the comparable periods for 2007 as the acquisition was made after June 30, 2007.

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

The Company paid an aggregate purchase price for the RHB entities of $53.0 million to the sellers. Additionally, the Company incurred $1.1 million of direct costs related to the acquisition. Ten percent of the purchase price has been placed in escrow for eighteen months as security for any breach of representations and warranties made by the sellers.

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

Any changes to the estimated fair value of the minority interest will be recorded as a corresponding change in additional paid-in-capital. Additionally, interest expense ($252,000 and $126,000 for the six and three months ended June 30, 2008) has been accreted to the minority interest liability based on the discount rate used to calculate the fair value of the put at the date of the acquisition.

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

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

The goodwill is deductible for tax purposes over 15 years. The purchase price allocation has been finalized and there were no separately identifiable intangible assets, other than goodwill. No material adjustments have been made to the initial allocation of the purchase price. For more detail regarding this acquisition, see Notes 13 and 15 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

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11. Subsequent Events

On July 16, 2008, the Company filed a "shelf" registration statement on Form S-3 with the Securities and Exchange Commission ("SEC"). Under this shelf registration statement, the Company may offer from time to time any combination of securities described in the prospectus in one or more offerings up to a total amount of $80.0 million. The securities described in the prospectus include common and preferred stock, debt securities, warrants, units, and guarantees of debt securities. Net proceeds from the sales of the offered securities may be used for working capital needs, capital expenditures and other expenditures related to general corporate purposes, including future acquisitions.

On July 23, 2008, an oil supplier, SemMaterials, L.P., filed a Chapter 11 bankruptcy petition. SemMaterials had contracted to supply a particular grade of oil directly to the Company to produce asphalt for one of our projects in Nevada and to an asphalt subcontractor on another of our projects in Nevada; however, SemMaterials has indicated that it will be unable to do so. The supply of this particular grade of oil in Nevada is currently limited and the price of the oil is higher than the contracted price. The Nevada Department of Transportation ("NDOT") recognizes the magnitude of problems caused by SemMaterials' defaults and has expressed a willingness to work with contractors on the redesign of affected projects. Until the redesign of these projects is resolved with NDOT, it is too early to predict the effect, if any, of this issue on estimated profitability on these projects. In addition, the redesign of the affected projects will have an effect on our ability to complete portions of these projects in 2008 which we had planned on installing this year and, therefore, we estimate 2008 revenue could be as much as $25.0 million less than we had planned.

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

Forward Looking Statements

This Quarterly Report on Form 10-Q includes certain statements that are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”). These forward-looking statements may be found throughout this report, including in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in “Risk Factors”, below and relate to matters such as our industry, business strategy, goals and expectations concerning our market position, contract backlog, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. We use the words “anticipate,” “assume,” “believe,” “budget,” “continue,” “could,” “estimate,” “expect,” “forecast,” “intend “potential,” “predict,” “project,” “will,” “future” and similar terms and phrases to identify forward-looking statements in t report.

Forward-looking statements reflect our current expectations 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, which could result in our expectations not being realized or otherwise could materially affect our financial condition, results of operations and cash flows.

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

- changes in general economic conditions, reductions in federal, state and local government funding for infrastructure services and changes in those governments laws and regulations;
- adverse economic conditions in our markets in Texas and Nevada and the availability, cost and skill level of workers in those geographic locations;
- delays or difficulties related to the completion of our projects, including additional costs, reductions in revenues or the payment of liquidated damages or obtaining required governmental permits and approvals;
- actions of suppliers, subcontractors, customers, competitors and others which are beyond our control including suppliers' and subcontractors' failure to perform;
- cost escalations associated with our fixed-unit-price contracts, including changes in availability, proximity and cost of materials such as steel, concrete, aggregates, fuel and other construction materials;
- our dependence on a few significant customers;
- adverse weather conditions; although we prepare our budgets and bid for contracts based on historical rain and snowfall patterns, the incidence of rain and snowfall may differ materially from these expectations;
- the presence of competitors with greater financial resources and the impact of competitive services and pricing;
- our ability to successfully identify, finance, complete and integrate acquisitions;
- the effects of estimates inherent in our percentage-of-completion accounting policies including onsite conditions that differ from those assumed in the original bid, contract modifications, mechanical problems with our machinery or equipment and the effects of other risks discussed above; and
- citations issued by any governmental authority, including the Occupational Safety and Health Administration.

Stockholders and potential investors are urged to carefully consider these factors and the other factors described under “Risk Factors” in Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2007 in evaluating any forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements that we make in this report are reasonable, we can provide no assurance that such plans, intentions or expectations will be achieved.

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

Overview

Sterling Construction Company, Inc. (“Sterling” or “the Company”) operates in one segment, heavy civil construction, through Texas Sterling Construction Co., ("TSC"), Road and Highway Builders, LLC ("RHB") and Road and Highway Builders Inc. that specialize in the building, reconstruction and repair of transportation and water infrastructure in large and growing population markets in Texas and Nevada. Road and Highway Builders of California, Inc., an 80% owned subsidiary, was recently formed to bid and perform work in California. Our transportation infrastructure projects include highways, roads, bridges and light rail, and our water infrastructure projects include water, wastewater and storm drainage systems. We provide general contracting services primarily to public sector clients utilizing our own employees and equipment for activities including excavating, paving, pipe installation and asphalt and concrete placement. We purchase the necessary materials for our contracts, perform approximately three-quarters of the work required by our contracts with our own crews, and generally engage subcontractors only for ancillary services.

For a more detailed discussion of the Company's business, readers of this report are urged to review Item 1, Business, of the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Material Changes in Financial Condition

At June 30, 2008, there had been no material changes in the Company’s financial condition since December 31, 2007, as discussed in Item 7 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

Results of Operations

Three months ended June 30, 2008 compared with three months ended June 30, 2007

(dollar amounts in thousands) (unaudited):	2008	2007	% change
Revenues	$ 106,728	$ 71,275	49.7%
Gross profit	11,740	8,046	45.9%
Gross margin	11.0%	11.3%	(2.7%)
General, administrative and other expenses	3,442	2,768	24.3%
Operating income	8,207	5,278	55.5%
Operating margin	7.7%	7.4%	4.1%
Interest income, net	71	433	(83.6%)
Income before taxes and minority interest	8,278	5,711	44.9%
Income taxes	2,781	1,914	45.3%
Minority interest in earnings of subsidiary	357	--	Nm
Net income	$ 5,140	$ 3,797	35.4%

Revenues

Revenues increased $35.5 million. The majority of the increase was due to the revenues earned by our Nevada operations which were included in the consolidated results of operations for the six months of 2008 after being acquired in late 2007. Also contributing to the increased volume of work performed was the improved weather conditions in our Texas markets, and an increase in crews and equipment since the prior year. Rainfall decreased an average of 69% quarter over quarter in our Texas markets and we had a year-over-year increase in the average number of employees of 20% and a total increase of $25.9 million of property and equipment including that acquired with RHB.

Backlog

At the end of the second quarter of the current year, our backlog of construction projects was $514 million, as compared to $485 million at the end of the first quarter of 2008. In the second quarter of 2008, we were awarded $136 million of new contracts. The backlog at June 30, 2008 includes approximately $379 million and $135 million of backlog applicable to Texas and Nevada, respectively, and approximately $252 million expected to be completed in the last six months of 2008. At June 30, 2008, we included in backlog approximately $31 million of contracts on which we were the apparent low bidder and expect to be awarded the contracts, but as of the quarter end these contracts had not been officially awarded. Historically, subsequent non-award of such low bids has not had an adverse effect on the Company's backlog or financial condition.

Gross profit

Gross profit increased $3.7 million and $6.1 million in the second quarter and first six months of 2008, respectively, over the comparable periods in 2007. This was due to the contribution of our Nevada operations in 2008 and better weather in Texas than last year, which allowed our crews and equipment to be more productive, offset by disappointing results on certain Texas highway projects as discussed below.

During the second quarter of 2008, a long-standing vendor in our Houston market advised us that it would be unable to fulfill its commitment to furnish us steel on a project at contracted terms, which had a negative impact of $1.0 million on estimated total gross profit on this project. Approximately $600,000 of the impact was recorded in the second quarter of 2008 for this matter based on the percentage of completion of the project.

In addition, due to the unanticipated significant increases this year in the prices of gasoline and diesel fuel across all of our markets, we have incurred additional costs of approximately $1.0 million, primarily in the second quarter of 2008. We have revised our estimated total cost on projects for currently anticipated additional costs of gasoline and diesel fuel.

We achieved less than satisfactory execution on three projects in our Dallas market, which we attribute primarily to that market's recent significant growth in operations. As a result, we recorded a reduction in gross profit of approximately $1.0 million on those three projects in the second quarter of 2008 and will realize reduced gross profit on those projects through completion. We have taken steps to improve communication and oversight on all projects in that market and believe these steps will enable us to maintain or improve margins on these projects.

Subsequent to June 30, 2008, an oil supplier, SemMaterials, L.P., filed a Chapter 11 bankruptcy petition. SemMaterials had contracted to supply a particular grade of oil directly to the Company to produce asphalt for one of our projects in Nevada and to an asphalt subcontractor on another one of our projects in Nevada; however, SemMaterials has indicated that it will be unable to do so. The supply of this particular grade of oil in Nevada is currently limited and the price of the oil is higher than the contracted price. The Nevada Department of Transportation ("NDOT") recognizes the magnitude of the problems caused by SemMaterials' defaults and has expressed a willingness to work with contractors on the redesign of affected projects. Until the redesign of these projects is resolved with NDOT, it is too early to predict the effect, if any, of this issue on estimated profitability on these

projects. In addition, the redesign of the affected projects will have an effect on our ability to complete portions of these projects in 2008 which we had planned on installing this year and, therefore, we estimate 2008 revenue could be as much as $25.0 million less than we had planned.

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General and administrative expenses, net of other income

General and administrative expenses, net, increased by $0.7 million in the second quarter of 2008 versus 2007, primarily due to higher compensation expense and the addition of our Nevada operations. As a percent of revenues, G&A was 3.2% for the second quarter of 2008 versus 3.9% of revenues for the comparable prior year quarter. These expenses do not vary directly with the volume of work performed on contracts.

Operating income

Operating income increased $2.9 million in the second quarter of 2008 over 2007, due to the factors discussed above regarding gross profit and general and administrative expenses.

Interest income and expense

Net interest income was $362,000 less in the second quarter of 2008 than 2007, due to a decrease in interest rates on cash and short-term investments plus the imputed interest expense of $126,000 on the put related to the minority interest in RHB.

Income taxes

Our effective income tax rate for the first quarter of 2008 was 33.6% compared to 33.5% for the second quarter of 2007.

Six months ended June 30, 2008 compared with six months ended June 30, 2007

(dollar amounts in thousands) (unaudited):	2008	2007	% change
Revenues	$ 191,654	$ 140,163	36.7%
Gross profit	19,841	13,678	45.1%
Gross margin	10.4%	9.8%	6.1%
General, administrative and other expenses	6,991	5,060	38.2%
Operating income	12,850	8,618	49.1%
Operating margin	6.7%	6.1%	9.8%
Interest income, net	228	899	(74.7%)
Income before taxes and minority interest	13,078	9,517	37.4%
Income taxes	4,372	3,209	36.2%
Minority interest in earnings of subsidiary	449	--	Nm
Net income	$ 8,257	$ 6,308	30.9%

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Revenues

Revenues increased $51.5 million. The majority of the increase was due to the revenues earned by our Nevada operations. Also contributing to the increased volume of work performed was the improved weather conditions in our Texas markets, and an increase in crews and equipment since the prior year. Rainfall decreased an average of 54% year over year in our Texas markets and we had a year-over-year increase in the average number of employees of 20% and a total increase of $25.9 million of property and equipment including that acquired with RHB.

Backlog

At the end of the second quarter of the current year, our backlog of construction projects was $514 million, as compared to $450 million at December 31, 2007. We were awarded approximately $256 million of new contracts in the first six months of 2008.

Gross profit

Gross profit increased $6.1 million for the six-month period-over-period comparison. This was due to the contribution of our Nevada operations in 2008 and better weather in Texas than last year, which allowed our crews and equipment to be more productive, offset by the factors discussed above under "Gross Profit" for the second quarter of 2008.

General and administrative expenses, net of other income

General and administrative expenses, net, increased by $1.9 million for the first xis months of 2008 from 2007 primarily due to higher compensation expense and the addition of our Nevada operations.

Operating income

Operating income increased $4.2 million due to the factors discussed above regarding gross profit and general and administrative expenses.

Interest income and expense

Net interest income was $671,000 less for the six-month period-over-period comparison due to a decrease in interest rates on cash and short-term investments plus the imputed interest expense of $252,000 on the put related to the minority interest in RHB.

Income taxes

Our effective income tax rate for the first six months of 2008 was 33.4% compared to 33.7% for the first six months of 2007. The difference between the effective tax rate and the statutory tax rate is the result of various miscellaneous permanent differences, including the portion of earnings of subsidiary taxed to the minority interest owner, offset by the revised Texas franchise tax which became effective July 1, 2007.

Liquidity and Capital Resources

Cash Flows

The following table sets forth our cash flows for the six months ended June 30, 2008 and June 30, 2007 (in thousands) (unaudited):

	Six months ended June 30	
	2008	2007
Cash and cash equivalents at end of period	$ 85,197	$ 15,596
Net cash provided by (used in):		

Operating activities		19,607		11,169
Investing activities		(10,331)		(19,306)
Financing activities		(4,728)		(4,733)
Increase (decrease) in cash and cash equivalents	$	4,548	$	(12,870)
Capital expenditures	$	11,056	$	16,634
Working capital at end of period	$	85,218	$	53,906

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Operating Activities

Significant non-cash items included in operating activities are:

depreciation and amortization, which for the first six months of the current year totaled $6.6 million, an increase of $1.9 million from last year, as a result of the continued increase in the size of our construction fleet in recent years and the RHB acquisition;

deferred tax expense in 2008 and 2007 of $2.5 and $3.1 million, respectively, mainly attributable to accelerated depreciation methods used on equipment for tax purposes

Besides net income of $8.3 million and the non-cash items discussed above, significant components of the changes in working capital are as follows:

contracts receivable increased by $11.0 million as of June 30, 2008 due to the increase in year to date revenues of $51.5 million, including those of the Nevada operations, as compared to an increase of $8.0 million in 2007 in contract receivables which was due to an increase in revenue and a higher level of customer retentions;

cost and estimated earnings in excess of billings on uncompleted contracts increased by $2.2 million as of June 30, 2008, which was due to the timing of billings to customers, compared to an increase of $3.4 million as of June 30, 2007, which was principally due to the start up of several new jobs;

billings in excess of costs and estimated earnings on uncompleted contracts increased by $8.0 million as of June 30, 2008, compared with an increase of $3.3 million as of June 30, 2007. These changes principally reflect increased billings as a result of increased volume of work-in-progress;

accounts payable increased by $5.3 million in the first six months of this year due to the increased volume of work-in-progress. Accounts payable increased $6.7 million in the first six months of 2007 as a result of changes in the volume of materials and sub-contractor services purchased in that period.

Investing activities

Expenditures for the replacement of certain equipment and to expand our construction fleet and office and shop facilities totaled $11.1 million in the first six months of 2008, compared with a total of $16.6 million of property and equipment purchases in the same period last year. Capital equipment is acquired as needed to support our work crews and backlog and to replace retiring equipment. We plan to continue the expansion of our equipment fleet over the remainder of the year, in line with the increase during the first six months of 2008.

Financing activities

Financing activities in the first six months of 2008 primarily reflect a reduction of $5.0 million in borrowings under our $75.0 million Credit Facility as compared to a $5.0 million reduction in borrowings under the predecessor $35.0 million credit facility in the first six months of 2007. The amount of borrowings under the Credit Facility is based on the Company's expectations of working capital requirements.

Liquidity

The level of working capital for our construction business varies due to fluctuations in:

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

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Some of these fluctuations can be significant.

As of June 30, 2008, we had working capital of $85.2 million, an increase of $3.2 million over December 31, 2007. Working capital is an important element in expanding our bonding capacity, which enables us to bid on larger and longer-lived projects. The increase in working capital was mainly the result of cash provided by operations of $19.6 million offset by purchases of property and equipment of $11.0 million and net repayment of debt of $5.0 million.

The increase of $31.3 million in our working capital at June 30, 2008 versus June 30, 2007 was due to earnings for the trailing 12 months, the net proceeds of $34.5 million from our public offering in December 2007 and the increase in borrowings of $35.0 million under our Credit Facility partially offset by our purchase of the RHB entities in October 2007 and capital expenditures during that twelve-month period.

The Company believes that it has sufficient liquid financial resources, including the unused portion of its Credit Facility, to fund its requirements for the next twelve months of operations, including its bonding requirements, and expects no other material changes in its liquidity.

Sources of Capital

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

In October 2007, we entered into a new Credit Facility with Comerica Bank which matures October 31, 2012. The Credit Facility allows for borrowings of up to $75.0 million and is secured by all assets of the Company, other than proceeds and other rights under our construction contracts which are pledged to our bond surety. At June 30, 2008, the aggregate borrowings outstanding under the Credit Facility were $60.0 million, and the aggregate amount of letters of credit outstanding under the Credit Facility was $1.8 million, which reduces availability under the Credit Facility. Availability under the Credit Facility was $13.2 million at June 30, 2008.

The Credit Facility requires the payment of a quarterly commitment fee of 0.25% per annum of the unused portion of the Credit Facility. At our election, the loans under the new Credit Facility bear interest at either a LIBOR-based interest rate or a prime-based interest rate. The average interest rate on funds borrowed under the Credit Facility during the three and six months ended June 30, 2008 was approximately 5.38% and 6.25%, respectively. The Credit Facility is subject to our compliance with certain covenants, including financial covenants at quarter-end relating to fixed charges, leverage, tangible net worth, asset coverage and consolidated net losses. We were in compliance with all of these covenants at June 30, 2008.

In addition, as discussed in Note 11 to the accompanying financial statements, the Company has filed a "shelf" registration statement on Form S-3 with the Securities and Exchange Commission ("SEC") and, in one or more offerings, may sell equity and/or debt securities up to a total amount of $80.0 million, the proceeds of which may be used for working capital, capital expenditures and general corporate purposes, including future acquisitions.

Inflation

Until recently, inflation has not had a material impact on our financial results; however, this year increases in oil, fuel and steel product prices have affected the costs of operating our construction fleet, producing and installing concrete and asphalt, transporting materials and the purchase price of certain other materials. Anticipated cost increases, such as those discussed above, are considered in our bids to customers on proposed new construction projects.

Where we are the successful bidder on a project, we execute purchase orders with material suppliers and contracts with subcontractors covering the prices and quantities of most materials and services, other than oil and fuel products, thereby mitigating future price increases and supply disruptions. This year there have, however, been two vendors that had contracted to furnish materials on two of our 60 jobs who have indicated that they would not be able to fulfill their supply commitments or that they would need a price increase.

There can be no assurance that oil, fuel, steel or other materials used in our business will be adequately covered by the estimated escalation we have included in our bids or 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 where we believe it is probable that we will have cost increases which will not be recovered from customers, vendors or re-engineering.

Construction Markets

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

According to the 2006 census, Texas is the second largest state in population in the U.S. with 23.5 million people and a population growth of 12.7% since 2000, almost double the 6.4% growth rate for the U.S. as a whole over the same period. Three of the largest 10 cities in the U.S. are located in Texas and we have operating divisions in each of those cities: Houston, Dallas/Ft. Worth and San Antonio. Nevada has undergone even more rapid growth, with the state's population expanding 24.9% since 2000 to 2.5 million people in 2006.

Our highway and bridge work is generally funded through federal and state authorizations. The federal government enacted the SAFETEA-LU bill, which authorized $286 billion for transportation spending through 2009. Of this total, the Texas Department of Transportation ("TXDOT") and the Nevada Department of Transportation ("NDOT") were originally allocated approximately $14.5 billion and $1.3 billion, respectively, over the five years of the authorization. Actual SAFETEA-LU appropriations have been somewhat reduced from the original allocations. While recent public statements by TXDOT officials indicate potential TXDOT funding shortfalls and reductions in spending, transportation leaders have identified $188 billion in needed construction projects to create an acceptable transportation system in Texas by 2030. NDOT expenditures totaled $740 million in 2006 and have had an annual increase of 9.9% since 2001. Recent reductions in driving in the U.S. and the resultant effect on federal and state gasoline taxes collected may further limit spending by both federal and state authorities.

Our water and wastewater, underground utility, light-rail transit and non-highway paving work is generally funded by municipalities and other local authorities. While the size and growth rates of these markets is difficult to compute as a whole, given the number of municipalities, the differences in funding sources and variations in local budgets, management estimates that the municipal markets in which we operate are providing funding of in excess of $1 billion

annually.

While our business does not include residential infrastructure work, the slow-down in housing demand in Nevada, and to a lesser extent in Texas, has caused a softer bidding climate in our infrastructure markets and has caused some residential infrastructure contractors to bid on transportation and water infrastructure projects, thus increasing competition and creating downward pressure on bid prices. In addition, the nationwide declines in home sales and increase in foreclosures and the resultant decrease in property and sales taxes could adversely affect expenditures by state and local governments.

As discussed above, our backlog of construction projects was $514 million at June 30, 2008, including $252 million that we estimate will be completed by December 31, 2008, versus backlog of $450 million at December 31, 2007—this increase in backlog is after recognizing revenues earned of $192 million in the first half of 2008.

To date this year, the Company has had only one project scope reduction as a result of reduced funding authorization and the amount of such scope reduction was not material to our backlog. The Company had no project cancellations for any reason. The bidding climate varies somewhat by locality; however, we continue to bid projects that fit our expertise and criteria for potential revenues and gross margins and, while our markets are softer and more competitive in the current economic climate, management believes the Company has the resources and experience to continue to compete successfully for available projects.

Item 3. Qualitative and Quantitative Disclosure about Market Risk

Changes in interest rates are our primary sources of market risk. At June 30, 2008, $60 million of our outstanding indebtedness was at floating rates. An increase of 1% in the market rate of interest would have increased our interest expense for the six months ended June 30, 2008 by approximately $8,000.

Because we derive no revenues from foreign countries and have no obligations in foreign currency, we experience no direct foreign currency exchange rate risk. However, prices of certain raw materials, construction equipment and consumables, such as oil, steel and cement, may be affected by currency fluctuations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures include, without limitation, 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 and 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). 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 June 30, 2008 to ensure that the information required to be disclosed by the Company in this Quarterly Report on Form 10-Q 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 financial officers, as appropriate to allow timely decisions regarding required disclosures.

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Changes in Internal Control over Financial Reporting

There were no changes during the three months ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Inherent Limitations on Effectiveness of Controls

Internal controls over financial reporting may not prevent or detect all errors and all fraud. Also, projections of any evaluation of effectiveness of internal controls 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.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings
The Company is not a party to any material legal proceedings.

Item 1A. Risk Factors
There have not been any material changes from the risk factors previously disclosed in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None

Item 3. Defaults upon Senior Securities
None

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

Date of Meeting: May 8, 2008
Type of Meeting: Annual Meeting of Stockholders

Election of Directors.	For	Against	Abstain	Broker Non-Votes
Patrick T. Manning	7,260,875	3,697,071	14,491	-0-
Joseph P. Harper, Sr.	7,619,176	3,698,564	14,696	-0-
Adoption of an Amended and Restated Certificate of Incorporation.	7,493,031	3,809,141	30,263	-0-
Adoption of an amendment to Article FOURTH of the Certificate of Incorporation to increase the number of shares of common stock that the Company is authorized to issue from 14 million shares to 19 million shares.	10,759,947	555,524	16,963	-0-
Ratification of the selection of Grant Thornton LLP as the Company's independent registered public accounting firm for 2008.	11,304,309	18,296	9,829	-0-

Item 5. Other Information
None

Item 6. Exhibits

Exhibit No.	Description
3.1	Certificate of Incorporation of Sterling Construction Company, Inc. incorporating all amendments made through May 8, 2008.
10.1#*	Summary of Compensation for Non Employee Directors of Sterling Construction Company, Inc.
31.1	Certification of Patrick T. Manning, Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of James H. Allen, Jr., Chief Financial Officer, pursuant to Exchange Act Rule 13a-14(a)
32.0	Certification of Patrick T. Manning, Chief Executive Officer and James H. Allen, Jr., Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)

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SIGNATURES

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

STERLING CONSTRUCTION COMPANY, INC.

Date:	August 11, 2008	By:	/s/ Patrick T. Manning. Patrick T. Manning. Chairman and Chief Executive Officer
Date:	August 11, 2008	By:	/s/ James H. Allen, Jr. James H. Allen, Jr. Chief Financial Officer

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Exhibit Index

Exhibit No.	Description
3.1	Certificate of Incorporation of Sterling Construction Company, Inc. incorporating all amendments made through May 8, 2008.
10.1#*	Summary of Compensation for Non Employee Directors of Sterling Construction Company, Inc.
*31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Filed herewith