STERLING CONSTRUCTION CO INC
Form 10-K
March 16, 2011

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

[X] annual report pursuant to section 13 or 15(d) of the securities exchange act of 1934
For the fiscal year ended: December 31, 2010
[ ] transition report pursuant to section 13 or 15(d) of the securities exchange act of 1934
For the transition period from ______________________to ______________________________
Commission file number 1-31993

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

Delaware	25-1655321
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
20810 Fernbush Lane Houston, Texas	77073
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (281) 821-9091

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
[ ] Yes [√] No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
[ ] Yes [√] No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
[√] Yes [ ] No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter prior that the registrant was required to submit and post such files).
[ ] Yes [ ] No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [ ] Accelerated

filer [√]
Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [ ]
Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act). [ ] Yes [√] No
Aggregate market value of the voting and non-voting common equity held by non-affiliates at June 30, 2010: $198,373,914.
At March 2, 2011, the registrant had 16,454,478 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held on May 6, 2011 are incorporated by reference into Part III of this Form 10-K.

Sterling Construction Company, Inc.

Annual Report on Form 10-K

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PART I

Cautionary Comment Regarding Forward-Looking Statements

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

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

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

- changes in general economic conditions, including recessions, reductions in federal, state and local government funding for infrastructure services and changes in those governments' budgets, practices, laws and regulations;

- delays or difficulties related to the completion of our projects, including additional costs, reductions in revenues or the payment of liquidated damages, or delays or difficulties related to obtaining required governmental permits and approvals;

- actions of suppliers, subcontractors, design engineers, joint venture partners, customers, competitors, banks, surety companies and others which are beyond our control, including suppliers', subcontractors, and joint venture partners' failure to perform;

- the effects of estimates inherent in our percentage-of-completion accounting policies, including onsite conditions that differ materially from those assumed in our original bid, contract modifications, mechanical problems with our machinery or equipment and effects of other risks discussed in this document;

- design/build contracts which subject us to the risk of design errors and omissions;

- cost escalations associated with our contracts, including changes in availability, proximity and cost of materials such as steel, cement, concrete, aggregates, oil, fuel and other construction materials, and cost escalations associated with subcontractors and labor;

- our dependence on a few significant customers;

- adverse weather conditions; although we prepare our budgets and bid contracts based on historical rain and snowfall patterns, the incidence of rain, snow, hurricanes, etc., may differ materially from these expectations;

- the presence of competitors with greater financial resources or lower margin requirements than us, and the impact of competitive bidders on our ability to obtain new backlog at reasonable margins acceptable to us;
- our ability to successfully identify, finance, complete and integrate acquisitions;
- citations issued by any governmental authority, including the Occupational Safety and Health Administration;
- federal, state and local environmental laws and regulations -- non-compliance can result in penalties and/or termination of contracts as well as civil and criminal liability;
- the current instability of financial institutions, which could cause losses on our cash and cash equivalents and short-term investments;
- adverse economic conditions in our markets in Texas, Utah and Nevada; and
- the other factors discussed in more detail in Item 1A. —Risk Factors.

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

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

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Item 1. Business.

Access to the Company's Filings.

The Company's Website.

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

The Securities and Exchange Commission (SEC).

The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 (1-800-732-0330). The SEC also maintains an Internet site at www.sec.gov on which you can obtain reports, proxy and information statements and other information regarding the Company and other issuers that file electronically with the SEC.

Overview of the Company's Business.

Sterling Construction Company, Inc. was founded in 1991 as a Delaware corporation. Our principal executive offices are located at 20810 Fernbush Lane, Houston, Texas 77073, and our telephone number at this address is (281) 821-9091. Our construction business was founded in 1955 by a predecessor company in Michigan and is now operated by our subsidiaries: Texas Sterling Construction Co., a Delaware corporation, or TSC; Road and Highway Builders, LLC, a Nevada limited liability company, or RHB; Road and Highway Builders Inc., a Nevada corporation, or RHB Inc.; Road and Highway Builders of California, Inc., a California corporation, or RHB Cal; Ralph L. Wadsworth Construction Company, LLC, a Utah limited liability company, or RLW; and Ralph L. Wadsworth Construction Co., LP, an inactive California limited partnership, or RLWLP. The terms "Company", "Sterling", and "we" refer to Sterling Construction Company, Inc. and its subsidiaries except when it is clear that those terms mean only the parent company.

Sterling is a leading heavy civil construction company that specializes in the building, reconstruction and repair of transportation and water infrastructure. Transportation infrastructure projects include highways, roads, bridges, light rail and commuter rail. Water infrastructure projects include water, wastewater and storm drainage systems. Sterling provides general contracting services, including excavating, concrete and asphalt paving, installation of large-diameter water and wastewater distribution systems, construction of bridges and similar large structures, construction of light and commuter rail infrastructure, concrete and asphalt batch plant operations, concrete crushing and aggregates operations. Sterling performs the majority of the work required by its contracts with its own crews and equipment.

Although we describe our business in this report in terms of the services we provide, our base of customers and the geographic areas in which we operate, we have concluded that our operations comprise one reportable segment and one reporting unit component, heavy civil infrastructure construction. In making this determination, we considered that each project has similar characteristics, includes similar services and similar types of customers and is subject to similar regulatory and economic environments. We organize, evaluate and manage our financial information around each project when making operating decisions and assessing our overall performance.

Sterling has a history of profitable growth, which we have achieved by expanding both our service profile and our market areas. This involves adding services, such as concrete operations, in order to capture a greater percentage of available work in current and potential markets. It also involves strategically expanding operations, either by establishing a branch office in a new market, often after having successfully bid on and completed a project in that market, or by acquiring a company that gives us an immediate entry into a market. Sterling extended both its service profile and its geographic market reach with the 2007 acquisition of RHB, a Nevada construction company, and the 2009 acquisition of RLW, a Utah construction company.

Sterling operates in Texas, Utah and Nevada, states that management believes benefit from both positive long-term demographic trends as well as an historical commitment to funding transportation and water infrastructure projects. The Company also has highway construction contracts in Hawaii, Idaho, Montana and Louisiana. From 2005 to 2010, the populations of Texas, Utah and Nevada grew 10.2%, 15.8% and 14.8%, respectively, compared to approximately 4.5% for the national average. The dollar value of highway and bridge construction projects to be bid ("lettings") in 2011 are: approximately $4.8 billion by the Texas Department of Transportation, or TXDOT; approximately $1.1 billion by the Utah Department of Transportation, or UDOT, and between $300 and $400 million by the Nevada Department of Transportation, or NDOT. While the near-term funding available to these markets is currently restrained, management anticipates that long-term population growth and increased spending for infrastructure in these markets will positively affect business opportunities over the coming years.

On December 3, 2009, we completed the acquisition of privately-owned Ralph L. Wadsworth Construction Company, LLC, or RLW, which is headquartered in Draper, Utah, near Salt Lake City. RLW is a heavy civil construction business focused on the construction of bridges and other structures, roads and highways, and light and commuter rail projects, primarily in Utah, with licenses to do business in surrounding states. We paid approximately $63.9 million to acquire 80% of the equity interests in RLW, and, in 2013, we have the option to purchase, and the RLW sellers could require us to purchase, the remaining 20% of RLW.

RLW's largest customer is UDOT, which is responsible for planning, constructing, operating and maintaining the more than 6,000 miles of highway and over 1,700 bridges that make up the Utah state highway system. RLW strives to provide efficient, timely and profitable execution of construction projects, with a particular emphasis on structures and innovative construction methods. RLW has significant experience in obtaining and profitably executing "design-build" and "CM/GC" (construction manager/general contractor) projects. We believe that design-build, CM/GC and other alternative project delivery methods are increasingly being used by public sector customers as alternatives to the traditional fixed unit price low bid process. Since its founding in 1975, RLW has experienced profitable growth, capitalizing on high-quality execution of projects and strong customer relationships.

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We acquired RLW for a number of reasons, including opportunities to:

- Expand on RLW's significant experience in design-build, CM/GC and other project delivery methods.
- Utilize RLW's significant structural construction expertise.
- Expand into an attractive market with good long-term growth dynamics.
- Complement our existing market locations and advance our strategy of geographical diversification.
- Partner with a strong and innovative management team with a similar corporate culture.
- Benefit from RLW's strong financial results and immediate accretion to our earnings per share.

Our Business Strategy.

Key features of our business strategy include:

- Continue to Add Construction Capabilities - by adding capabilities that augment our core contracting and construction competencies, we are able to improve gross margin opportunities, and more effectively compete for contracts that might not otherwise be available to us.

- Expand into New Markets and Selectively Pursue Opportunities and Strategic Acquisitions - we will continue to seek to identify attractive new markets and opportunities in select western, southwestern and southeastern U.S. areas. We will also continue to assess opportunities to extend our service capabilities and expand our markets through acquisitions.

- Apply Core Competencies Across our Markets - we will seek to capitalize on opportunities to export our Texas experience constructing water infrastructure projects and our Nevada earthmoving, aggregates and asphalt paving experience into our Texas and Utah markets. Similarly, we believe that RLW's experience with design-build, CM/GC and other alternative project delivery methods in Utah can enhance opportunities for us in our Texas and Nevada markets.

- Increase our Market Leadership in our Core Markets - we have a strong presence in a number of markets in Texas, Utah and Nevada and intend to expand our presence in these states and other states where we believe contracting opportunities exist.

- Position our Business for Future Infrastructure Spending - currently there are considerable uncertainties surrounding federal, state and local funding in our markets; however, we believe there is awareness of the need to build, reconstruct and repair our country's infrastructure, including transportation infrastructure, such as bridges, highways, and mass transit systems and water infrastructure, such as water, wastewater and storm drainage systems. We will continue to build our expertise to capture this infrastructure spending.

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

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Our Markets.

We operate in the heavy civil construction segment, specializing in transportation and water infrastructure projects, which we pursue in Texas, Utah, Nevada and other states where we see contracting opportunities. Currently, we also have projects in Hawaii, Idaho, Louisiana and Montana. RLW has also completed construction projects in Wyoming and Arizona. We have also bid on construction projects in California and Oklahoma but have not been awarded any such projects in those states.

According to 2010 U.S. Census Bureau information, Texas is the second largest state in population in the U.S., with 25.1 million people and a population growth of 10.2% from 2005 to 2010, over twice the 4.5% growth rate for the U.S. as a whole over the same period. Three of the 10 largest cities in the U.S. are located in Texas, and we have offices serving the areas in which each of them is located. Utah, with a population of 2.8 million in 2010, was the fastest growing state from 2005 to 2010, with an increase of 15.8%. Nevada's population expanded 14.8% from 2.4 million in 2005 to 2.7 million people in 2010. Texas, Utah and Nevada are projected by the U.S. Census Bureau to have populations of over 33 million, 3 million and 4 million, respectively, by 2030.

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

Various factors described in this report have adversely affected the levels of transportation and water infrastructure capital expenditures in our markets, reducing bidding opportunities to replace backlog and increasing competition for new projects. Assuming that these factors continue to affect infrastructure capital expenditures in our markets in the near term, and taking into account the amount of backlog we had at December 31, 2010 and the lower anticipated margin bid on some projects that we have recently been awarded and started work on in 2010 or expect to start work on in 2011, we currently anticipate that our net income and weighted average diluted earnings per common share of stock attributable to Sterling common stockholders for 2011 will be below the results we achieved for 2010.

While the bidding climate varies by locality, we continue to bid projects that fit our expertise and current criteria for potential revenues and gross margins after giving consideration to resource utilization, degree of difficulty in the projects, amount of subcontract and materials and project competition. We do expect that our markets will ultimately recover from the conditions described above and that our backlog, revenues and income will return to levels more consistent with historical levels; however, we cannot predict the timing of such a return to historical normalcy in our markets. We believe that the Company is in sound financial condition and has the resources and management experience to weather current market conditions and to continue to compete successfully for projects as they become available at acceptable profit margin levels.

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State Highway Markets.

Our highway and related bridge work is generally funded through federal and state authorizations. The federal government enacted the SAFETEA-LU bill in 2005, which authorized $244 billion for transportation spending through 2009. The U.S. Department of Transportation ("U.S.DOT") budgeted $40.2 billion under SAFETEA-LU for federal highway financial assistance to the states for 2009, had authority to spend $43.1 billion in 2010 and has requested authority to spend $42.8 billion in 2011 for highways and bridges. Such spending for 2011 is subject to appropriations by the federal government.

The SAFETEA-LU bill expired on September 30, 2009, and the federal government extended funding on a month-to-month basis, through February, 2010, at approximately 70% of the prior year SAFETEA-LU levels. On March 17, 2010, the HIRE Act was enacted by the federal government and extended funding for highway and bridges through December 31, 2010 at prior SAFETEA-LU levels, transferred $19.5 billion into the highway trust fund and restored certain amounts previously rescinded. In March 2011, the federal government enacted a continuing resolution extending funding to September 30, 2011. A long-term, multi-year bill with adequate funding still needs to be enacted to enable the states to know that funding will be available to award large, two to four-year highway and bridge construction contracts.

We had anticipated these matters would be resolved in late 2009 or 2010; however, they have not been resolved, and we are unable to predict when or on what terms the federal government might ultimately enact long-term legislation similar to the SAFETEA-LU bill.

In February 2009, the American Recovery and Reinvestment Act, or federal economic-stimulus legislation, was enacted by the federal government authorizing $27.5 billion for highway and bridge construction. A significant portion of these funds were to be used for ready-to-go, quick spending highway projects for which contracts could be awarded quickly. The highway funds apportioned to Texas, Utah and Nevada approximated $2.7 billion under the federal economic stimulus legislation, and the majority of such amount will be expended in 2009 through 2011.

In January 2009, the 2030 Committee, appointed by TXDOT at the request of the Governor of the State of Texas, submitted its draft report of the transportation needs of Texas which at that time had over 193,000 lane-miles and 50,000 bridges in its state highway system. The report stated that "With [the] population increase expected by 2030, transportation modes, costs and congestion are considered a possible roadblock to Texas' projected growth and prosperity." The report further indicated that Texas needs to spend approximately $315.0 billion (in 2008 dollars) for the period 2009 through 2030 to prevent worsening congestion and maintain economic competitiveness on its urban highways and roads, improve congestion/safety and partial connectivity on its rural highways, and to replace bridges.

In 2007, the voters of the State of Texas approved $5.0 billion for highway construction to be repaid out of the State's general funds and the budget for the biennium 2010-2011 includes $1.9 billion of proceeds from these bonds ("Prop 12 Bonds").

The estimated 2011 TXDOT lettings (contract awards) for transportation construction projects are $4.8 billion, including stimulus funds and a portion of the Prop 12 Bonds discussed above versus approximately $4.2 billion of lettings in 2010 including stimulus funds and a portion of the Prop 12 Bonds. Due to uncertainty regarding federal funding and expected constraints of the Texas budget, TXDOT is forecasting lettings of only $2.7 billion for 2012 before any appropriations from the Prop 12 Bonds discussed above. TXDOT was instructed by the last session of the Texas legislature to move forward on projects with the expectation that additional Prop 12 Bonds would be enabled, which would increase the forecasted lettings for 2012.

Texas is also authorized to sell an additional $1.0 billion of the Prop 12 Bonds for a revolving fund to be loaned by TXDOT to cities, counties and other parties for the construction of highways and bridges. Upon the repayment or sale of these loans, TXDOT may loan the repayment/sales proceeds to similar parties for construction of additional highways and bridges.

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

Utah's Long Range Transportation Plan for 2007-2030 projects spending for highway and bridge construction of $18.9 billion; the Utah Governor's recommendation for such spending in 2010 was approximately $1.1 billion; and the Utah Office of the Legislative Fiscal Analyst Appropriations Report for fiscal year 2011 indicates appropriations for transportation capital projects total $900 million.

Based on press statements by officials of NDOT, and the Nevada legislative website, we estimate NDOT expenditures in 2010 and 2011 will be between $300 million and $400 million in each of those fiscal years, including economic-stimulus funds for highways and bridges.

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Municipal Markets.

Our water and wastewater, underground utility, light and commuter rail and non-highway paving work is generally funded by municipalities and other local authorities. The size and growth rates of these markets are difficult to compute as a whole given the number of municipalities, the differences in funding sources and variations in local budgets.   Two of the many municipalities that we perform work for are discussed below.

The City of Houston's estimated expenditures for their fiscal year ended June 30, 2010 on storm drainage, street and traffic, waste water and water capital improvements were $406.8 million. Houston's Capital Improvement Plan includes $664.7 million in the fiscal year ending June 30, 2011 for transportation and water infrastructure projects.

The City of San Antonio has adopted a six-year capital improvement plan for its fiscal years 2011 through 2016, which includes $322.5 million for streets and $165.6 million for drainage. The expenditures will be partially funded by the $550 million bond program that the voters of the City of San Antonio approved in May 2007. San Antonio's budget for such projects was $290 million for its fiscal year 2010 and is $312.8 million for its fiscal year 2011.

We also do work for other cities, counties and business area redevelopment and regional water authorities in Texas and transit authorities in Texas and Utah, which have substantial water and transportation infrastructure spending budgets.

Expenditures by municipalities may also be limited due to federal, state and local funding limitations in the current economic environment.

Our Customers.

We are headquartered in Houston, and we serve the top markets in Texas, including Houston, San Antonio, Austin and Dallas/Fort Worth. Our Texas subsidiary is also currently performing work in the El Paso, Texas area and in Baton Rouge, Louisiana. We expanded our operations into Nevada in 2007 and into Utah in December 2009, in each case by acquiring a strong and profitable company with a well-established market presence and ties to customers in the state.

Although we occasionally undertake contracts for private customers, the vast majority of our revenues are attributable to work for public sector customers. For our Texas subsidiary, these customers include TXDOT, Texas and Louisiana county and municipal public works departments, the Metropolitan Transit Authority of Harris County, Texas (or Metro), the Harris County Toll Road Authority, North Texas Transit Authority (or NTTA), regional transit and water authorities, port authorities, school districts, municipal utility districts and the U.S. Corps of Engineers. In Utah, our public sector customers include UDOT. For our Nevada subsidiary, our primary public sector customer is NDOT; however, RHB is currently also performing a project for the Federal Highway Administration in Hawaii. State highway and related bridge work accounted for approximately 68% of our consolidated revenues in each of the years 2008, 2009 and 2010.

In 2010, contracts with TXDOT represented 20.7% of our revenues, contracts with NDOT represented 6.4% of our revenues, contracts with UDOT accounted for 26.2% of our revenues and contracts with NTTA accounted for 5.2% of our revenues. The majority of our services are provided to these customers pursuant to contracts awarded through competitive bidding processes.

Our municipal customers in 2010 included the City of Houston (3.0% of our 2010 revenues), the City of San Antonio (3.7% of our 2010 revenues) and Harris County (1.3% of our 2010 revenues) in Texas and the Utah Transit Authority (9.3% of our 2010 revenues) in Utah. In the past, we have also completed the construction of certain infrastructure for new light rail systems in Houston, Dallas and Galveston, and RLW has completed light and commuter rail infrastructure projects in Utah. We anticipate that expenditures in the Cities of Houston and San Antonio for road, rail and water infrastructure projects will continue to increase due to these metropolitan areas' steady gain in population through migration of new residents, the annexation of surrounding communities and the continuing programs to expand storm water and flood control systems and deliver water to suburban communities. We believe that similar municipal civil construction opportunities are available in the Salt Lake City, Las Vegas and Reno areas. However, expenditures by municipalities may be limited due to federal, state and local funding limitations in the current economic environment. We provide services to our municipal customers exclusively pursuant to contracts awarded through competitive bidding processes.

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Competition.

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

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

We are unable to determine the size of most of our competitors because they are privately owned, but we believe that we are one of the larger participants in our Texas and Utah markets and one of the largest contractors in Houston and San Antonio engaged in municipal heavy civil construction work. We believe that being a municipal civil market contractor provides us with several advantages in the Houston and San Antonio markets, including greater flexibility to manage our backlog in order to schedule and deploy our workforce and equipment resources more efficiently; more cost-effective purchasing of materials, insurance and bonds; the ability to provide a broader range of services than otherwise would be provided through subcontractors; and the availability of substantially more capital and resources to dedicate to each of our contracts. Because we own and maintain most of the equipment required for our contracts and have the experienced workforce to handle many types of municipal civil construction, we are able to bid competitively on many categories of contracts, especially complex, multi-task projects.

In Utah, RLW has been competitive, in part, because of successful marketing efforts, design-build and CM/GC capabilities and development of innovative methods for completing projects. Competition for design-build projects is not totally focused on cost factors but is also significantly dependent on successf