STERLING CONSTRUCTION CO INC
Form 10-Q/A
November 16, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
FORM 10-Q/A

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

For the quarterly period ended: June 30, 2005

OR

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

For the transition period from ____________________ to ____________________

Commission file number: 0-19450

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

DELAWARE	**25-1655321**
(State of Incorporation)	(I.R.S. Employer Identification No.)

20810 FERNBUSH LANE
HOUSTON, TX 77073
(Address of principal executive offices)
(Zip Code)
(281) 821-9091
(Registrant s telephone number, including area code)
2751 CENTERVILLE ROAD SUITE 3131 WILMINGTON, DELAWARE
19803
(Former name, former address, and former fiscal year, if changed from last report)

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

Indicate by check mark whether the Registrant is an accelerated filer (as described in Rule 12b-2 of the Exchange Act). Yes o No þ

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

Aggregate market value at June 30, 2005 of the voting stock held by non-affiliates of the registrant: $31,424,473.

As of August 1, 2005, 7,721,583 shares of the Registrant s Common Stock, $0.01 par value per share were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
None

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Table of Contents

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands, except per share data)

	June 30, 2005 (Unaudited)	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,451	$ 3,518
Contracts receivable	38,184	26,250
Costs and estimated earnings in excess of billings	4,350	5,884
Trade accounts receivable, less allowance of $1,058 and $1,015, respectively	3,072	2,361
Inventories	5,479	4,525
Deferred tax asset	4,824	3,986
Prepaid taxes	80	
Other	650	1,554
Total current assets	63,090	48,078
Property and equipment, net	27,151	21,227
Goodwill	12,863	12,863
Deferred tax asset	4,835	6,493
Other assets	770	883
	18,468	20,239
Total assets	$ 108,709	$ 89,544
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	24,467	18,189
Billings in excess of cost and estimated earnings	11,187	4,477
Short-term debt	4,790	3,625
Short-term debt, related parties	2,112	3,593
Current maturities of long term obligations	153	149
Other accrued expenses	4,183	2,291
Total current liabilities	46,892	32,324
Long-term obligations:		
Long-term debt	13,474	13,329
Long-term debt, related parties	7,393	7,755
Other long-term obligations	911	928
	21,778	22,012
Commitments and contingencies		
Stockholders equity:		
Preferred stock, par value $0.01 per share; authorized 1,000,000 shares, none issued Common stock, par value $0.01 per share; authorized 14,000,000 shares, 7,721,583 and 7,378,681 shares issued	77	74

Additional paid-in capital	82,181	80,688
Deferred compensation expense	(55)	(161)
Accumulated deficit	(42,164)	(45,392)
Treasury stock, at cost, and 207 common shares		(1)
Total stockholders equity	40,039	35,208
	$ 108,709	$ 89,544

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

3

Table of Contents

STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollar amounts in thousands, except share and per share data)
(Unaudited)

	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Contract revenues	$ 57,228	$ 29,354	$ 96,641	$ 54,940
Distribution revenues	6,089	5,389	12,625	12,112
	63,317	34,743	109,266	67,052
Cost of contract revenues earned	51,223	24,739	87,278	47,647
Cost of goods sold, including occupancy, buying and warehouse expenses	5,017	4,527	10,581	10,303
Selling and administrative expenses, net	2,984	2,389	5,509	4,865
Provision for doubtful accounts	11		41	
Interest expense, net of interest income	435	219	982	738
	59,670	31,874	104,391	63,553
Income before minority interest and income taxes	3,647	2,869	4,875	3,499
Minority interest		442		609
Income before income taxes	3,647	2,427	4,875	2,890
Income taxes:				
State income tax expense (benefit)	6	9	(11)	16
Deferred income tax expense	1,240	794	1,658	983
Total income tax expense	1,246	803	1,647	999
Net income	$ 2,401	$ 1,624	$ 3,228	$ 1,891
Basic net income per share	$ 0.31	$ 0.31	$ 0.43	$ 0.36
Weighted average number of shares outstanding used in computing basic per share amounts	7,720,053	5,316,440	7,556,658	5,241,973
Diluted net income per share	$ 0.26	$ 0.23	$ 0.35	$ 0.27
	9,413,612	7,081,760	9,348,549	7,174,166

Weighted average number of shares outstanding used in computing diluted per share amounts

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

4

Table of Contents

(

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

	Common Stock	Deferred Compensation Expense	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balance at December 31, 2004	$ 74	($ 161)	$ 80,688	($ 45,392)	($ 1)	$ 35,208
Net income				3,228		3,228
Stock issued upon option and warrant exercise	3		515			518
Stock options granted		(140)	140			0
Deferred compensation expense		246				246
Privitization of SCPI					1	1
Reduction of valuation allowance-deferred tax asset			838			838
						0
Balance at June 30, 2005	$ 77	($ 55)	$ 82,181	($ 42,164)	$	$ 40,039

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

5

Table of Contents

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

	Six months ended June 30, 2005	June 30, 2004
Cash flows from operating activities:		
Income from operations	$ 3,228	$ 1,891
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,532	2,362
Provision for doubtful accounts	41	0
(Gain) loss on sale of property and equipment	(208)	5
Deferred tax expense	1,658	983
Deferred compensation expense	246	258
Minority interest in net earnings of subsidiary		609
Other changes in operating assets and liabilities:		
Increase in accounts receivable	(752)	(822)
(Increase) decrease in contracts receivable	(11,934)	1,203
(Increase) decrease in inventories	(954)	7
Decrease (increase) in costs and estimated earnings in excess of billings on uncompleted contracts	1,534	(1,726)
Decrease (increase) in prepaid expense and other assets	908	(568)
Increase in trade payables	6,278	2,071
Increase (decrease)in billings in excess of costs and estimated earnings on uncompleted contracts	6,710	(5,088)
Increase (decrease) in accrued compensation and other liabilities	1,892	(870)
Net cash provided by operating activities	11,179	315
Cash flows from investing activities:		
Additions to property and equipment	(8,416)	(1,255)
Proceeds from sale of property and equipment	260	92
Net cash used in investing activities	(8,156)	(1,163)
Cash flows from financing activities:		
Cumulative daily drawdowns of revolvers	76,820	52,429
Cumulative daily reductions of revolvers	(75,510)	(49,582)
Repayments under long-term obligations	(1,918)	(1,422)
Privitization of SCPI		(49)
Issuance of common stock, pursuant to options and warrants	518	379
Net cash (used in) provided by financing activities:	(90)	1,755
Net increase in cash and cash equivalents	2,933	907
Cash and cash equivalents at beginning of period	3,518	2,765
Cash and cash equivalents at end of period	$ 6,451	$ 3,672

Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$ 1,130	$ 952
Cash paid during period for taxes	$ 155	$ 205
Supplemental disclosure of non-cash financing activities:		
Capital lease obligations for new equipment	$ 62	
Reduction of deferred tax valuation allowance	$ 838	

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

6

Table of Contents

STERLING CONSTRUCTION COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED JUNE 30, 2005 (UNAUDITED)

This 10-Q/A is being filed in order to expand the Company s discussion and definition of the use of the non-GAAP measure, EBITDA , as defined herein.

1. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by Sterling Construction Company, Inc. (Sterling or the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2004. 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, 2005 and the results of operations and cash flows for the periods presented.

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 accounts and transactions have been eliminated in consolidation.

Interim results may be subject to significant seasonal variations and the results of operations for the three and six months ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year.

The Company s primary business is conducted through its Construction segment, which consists of the operations of Sterling Houston Holdings (SHH), a heavy civil construction company based in Houston, Texas. The Company also operates a smaller Distribution segment, which consists of the operations of Steel City Products, Inc. (SCPI), a wholesale distributor of automotive accessories, non-food pet supplies and lawn and garden products, based in Pittsburgh, Pennsylvania.

2. Recent Accounting Pronouncement

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43 (SFAS No. 151), which is the result of its efforts to conform United States accounting standards for inventories with International Accounting Standards. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe adoption of SFAS No. 151 will have an impact on its consolidated financial statements.

In December 2004, the FASB issued FASB Statement No. 123(R), Share-Based Payment , (SFAS No. 123(R)), which is a revision of FASB Statement No. 123 Accounting for Stock-Based Compensation . SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and amends FASB Statement No. 95, Statement of Cash Flows . The Company is required to adopt SFAS No. 123(R) beginning January 1, 2006. Pro forma disclosure, as was allowed under APB 25 and SFAS No. 123, will no longer be an alternative. Additionally, SFAS No. 123(R) requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS No. 123(R) and for all subsequent stock options granted thereafter. Because the Company utilizes a fair value based method of accounting for stock-based compensation costs for all employee stock compensation awards granted, modified or settled since January 1, 2003 and will not have significant unvested awards from periods prior to January 1, 2003 outstanding at January 1, 2006, adoption of SFAS No. 123(R) is not expected to have a material impact on its financial statements.

Table of Contents

In March 2005, the FASB issued FASB Interpretation No. 47 Accounting for Conditional Asset Retirement Obligations (FIN 47). FIN 47 clarifies that an entity must record a liability for conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. The provision must be adopted no later than the end of the fiscal year ending December 31, 2005. The Company does not expect adoption of FIN 47 to have a material impact on its financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 is a replacement of APB 20 and FASB Statement No. 3. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS No. 154. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will adopt this pronouncement beginning in fiscal year 2006.

3. 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. The Company s significant accounting policies are 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, 2004.

4 Property and Equipment

(dollars in thousands)	June 30, 2005 (Unaudited)	December 31, 2004
Construction equipment	$ 33,427	$ 26,550
Transportation equipment	5,324	4,406
Buildings	1,488	1,488
Leasehold improvements	402	402
Office furniture, warehouse equipment and vehicles	1,568	1,462
Land	182	182
	42,391	34,490
Less accumulated depreciation	(15,240)	(13,263)
	$ 27,151	$ 21,227

5. Goodwill

The amounts recorded by the Company for goodwill are as follows (dollars in thousands):

	Construction Segment	Distribution Segment	Total
Balance, January 1, 2005	$ 12,735	$ 128	$ 12,863
Goodwill additions			
Impairment losses			

Balance, June 30, 2005	$ 12,735	$ 128	$ 12,863

Table of Contents

The Company performed impairment testing under the terms of SFAS No. 142 Goodwill and Other Intangible Assets for its two reporting segments in the fourth quarter of fiscal 2004. The analyses did not indicate impairment of the Company s recorded goodwill for either segment.

6. Earnings Per Share

Basic net income per 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 potential dilutive common stock and warrants using the treasury stock method. The following table reconciles the numerators and denominators of the basic and diluted per common share computations for net income for the three and six months ended June 30, 2005 and June 30, 2004 (in thousands, except share and per share data):

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Numerator:				
Net income	$ 2,401	$ 1,624	$ 3,228	$ 1,891
Add back interest on convertible debt, net of tax		11		22
Net income before interest on convertible debt	$ 2,401	$ 1,635	$ 3,228	$ 1,913
Denominator:				
Weighted average common shares outstanding basic	7,720	5,316	7,557	5,242
Shares for convertible debt		224		224
Shares for dilutive stock options and warrants	1,694	1,542	1,792	1,708
Weighted average common shares outstanding and assumed conversions diluted	9,414	7,082	9,349	7,174
Basic income per common share:	$ 0.31	$ 0.31	$ 0.43	$ 0.36
Diluted income per common share:	$ 0.26	$ 0.23	$ 0.35	$ 0.27

7. Stock-Based Compensation

The Company accounts for its stock based compensation under the provisions of SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure , which amended SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method. The Company adopted SFAS No. 148 effective January 1, 2003 utilizing the prospective method for options granted after that date and uses a Black-Scholes option pricing model for calculations of the fair value of options granted after January 1, 2003.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation , to stock-based employee compensation prior to January 1, 2003 (dollars in thousands, except per share data).

Table of Contents

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Net income, as reported	$ 2,401	$ 1,624	$ 3,228	$ 1,891
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	193	44	245	258
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(184)	(21)	(228)	(42)
Pro forma net income	$ 2,410	$ 1,647	$ 3,245	$ 2,107
Basic and diluted net income per share:				
Basic, as reported	$ 0.31	$ 0.31	$ 0.43	$ 0.36
Diluted, as reported	$ 0.26	$ 0.23	$ 0.35	$ 0.27
Pro forma, basic	$ 0.31	$ 0.31	$ 0.43	