CITIGROUP INC
Form 424B2
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December 21, 2018

Medium-Term Senior Notes, Series N

Citigroup Global Markets Holdings Inc. **Pricing Supplement No. 2018-USNCH1737**

Filed Pursuant to Rule 424(b)(2)

Registration Statement Nos. 333-216372 and 333-216372-01

Buffer Securities Linked to the iShares® MSCI Emerging Markets ETF Due December 27, 2022

The securities offered by this pricing supplement are unsecured debt securities issued by Citigroup Global Markets Holdings Inc. and guaranteed by Citigroup Inc. Unlike conventional debt securities, the securities do not pay interest and do not repay a fixed amount of principal at maturity. Instead, the securities offer a payment at maturity that may be greater than, equal to or less than the stated principal amount, depending on the performance of the underlying specified below from the initial underlying value to the final underlying value.

The securities offer modified exposure to the performance of the underlying, with (i) the opportunity to participate in a limited range of potential appreciation of the underlying at the upside participation rate specified below and (ii) a limited buffer against any depreciation of the underlying as described below. In exchange for these features, investors in the securities must be willing to forgo any appreciation of the underlying in excess of the maximum return at maturity specified below and must be willing to forgo any dividends with respect to the underlying. In addition, investors in the securities must be willing to accept downside exposure to any depreciation of the underlying in excess of the buffer percentage specified below. **If the underlying depreciates by more than the buffer percentage from the initial underlying value to the final underlying value, you will lose 1% of the stated principal amount of your securities for every 1% by which that depreciation exceeds the buffer percentage.**

In order to obtain the modified exposure to the underlying that the securities provide, investors must be willing to accept (i) an investment that may have limited or no liquidity and (ii) the risk of not receiving any amount due under the securities if we and Citigroup Inc. default on our obligations. **All payments on the securities are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc.**

KEY TERMS

Issuer:	Citigroup Global Markets Holdings Inc., a wholly owned subsidiary of Citigroup Inc.
Guarantee:	All payments due on the securities are fully and unconditionally guaranteed by Citigroup Inc.
Underlying:	The iShares® MSCI Emerging Markets ETF
Stated principal amount:	$1,000 per security
Pricing date:	December 21, 2018
Issue date:	December 31, 2018
Valuation date:	December 21, 2022, subject to postponement if such date is not a scheduled trading day or certain market disruption events occur
Maturity date:	December 27, 2022
Payment at maturity:	You will receive at maturity for each security you then hold: §

If the final underlying value is **greater than** the initial underlying value:

$1,000 + the return amount, subject to the maximum return at maturity

§

If the final underlying value is **less than or equal to** the initial underlying value but **greater than or equal to** the final buffer value:

$1,000

§

If the final underlying value is **less than** the final buffer value:

$1,000 + [$1,000 × (the underlying return + the buffer percentage)]

If the final underlying value is less than the final buffer value, you will receive less, and possibly significantly less, than the stated principal amount of your securities at maturity.

Initial underlying value:	$38.52, the closing value of the underlying on the pricing date
Final underlying value:	The closing value of the underlying on the valuation date
Return amount:	$1,000 × the underlying return × the upside participation rate
Upside participation rate:	125%
Underlying return:	(i) The final underlying value *minus* the initial underlying value, *divided by* (ii) the initial underlying value
Maximum return at maturity:	$580 per security (58% of the stated principal amount). The payment at maturity per security will not exceed the stated principal amount *plus* the maximum return at maturity.
Final buffer value:	$30.816, 80% of the initial underlying value
Buffer percentage:	20%
Listing:	The securities will not be listed on any securities exchange
CUSIP / ISIN:	17326Y4N3 / US17326Y4N34
Underwriter:	Citigroup Global Markets Inc. (“CGMI”), an affiliate of the issuer, acting as principal

Underwriting fee and issue price:	**Issue price[(1)]**	**Underwriting fee[(2)]**	**Proceeds to issuer**
Per security:	$1,000.00	—	$1,000.00
Total:	$192,000	—	$192,000

(1) On the date of this pricing supplement, the estimated value of the securities is $971.10 per security, which is less than the issue price. The estimated value of the securities is based on CGMI’s proprietary pricing models and our internal funding rate. It is not an indication of actual profit to CGMI or other of our affiliates, nor is it an indication of the price, if any, at which CGMI or any other person may be willing to buy the securities from you at any time after issuance. See “Valuation of the Securities” in this pricing supplement.

(2) CGMI will pay selected dealers a structuring fee of up to $4 for each security sold in this offering. For more information on the distribution of the securities, see “Supplemental Plan of Distribution” in this pricing supplement. CGMI and its affiliates may profit from hedging activity related to this offering, even if the value of the securities declines. See “Use of Proceeds and Hedging” in the accompanying prospectus.

Investing in the securities involves risks not associated with an investment in conventional debt securities. See “Summary Risk Factors” beginning on page PS-4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or determined that this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

You should read this pricing supplement together with the accompanying product supplement, underlying supplement, prospectus supplement and prospectus, which can be accessed via the hyperlinks below:

Product Supplement No. EA-02-07 dated June 15, 2018 **Underlying Supplement No. 7 dated July 16, 2018**
Prospectus Supplement and Prospectus each dated April 7, 2017

The securities are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

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Additional Information

General. The terms of the securities are set forth in the accompanying product supplement, prospectus supplement and prospectus, as supplemented by this pricing supplement. The accompanying product supplement, prospectus supplement and prospectus contain important disclosures that are not repeated in this pricing supplement. For example, the accompanying product supplement contains important information about how the closing value of the underlying will be determined and about adjustments that may be made to the terms of the securities upon the occurrence of market disruption events and other specified events with respect to the underlying. The accompanying underlying supplement contains information about the underlying that is not repeated in this pricing supplement. It is important that you read the accompanying product supplement, underlying supplement, prospectus supplement and prospectus together with this pricing supplement in deciding whether to invest in the securities. Certain terms used but not defined in this pricing supplement are defined in the accompanying product supplement.

Closing Value. The "closing value" of the underlying on any date is the closing price of its underlying shares on such date, as provided in the accompanying product supplement. The "underlying shares" of the underlying are its shares that are traded on a U.S. national securities exchange. Please see the accompanying product supplement for more information.

Payout Diagram

The diagram below illustrates your payment at maturity for a range of hypothetical underlying returns.

Investors in the securities will not receive any dividends with respect to the underlying. The diagram and examples below do not show any effect of lost dividend yield over the term of the securities. See "Summary Risk Factors—You will not receive dividends or have any other rights with respect to the underlying" below.

Payout Diagram

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Hypothetical Examples

The examples below illustrate how to determine the payment at maturity on the securities, assuming the various hypothetical final underlying values indicated below. The examples are solely for illustrative purposes, do not show all possible outcomes and are not a prediction of what the actual payment at maturity on the securities will be. The actual payment at maturity will depend on the actual final underlying value.

The examples below are based on the following hypothetical values and do not reflect the actual initial underlying value or final buffer value. For the actual initial underlying value and final buffer value, see the cover page of this pricing supplement. We have used these hypothetical values, rather than the actual values, to simplify the calculations and aid understanding of how the securities work. However, you should understand that the actual payment at maturity on the securities will be calculated based on the actual initial underlying value and final buffer value, and not the hypothetical values indicated below.

Hypothetical initial underlying value:	$100
Hypothetical final buffer value:	$80 (80% of the hypothetical initial underlying value)

Example 1—Upside Scenario A. The final underlying value is $105, resulting in a 5% underlying return. In this example, the final underlying value is **greater than** the initial underlying value.

Payment at maturity per security = $1,000 + the return amount, subject to the maximum return at maturity

= $1,000 + ($1,000 × the underlying return × the upside participation rate), subject to the maximum return at maturity

= $1,000 + ($1,000 × 5% × 125%), subject to the maximum return at maturity

= $1,000 + $62.50, subject to the maximum return at maturity

= $1,062.50

In this scenario, the underlying has appreciated from the initial underlying value to the final underlying value, and your total return at maturity would equal the underlying return *multiplied by* the upside participation rate.

Example 2—Upside Scenario B. The final underlying value is $175, resulting in a 75% underlying return. In this example, the final underlying value is **greater than** the initial underlying value.

Payment at maturity per security = $1,000 + the return amount, subject to the maximum return at maturity

= $1,000 + ($1,000 × the underlying return × the upside participation rate), subject to the maximum return at maturity

= $1,000 + ($1,000 × 75% × 125%), subject to the maximum return at maturity

= $1,000 + $937.50, subject to the maximum return at maturity

= $1,580

In this scenario, the underlying has appreciated from the initial underlying value to the final underlying value, but the underlying return *multiplied by* the upside participation rate would exceed the maximum return at maturity. As a result, your total return at maturity in this scenario would be limited to the maximum return at maturity, and an investment in the securities would underperform a hypothetical alternative investment providing 1-to-1 exposure to the appreciation of the underlying without a maximum return.

Example 3—Par Scenario. The final underlying value is $95, resulting in a -5% underlying return. In this example, the final underlying value is **less than** the initial underlying value but **greater than** the final buffer value.

Payment at maturity per security = $1,000

In this scenario, the underlying has depreciated from the initial underlying value to the final underlying value, but not by more than the buffer percentage. As a result, you would be repaid the stated principal amount of your securities at maturity but would not receive any positive return on your investment.

Example 4—Downside Scenario. The final underlying value is $30, resulting in a -70% underlying return. In this example, the final underlying value is **less than** the final buffer value.

Payment at maturity per security = $1,000 + [$1,000 × (the underlying return + the buffer percentage)]

= $1,000 + [$1,000 × (-70% + 20%)]

= $1,000 + [$1,000 × -50%]

= $1,000 + -$500

= $500

In this scenario, the underlying has depreciated from the initial underlying value to the final underlying value by more than the buffer percentage. As a result, your total return at maturity in this scenario would be negative and would reflect 1-to-1 exposure to the negative performance of the underlying beyond the buffer percentage.

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Summary Risk Factors

An investment in the securities is significantly riskier than an investment in conventional debt securities. The securities are subject to all of the risks associated with an investment in our conventional debt securities (guaranteed by Citigroup Inc.), including the risk that we and Citigroup Inc. may default on our obligations under the securities, and are also subject to risks associated with the underlying. Accordingly, the securities are suitable only for investors who are capable of understanding the complexities and risks of the securities. You should consult your own financial, tax and legal advisors as to the risks of an investment in the securities and the suitability of the securities in light of your particular circumstances.

The following is a summary of certain key risk factors for investors in the securities. You should read this summary together with the more detailed description of risks relating to an investment in the securities contained in the section "Risk Factors Relating to the Securities" beginning on page EA-7 in the accompanying product supplement. You should also carefully read the risk factors included in the accompanying prospectus supplement and in the documents incorporated by reference in the accompanying prospectus, including Citigroup Inc.'s most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, which describe risks relating to the business of Citigroup Inc. more generally.

You may lose a significant portion of your investment. Unlike conventional debt securities, the securities do not repay a fixed amount of principal at maturity. Instead, your payment at maturity will depend on the performance of the underlying. If the underlying depreciates by more than the buffer percentage from the initial underlying value to the final underlying value, you will lose 1% of the stated principal amount of your securities for every 1% by which that depreciation exceeds the buffer percentage.

Your potential return on the securities is limited. Your potential total return on the securities at maturity is limited to the maximum return at maturity, even if the underlying appreciates by significantly more than the maximum return at maturity. If the underlying appreciates by more than the maximum return at maturity, the securities will underperform an alternative investment providing 1-to-1 exposure to the performance of the underlying. When lost dividends are taken into account, the securities may underperform an alternative investment providing 1-to-1 exposure to the performance of the underlying even if the underlying appreciates by less than the maximum return at maturity. In addition, the maximum return at maturity reduces the effect of the upside participation rate for all final underlying values exceeding the final underlying value at which, by multiplying the corresponding underlying return by the upside participation rate, the maximum return at maturity is reached.

The securities do not pay interest. Unlike conventional debt securities, the securities do not pay interest or any other amounts prior to maturity. You should not invest in the securities if you seek current income during the term of the securities.

You will not receive dividends or have any other rights with respect to the underlying. You will not receive any dividends with respect to the underlying. This lost dividend yield may be significant over the term of the securities. The payment scenarios described in this pricing supplement do not show any effect of lost dividend yield over the term of the securities. In addition, you will not have voting rights or any other rights with respect to the underlying or the stocks included in the underlying.

Your payment at maturity depends on the closing value of the underlying on a single day. Because your payment at maturity depends on the closing value of the underlying solely on the valuation date, you are subject to the risk that the closing value of the underlying on that day may be lower, and possibly significantly lower, than on one or more other dates during the term of the securities. If you had invested directly in the underlying or in another instrument linked to the underlying that you could sell for full value at a time selected by you, or if the payment at maturity were based on an average of closing values of the underlying, you might have achieved better returns.

The securities are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc. If we default on our obligations under the securities and Citigroup Inc. defaults on its guarantee obligations, you may not receive anything owed to you under the securities.

The securities will not be listed on any securities exchange and you may not be able to sell them prior to maturity. The securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the securities. CGMI currently intends to make a secondary market in relation to the securities and to provide an indicative bid price for the securities on a daily basis. Any indicative bid price for the securities provided by CGMI will be determined in CGMI's sole discretion, taking into account prevailing market conditions and other relevant factors, and will not be a representation by CGMI that the securities can be sold at that price, or at all. CGMI may suspend or terminate making a market and providing indicative bid prices without notice, at any time and for any reason. If CGMI suspends or terminates making a market, there may be no secondary market at all for the securities because it is likely that CGMI will be the only broker-dealer that is willing to buy your securities prior to maturity. Accordingly, an investor must be prepared to hold the securities until maturity.

The estimated value of the securities on the pricing date, based on CGMI's proprietary pricing models and our internal funding rate, is less than the issue price. The difference is attributable to certain costs associated with selling, structuring and hedging the securities that are included in the issue price. These costs include (i) any selling concessions or other fees paid in connection with the offering of the securities, (ii) hedging and other costs incurred by us and our affiliates in connection with the offering of the securities and (iii) the expected profit (which may be more or less than actual profit) to CGMI or other of our affiliates in connection with hedging our obligations under the securities. These costs adversely affect the economic terms of the securities

because, if they were lower, the economic terms of the securities would be more favorable to you. The economic terms of the securities are also likely to be adversely affected by the use of our internal funding rate, rather than our secondary market rate, to price the securities. See "The estimated value of the securities would be lower if it were calculated based on our secondary market rate" below.

The estimated value of the securities was determined for us by our affiliate using proprietary pricing models. CGMI derived the estimated value disclosed on the cover page of this pricing supplement from its proprietary pricing models. In doing so, it may have made discretionary judgments about the inputs to its models, such as the volatility of the closing value of the underlying, the dividend yield on the underlying and interest rates. CGMI's views on these inputs may differ from your or others' views, and as an underwriter in this offering, CGMI's interests may conflict with yours. Both the models and the inputs to the models may prove to be wrong and therefore not an accurate reflection of the value of the securities. Moreover, the estimated value of the securities set forth on the cover page of this pricing supplement may differ from the value that we or our affiliates may determine for the securities for other purposes, including for accounting purposes. You should not invest in the securities because of the estimated value of the securities. Instead, you should be willing to hold the securities to maturity irrespective of the initial estimated value.

The estimated value of the securities would be lower if it were calculated based on our secondary market rate. The estimated value of the securities included in this pricing supplement is calculated based on our internal funding rate, which is the rate at which we are willing to borrow funds through the issuance of the securities. Our internal funding rate is generally lower than our secondary market rate, which is the rate that CGMI will use in determining the value of the securities for purposes of any purchases of the securities from you in the secondary market. If the estimated value included in this pricing supplement were based on our secondary market rate, rather than our internal funding rate, it would likely be lower. We determine our internal funding rate based on factors such as the costs associated with the securities, which are generally higher than the costs associated with conventional debt securities, and our liquidity needs and preferences. Our internal funding rate is not an interest rate that is payable on the securities.

Because there is not an active market for traded instruments referencing our outstanding debt obligations, CGMI determines our secondary market rate based on the market price of traded instruments referencing the debt obligations of Citigroup Inc., our parent company and the guarantor of all payments due on the securities, but subject to adjustments that CGMI makes in its sole discretion. As a result, our secondary market rate is not a market-determined measure of our creditworthiness, but rather reflects the market's perception of our parent company's creditworthiness as adjusted for discretionary factors such as CGMI's preferences with respect to purchasing the securities prior to maturity.

The estimated value of the securities is not an indication of the price, if any, at which CGMI or any other person may be willing to buy the securities from you in the secondary market. Any such secondary market price will fluctuate over the term of the securities based on the market and other factors described in the next risk factor. Moreover, unlike the estimated value included in this pricing supplement, any value of the securities determined for purposes of a secondary market transaction will be based on our secondary market rate, which will likely result in a lower value for the securities than if our internal funding rate were used. In addition, any secondary market price for the securities will be reduced by a bid-ask spread, which may vary depending on the aggregate stated principal amount of the securities to be purchased in the secondary market transaction, and the expected cost of unwinding

related hedging transactions. As a result, it is likely that any secondary market price for the securities will be less than the issue price.

The value of the securities prior to maturity will fluctuate based on many unpredictable factors. The value of your securities prior to maturity will fluctuate based on the closing value of the underlying, the volatility of the closing value of the underlying, the dividend yield on the underlying, interest rates generally, the time remaining to maturity and our and Citigroup Inc.'s creditworthiness, as reflected in our secondary market rate, among other factors described under "Risk Factors Relating to the Securities—Risk Factors Relating to All Securities—The value of your securities prior to maturity will fluctuate based on many unpredictable factors" in the accompanying product supplement. Changes in the closing value of the underlying may not result in a comparable change in the value of your securities. You should understand that the value of your securities at any time prior to maturity may be significantly less than the issue price.

Immediately following issuance, any secondary market bid price provided by CGMI, and the value that will be indicated on any brokerage account statements prepared by CGMI or its affiliates, will reflect a temporary upward adjustment. The amount of this temporary upward adjustment will steadily decline to zero over the temporary adjustment period. See "Valuation of the Securities" in this pricing supplement.

The underlying is subject to risks associated with emerging markets. The stocks included in the underlying have been issued by companies in various foreign emerging markets. Foreign equity securities involve risks associated with the securities markets in foreign countries, including risks of volatility in those markets, governmental intervention in those markets and cross-shareholdings in companies in certain countries. There is also generally less publicly available information about foreign companies than about U.S. companies that are subject to the reporting requirements of the Securities and Exchange Commission, and foreign companies are subject to accounting, auditing and financial reporting standards and requirements different from those applicable to U.S. reporting companies. The prices of securities in foreign markets may be affected by political, economic, financial and social factors in those countries, or global regions, including changes in government, economic and fiscal policies and currency exchange laws.

Stocks issued by companies in emerging markets may be subject to heightened risks, including risks of relatively unstable governments, nationalization of businesses, restrictions on foreign ownership, prohibitions on the repatriation of assets and less protection of property rights. The economies of countries with emerging markets may be based on only a few industries, be highly vulnerable to changes in local or global trade conditions and suffer from extreme and volatile debt burdens or inflation rates. Local securities markets may trade a small number of securities and be unable to respond effectively to increases in trading volume, potentially increasing price volatility. Moreover, the economies in such countries may differ unfavorably from the economy in the United States in such respects as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

Fluctuations in exchange rates will affect the closing value of the underlying. Because the underlying includes stocks that trade outside the United States and the closing value of the underlying is based on the U.S. dollar value of those stocks, the underlying is subject to currency exchange rate risk with respect to each of the currencies in which such stocks trade. Exchange rate movements may be volatile and may be driven by numerous factors specific to the relevant countries, including the supply of, and the demand for, the applicable currencies, as well as government policy and intervention and macroeconomic factors. Exchange rate movements may also be influenced significantly by speculative trading. In general, if the U.S. dollar strengthens against the currencies in which the stocks included in the underlying trade, the closing value of the underlying will be adversely affected for that reason alone.

Our offering of the securities is not a recommendation of the underlying. The fact that we are offering the securities does not mean that we believe that investing in an instrument linked to the underlying is likely to achieve favorable returns. In fact, as we are part of a global financial institution, our affiliates may have positions (including short positions) in the underlying or in instruments related to the underlying, and may publish research or express opinions, that in each case are inconsistent with an investment linked to the underlying. These and other activities of our affiliates may affect the closing value of the underlying in a way that negatively affects the value of and your return on the securities.

The closing value of the underlying may be adversely affected by our or our affiliates' hedging and other trading activities. We expect to hedge our obligations under the securities through CGMI or other of our affiliates, who may take positions in the underlying or in financial instruments related to the underlying and may adjust such positions during the term of the securities. Our affiliates also take positions in the underlying or in financial instruments related to the underlying on a regular basis (taking long or short positions or both), for their accounts, for other accounts under their management or to facilitate transactions on behalf of customers. These activities could affect the closing value of the underlying in a way that negatively affects the value of and your return on the securities. They could also result in substantial returns for us or our affiliates while the value of the securities declines.

We and our affiliates may have economic interests that are adverse to yours as a result of our affiliates' business activities. Our affiliates engage in business activities with a wide range of companies. These activities include extending loans, making and facilitating investments, underwriting securities offerings and providing advisory services. These activities could involve or affect the underlying in a way that negatively affects the value of and your return on the securities. They could also result in substantial returns for us or our affiliates while the value of the securities declines. In addition, in the course of this business, we or our affiliates may acquire non-public information, which will not be disclosed to you.

The calculation agent, which is an affiliate of ours, will make important determinations with respect to the securities. If certain events occur during the term of the securities, such as market disruption events and other events with respect to the underlying, CGMI, as calculation agent, will be required to make discretionary judgments that could significantly affect your return on the securities. In making these judgments, the calculation agent's interests as an affiliate of ours could be adverse to your interests as a holder of the securities. See "Risks Relating to the Securities—Risks Relating to All Securities—The calculation agent, which is an affiliate of ours, will make important determinations with respect to the securities" in the accompanying product supplement.

Even if the underlying pays a dividend that it identifies as special or extraordinary, no adjustment will be required under the securities for that dividend unless it meets the criteria specified in the accompanying product supplement. In general, an adjustment will not be made under the terms of the securities for any cash dividend paid by the underlying unless the amount of the dividend per share, together with any other dividends paid in the same quarter, exceeds the dividend paid per share in the most recent quarter by an amount equal to at least 10% of the closing value of the underlying on the date of declaration of the dividend. Any dividend will reduce the closing value of the underlying by the amount of the dividend per share. If the underlying pays any dividend for which an adjustment is not made under the terms of the securities, holders of the securities will be adversely affected. See "Description of the Securities—Certain Additional Terms for Securities Linked to an Underlying Company or an Underlying ETF—Dilution and Reorganization Adjustments—Certain Extraordinary Cash Dividends" in the accompanying product supplement.

The securities will not be adjusted for all events that may have a dilutive effect on or otherwise adversely affect the closing value of the underlying. For example, we will not make any adjustment for ordinary dividends or extraordinary dividends that do not meet the criteria described above, partial tender offers or additional underlying share issuances. Moreover, the adjustments we do make may not fully offset the dilutive or adverse effect of the particular event. Investors in the securities may be adversely affected by such an event in a circumstance in which a direct holder of the underlying shares would not.

The securities may become linked to an underlying other than the original underlying upon the occurrence of a reorganization event or upon the delisting of the underlying shares. For example, if the underlying enters into a merger agreement that provides for holders of the underlying shares to receive shares of another entity and such shares are marketable securities, the closing value of the underlying following consummation of the merger will be based on the value of such other shares. Additionally, if the underlying shares are delisted, the calculation agent may select a successor underlying. See "Description of the Securities—Certain Additional Terms for Securities Linked to an Underlying Company or an Underlying ETF" in the accompanying product supplement.

The value and performance of the underlying shares may not completely track the performance of the underlying index that the underlying seeks to track or the net asset value per share of the underlying. The underlying does not fully replicate the underlying index that it seeks to track and may hold securities different from those included in its underlying index. In addition, the performance of the underlying will reflect additional transaction costs and fees that are not included in the calculation of its underlying index. All of these factors may lead to a lack of correlation between the performance of the underlying and its underlying index. In addition, corporate actions with respect to the equity securities held by the underlying (such as mergers and spin-offs) may impact the variance between the performance of the underlying and its underlying index. Finally, because the underlying shares are traded on an exchange and are subject to market supply and investor demand, the closing value of the underlying may differ from the net asset value per share of the underlying.

During periods of market volatility, securities included in the underlying's underlying index may be unavailable in the secondary market, market participants may be unable to calculate accurately the net asset value per share of the underlying and the liquidity of the underlying may be adversely affected. This kind of market volatility may also disrupt the ability of market participants to create and redeem shares of the underlying. Further, market volatility may adversely affect, sometimes materially, the price at which market participants are willing to buy and sell the underlying shares. As a result, under these circumstances, the closing value of the underlying may vary substantially from the net asset value per share of the underlying. For all of the foregoing reasons, the performance of the underlying may not correlate with the performance of its underlying index and/or its net asset value per share, which could materially and adversely affect the value of the securities and/or reduce your return on the securities.

Changes that affect the underlying may affect the value of your securities. The sponsor of the underlying may at any time make methodological changes or other changes in the manner in which it operates that could affect the value of the underlying. We are not affiliated with the underlying sponsor and, accordingly, we have no control over any changes such sponsor may make. Such changes could adversely affect the performance of the underlying and the value of and your return on the securities.

The U.S. federal tax consequences of an investment in the securities are unclear. There is no direct legal authority regarding the proper U.S. federal tax treatment of the securities, and we do not plan to request a ruling from the Internal Revenue Service (the "IRS"). Consequently, significant aspects of the tax treatment of the securities are uncertain, and the IRS or a court might not agree with the treatment of the securities as prepaid forward contracts. If the IRS were successful in asserting an alternative treatment of the securities, the tax consequences of the ownership and disposition of the securities might be materially and adversely affected. Even if the treatment of the securities as prepaid forward contracts is respected, a security may be treated as a "constructive ownership transaction," with potentially adverse consequences described below under "United States Federal Tax Considerations." In addition, in 2007 the U.S. Treasury Department and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. Any Treasury regulations

or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, including the character and timing of income or loss and the degree, if any, to which income realized by non-U.S. persons should be subject to withholding tax, possibly with retroactive effect.

Section 871(m) of the Internal Revenue Code of 1986, as amended (the "Code"), imposes a withholding tax of up to 30% on "dividend equivalents" paid or deemed paid to non-U.S. investors in respect of certain financial instruments linked to U.S. equities. In light of Treasury regulations, as modified by an IRS notice, that provide a general exemption for financial instruments issued prior to January 1, 2021 that do not have a "delta" of one, the securities should not be subject to withholding under Section 871(m). However, the IRS could challenge this conclusion. If withholding applies to the securities, we will not be required to pay any additional amounts with respect to amounts withheld.

You should read carefully the discussion under "United States Federal Tax Considerations" and "Risk Factors Relating to the Securities" in the accompanying product supplement and "United States Federal Tax Considerations" in this pricing supplement. You should also consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities, as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

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Information About the iShares® MSCI Emerging Markets ETF

The iShares® MSCI Emerging Markets ETF is an exchange-traded fund that seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of publicly traded securities in emerging markets, as measured by the MSCI Emerging Markets Index. The MSCI Emerging Markets Index was developed by MSCI Inc. as an equity benchmark for international stock performance, and is designed to measure equity market performance in the global emerging markets.

The iShares® MSCI Emerging Markets ETF is an investment portfolio managed by iShares® Inc. BlackRock Fund Advisors is the investment adviser to the iShares® MSCI Emerging Markets ETF. iShares®, Inc. is a registered investment company that consists of numerous separate investment portfolios, including the iShares® MSCI Emerging Markets ETF. Information provided to or filed with the SEC by iShares®, Inc. pursuant to the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended, can be located by reference to SEC file numbers 033-97598 and 811-09102, respectively, through the SEC's website at http://www.sec.gov. In addition, information may be obtained from other sources including, but not limited to, press releases, newspaper articles and other publicly disseminated documents. The underlying shares of the iShares® MSCI Emerging Markets ETF trade on the NYSE Arca under the ticker symbol "EEM."

Please refer to the section "Fund Descriptions—iShares® MSCI Emerging Markets ETF" in the accompanying underlying supplement for additional information.

We have derived all information regarding the iShares® MSCI Emerging Markets ETF from publicly available information and have not independently verified any information regarding the iShares® MSCI Emerging Markets ETF. This pricing supplement relates only to the securities and not to the iShares® MSCI Emerging Markets ETF. We make no representation as to the performance of the iShares® MSCI Emerging Markets ETF over the term of the securities.

The securities represent obligations of Citigroup Global Markets Holdings Inc. (guaranteed by Citigroup Inc.) only. The sponsor of the iShares® MSCI Emerging Markets ETF is not involved in any way in this offering and has no obligation relating to the securities or to holders of the securities.

Historical Information

The closing value of the iShares® MSCI Emerging Markets ETF on December 21, 2018 was $38.52.

The graph below shows the closing value of the iShares® MSCI Emerging Markets ETF for each day such value was available from January 2, 2008 to December 21, 2018. We obtained the closing values from Bloomberg L.P., without independent verification. You should not take historical closing values as an indication of future performance.

iShares® MSCI Emerging Markets ETF – Historical Closing Values
January 2, 2008 to December 21, 2018

Citigroup Global Markets Holdings Inc.

United States Federal Tax Considerations

You should read carefully the discussion under “United States Federal Tax Considerations” and “Risk Factors Relating to the Securities” in the accompanying product supplement and “Summary Risk Factors” in this pricing supplement.

In the opinion of our counsel, Davis Polk & Wardwell LLP, which is based on current market conditions, a security should be treated as a prepaid forward contract for U.S. federal income tax purposes. By purchasing a security, you agree (in the absence of an administrative determination or judicial ruling to the contrary) to this treatment. There is uncertainty regarding this treatment, and the IRS or a court might not agree with it.

Assuming this treatment of the securities is respected and subject to the discussion in “United States Federal Tax Considerations” in the accompanying product supplement, the following U.S. federal income tax consequences should result under current law:

- You should not recognize taxable income over the term of the securities prior to maturity, other than pursuant to a sale or exchange.

- Upon a sale or exchange of a security (including retirement at maturity), you should recognize gain or loss equal to the difference between the amount realized and your tax basis in the security. Subject to the discussion below concerning the potential application of the “constructive ownership” rules under Section 1260 of the Code, any gain or loss recognized upon a sale, exchange or retirement of a security should be long-term capital gain or loss if you held the security for more than one year.

Even if the treatment of the securities as prepaid forward contracts is respected, your purchase of a security may be treated as entry into a “constructive ownership transaction,” within the meaning of Section 1260 of the Code, with respect to the underlying shares. In that case, all or a portion of any long-term capital gain you would otherwise recognize in respect of your securities would be recharacterized as ordinary income to the extent such gain exceeded the “net underlying long-term capital gain.” Although the matter is unclear, the “net underlying long-term capital gain” may equal the amount of long-term capital gain you would have realized if on the issue date you had purchased an amount of the underlying shares with a value equal to the amount you paid to acquire your securities and subsequently sold that amount for its fair market value at the time your securities are sold, exchanged or retired (which would reflect the percentage increase, without regard to the upside participation rate, in the value of the underlying shares over the term of the securities). Alternatively, the “net underlying long-term capital gain” could be calculated using an amount of the underlying shares that reflects the upside participation rate used to calculate the payment that you will receive on your securities. Any long-term capital gain recharacterized as ordinary income under Section 1260 would be treated as accruing at a constant rate over the period you held your securities, and you would be subject to an interest charge in respect of the deemed tax liability on the income treated as accruing in prior tax years. Due to the lack of governing authority under Section 1260, our counsel is not able to opine as to whether or how Section 1260

applies to the securities. You should read the section entitled "United States Federal Tax Considerations—Tax Consequences to U.S. Holders—Potential Application of Section 1260 of the Code" in the accompanying product supplement for additional information and consult your tax adviser regarding the potential application of the "constructive ownership" rule.

Subject to the discussions below under "Possible Withholding Under Section 871(m) of the Code" and in "United States Federal Tax Considerations" in the accompanying product supplement, if you are a Non-U.S. Holder (as defined in the accompanying product supplement) of the securities, you generally should not be subject to U.S. federal withholding or income tax in respect of any amount paid to you with respect to the securities, provided that (i) income in respect of the securities is not effectively connected with your conduct of a trade or business in the United States, and (ii) you comply with the applicable certification requirements.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" regime described above. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, including the character and timing of income or loss and the degree, if any, to which income realized by non-U.S. persons should be subject to withholding tax, possibly with retroactive effect.

Possible Withholding Under Section 871(m) of the Code. As discussed under "United States Federal Tax Considerations—Tax Consequences to Non-U.S. Holders" in the accompanying product supplement, Section 871(m) of the Code and Treasury regulations promulgated thereunder ("Section 871(m)") generally impose a 30% withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities ("U.S. Underlying Equities") or indices that include U.S. Underlying Equities. Section 871(m) generally applies to instruments that substantially replicate the economic performance of one or more U.S. Underlying Equities, as determined based on tests set forth in the applicable Treasury regulations (a "Specified Security"). However, the regulations, as modified by an IRS notice, exempt financial instruments issued prior to January 1, 2021 that do not have a "delta" of one. Based on the terms of the securities and representations provided by us, our counsel is of the opinion that the securities should not be treated as transactions that have a "delta" of one within the meaning of the regulations with respect to any U.S. Underlying Equity and, therefore, should not be Specified Securities subject to withholding tax under Section 871(m).

A determination that the securities are not subject to Section 871(m) is not binding on the IRS, and the IRS may disagree with this treatment. Moreover, Section 871(m) is complex and its application may depend on your particular circumstances. For example, if you enter into other transactions relating to a U.S. Underlying Equity, you could be subject to withholding tax or income tax liability under Section 871(m) even if the securities are not Specified Securities subject to Section 871(m) as a general matter. You should consult your tax adviser regarding the potential application of Section 871(m) to the securities.

If withholding tax applies to the securities, we will not be required to pay any additional amounts with respect to amounts withheld.

You should read the section entitled "United States Federal Tax Considerations" in the accompanying product supplement. The preceding discussion, when read in combination with that section, constitutes the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of owning and disposing of the securities.

You should also consult your tax adviser regarding all aspects of the U.S. federal income and estate tax consequences of an investment in the securities and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Supplemental Plan of Distribution

CGMI, an affiliate of Citigroup Global Markets Holdings Inc. and the underwriter of the sale of the securities, is acting as principal and will not receive any underwriting fee for any securities sold in this offering. However, CGMI and its affiliates may profit from expected hedging activity related to this offering. From these expected hedging profits, CGMI will pay selected dealers participating in the distribution of the securities a structuring fee of up to $4 for each security sold in this offering.

See "Plan of Distribution; Conflicts of Interest" in the accompanying product supplement and "Plan of Distribution" in each of the accompanying prospectus supplement and prospectus for additional information.

Valuation of the Securities

CGMI calculated the estimated value of the securities set forth on the cover page of this pricing supplement based on proprietary pricing models. CGMI's proprietary pricing models generated an estimated value for the securities by estimating the value of a hypothetical package of financial instruments that would replicate the payout on the securities, which consists of a fixed-income bond (the "bond component") and one or more derivative instruments underlying the economic terms of the securities (the "derivative component"). CGMI calculated the estimated value of the bond component using a discount rate based on our internal funding rate. CGMI calculated the estimated value of the derivative component based on a proprietary derivative-pricing model, which generated a theoretical price for the instruments that constitute the derivative component based on various inputs, including the factors described under "Summary Risk Factors—The value of the securities prior to maturity will fluctuate based on many unpredictable factors" in this pricing supplement, but not including our or Citigroup Inc.'s creditworthiness. These inputs may be market-observable or may be based on assumptions made by CGMI in its discretionary judgment.

For a period of approximately three months following issuance of the securities, the price, if any, at which CGMI would be willing to buy the securities from investors, and the value that will be indicated for the securities on any brokerage account statements prepared by CGMI or its affiliates (which value CGMI may also publish through one or more financial information vendors), will reflect a temporary upward adjustment from the price or value that would otherwise be determined. This temporary upward adjustment represents a portion of the hedging profit expected to be realized by CGMI or its affiliates over the term of the securities. The amount of this temporary upward adjustment will decline to zero on a straight-line basis over the three-month temporary adjustment period. However, CGMI is not obligated to buy the securities from investors at any time. See "Summary Risk Factors—The securities will not be listed on any securities exchange and you may not be able to sell them prior to maturity."

Certain Selling Restrictions

Hong Kong Special Administrative Region

The contents of this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus have not been reviewed by any regulatory authority in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"). Investors are advised to exercise caution in relation to the offer. If investors are in any doubt about any of the contents of this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus, they should obtain independent professional advice.

The securities have not been offered or sold and will not be offered or sold in Hong Kong by means of any document, other than

(i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or

(ii) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "Securities and Futures Ordinance") and any rules made under that Ordinance; or

(iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

There is no advertisement, invitation or document relating to the securities which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Non-insured Product: These securities are not insured by any governmental agency. These securities are not bank deposits and are not covered by the Hong Kong Deposit Protection Scheme.

Singapore

This pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus have not been registered as a prospectus with the Monetary Authority of Singapore, and the securities will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act"). Accordingly, the securities may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this pricing supplement or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any securities be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act. Where the securities are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor, securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the relevant securities pursuant to an offer under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act; or

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law; or

(iv) pursuant to Section 276(7) of the Securities and Futures Act; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Any securities referred to herein may not be registered with any regulator, regulatory body or similar organization or institution in any jurisdiction.

The securities are Specified Investment Products (as defined in the Notice on Recommendations on Investment Products and Notice on the Sale of Investment Product issued by the Monetary Authority of Singapore on 28 July 2011) that is neither listed nor quoted on a securities market or a futures market.

Non-insured Product: These securities are not insured by any governmental agency. These securities are not bank deposits. These securities are not insured products subject to the provisions of the Deposit Insurance and Policy Owners' Protection Schemes Act 2011 of Singapore and are not eligible for deposit insurance coverage under the Deposit Insurance Scheme.

Validity of the Securities

In the opinion of Davis Polk & Wardwell LLP, as special products counsel to Citigroup Global Markets Holdings Inc., when the securities offered by this pricing supplement have been executed and issued by Citigroup Global Markets Holdings Inc. and authenticated by the trustee pursuant to the indenture, and delivered against payment therefor, such securities and the related guarantee of Citigroup Inc. will be valid and binding obligations of Citigroup Global Markets Holdings Inc. and Citigroup Inc., respectively, enforceable in

accordance with their respective terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above. This opinion is given as of the date of this pricing supplement and is limited to the laws of the State of New York, except that such counsel expresses no opinion as to the application of state securities or Blue Sky laws to the securities.

In giving this opinion, Davis Polk & Wardwell LLP has assumed the legal conclusions expressed in the opinions set forth below of Scott L. Flood, General Counsel and Secretary of Citigroup Global Markets Holdings Inc., and Barbara Politi, Assistant General Counsel—Capital Markets of Citigroup Inc. In addition, this opinion is subject to the assumptions set forth in the letter of Davis Polk & Wardwell LLP dated April 7, 2017, which has been filed as an exhibit to a Current Report on Form 8-K filed by Citigroup Inc. on April 7, 2017, that the indenture has been duly authorized, executed and delivered by, and is a valid, binding and enforceable agreement of, the trustee and that none of the terms of the securities nor the issuance and delivery of the securities and the related guarantee, nor the compliance by Citigroup Global Markets Holdings Inc. and Citigroup Inc. with the terms of the securities and the related guarantee respectively, will result in a violation of any provision of any instrument or agreement then binding upon Citigroup Global Markets Holdings Inc. or Citigroup Inc., as applicable, or any restriction imposed by any court or governmental body having jurisdiction over Citigroup Global Markets Holdings Inc. or Citigroup Inc., as applicable.

In the opinion of Scott L. Flood, Secretary and General Counsel of Citigroup Global Markets Holdings Inc., (i) the terms of the securities offered by this pricing supplement have been duly established under the indenture and the Board of Directors (or a duly authorized committee thereof) of Citigroup Global Markets Holdings Inc. has duly authorized the issuance and sale of such securities and such authorization has not been modified or rescinded; (ii) Citigroup Global Markets Holdings Inc. is validly existing and in good standing under the laws of the State of New York; (iii) the indenture has been duly authorized, executed and delivered by Citigroup Global Markets Holdings Inc.; and (iv) the execution and delivery of such indenture and of the securities offered by this pricing supplement by Citigroup Global Markets Holdings Inc., and the performance by Citigroup Global Markets Holdings Inc. of its obligations thereunder, are within its corporate powers and do not contravene its certificate of incorporation or bylaws or other constitutive documents. This opinion is given as of the date of this pricing supplement and is limited to the laws of the State of New York.

Scott L. Flood, or other internal attorneys with whom he has consulted, has examined and is familiar with originals, or copies certified or otherwise identified to his satisfaction, of such corporate records of Citigroup Global Markets Holdings Inc., certificates or documents as he has deemed appropriate as a basis for the opinions expressed above. In such examination, he or such persons has assumed the legal capacity of all natural persons, the genuineness of all signatures (other than those of officers of Citigroup Global Markets Holdings Inc.), the authenticity of all documents submitted to him or such persons as originals, the conformity to original documents of all documents submitted to him or such persons as certified or photostatic copies and the authenticity of the originals of such copies.

In the opinion of Barbara Politi, Assistant General Counsel—Capital Markets of Citigroup Inc., (i) the Board of Directors (or a duly authorized committee thereof) of Citigroup Inc. has duly authorized the guarantee of such securities by Citigroup Inc. and such authorization has not been modified or rescinded; (ii) Citigroup Inc. is validly existing and in good standing under the laws of the State of Delaware; (iii) the indenture has been duly authorized, executed and delivered by Citigroup Inc.; and (iv) the execution and delivery of such indenture, and the performance by Citigroup Inc. of its obligations thereunder, are within its corporate powers and do not contravene its certificate of incorporation or bylaws or other constitutive documents. This opinion is given as of the date of this pricing supplement and is limited to the General Corporation Law of the State of Delaware.

Barbara Politi, or other internal attorneys with whom she has consulted, has examined and is familiar with originals, or copies certified or otherwise identified to her satisfaction, of such corporate records of Citigroup Inc., certificates or documents as she has deemed appropriate as a basis for the opinions expressed above. In such examination, she or such persons has assumed the legal capacity of all natural persons, the genuineness of all signatures (other than those of officers of Citigroup Inc.), the authenticity of all documents submitted to her or such persons as originals, the conformity to original documents of all documents submitted to her or such persons as certified or photostatic copies and the authenticity of the originals of such copies.

Contact

Clients may contact their local brokerage representative. Third-party distributors may contact Citi Structured Investment Sales at (212) 723-7005.

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text-align: left"> Additions to property and equipment (7,086) (11,224)Proceeds from sale of property and equipment 5,859 4,874 Restricted cash (4,945) – Net cash used in investing activities (6,172) (6,350)Cash flows from financing activities: Cumulative daily drawdowns – Credit Facility 112,848 237,577 Cumulative daily repayments – Credit Facility (147,450) (211,242)Cash received from equipment-based term loan 18,980 – Cumulative drawdowns – equipment-based revolver 13,100 – Distributions to noncontrolling interest owners (3,402) (1,190)Net proceeds from stock issued – 14,078 Deferred loan costs (1,309) – Other (1,442) (447)Net cash (used in) provided by financing activities (8,675) 38,776 Net (decrease) increase in cash and cash equivalents (11,355) 15,128 Cash and cash equivalents at beginning of period 22,843 1,872 Cash and cash equivalents at end of period $11,488 $17,000 Supplemental disclosures of cash flow information: Cash paid during the period for interest $1,893 $760 Cash paid during the period for income taxes $547 $28 Non-cash items: Transportation and construction equipment acquired through financing arrangements $1,161 $3,180

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

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STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business Summary and Significant Accounting Policies

Business Summary

Sterling Construction Company, Inc. ("Sterling" or "the Company"), a Delaware corporation, is a leading heavy civil construction company that specializes in the building and reconstruction of transportation and water infrastructure projects in Texas, Utah, Nevada, Arizona, California, Hawaii and other states in which there are profitable construction opportunities. Its transportation infrastructure projects include highways, roads, bridges, airfields and light rail. Its water infrastructure projects include water, wastewater and storm drainage systems.

Presentation

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 2014 Form 10-K. Certain information and note disclosures prepared in accordance with generally accepted accounting principles ("GAAP") have been either condensed or omitted pursuant to SEC rules and regulations. 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 September 30, 2015 and the results of operations and cash flows for the periods presented. The December 31, 2014 condensed consolidated balance sheet data herein was derived from audited financial statements, but as discussed above, does not include all disclosures required by GAAP. Interim results may be subject to significant seasonal variations, and the results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year or subsequent quarters.

Significant Accounting Policies

The Company's significant accounting policies are more fully described in Note 1 of the Notes to Consolidated Financial Statements in the 2014 Form 10-K. These accounting policies include, but are not limited to, those related to:

- contracts receivable, including retainage
- revenue recognition
- valuation of property and equipment, goodwill and other long-lived assets
- construction joint ventures
- income taxes
- segment reporting

There have been no material changes to significant accounting policies since December 31, 2014.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of subsidiaries and construction joint ventures in which the Company has a greater than 50% ownership interest or otherwise controls such entities. For investments in subsidiaries and construction joint ventures that are not wholly-owned, but where the Company exercises control, the equity held by the remaining owners and their portions of net income (loss) are reflected in the balance sheet line item “Noncontrolling interests” in “Equity” and the statement of operations line item “Noncontrolling owners’ interests in earnings of subsidiaries,” respectively. All significant intercompany accounts and transactions have been eliminated in consolidation. For all years presented, the Company had no subsidiaries where its ownership interests were less than 50%.

Where the Company is a noncontrolling joint venture partner, and otherwise not required to consolidate the joint venture entity, its share of the operations of such construction joint venture is accounted for on a pro rata basis in the condensed consolidated statements of operations and as a single line item (“Receivables from and equity in construction joint ventures”) in the condensed consolidated balance sheets. This method is an acceptable modification of the equity method of accounting which is a common practice in the construction industry. Refer to Note 3 for further information regarding the Company’s construction joint ventures.

Under U.S. GAAP, the Company must determine whether each entity, including joint ventures in which it participates, is a variable interest entity (“VIE”). This determination focuses on identifying which owner or joint venture partner, if any, has the power to direct the activities of the entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity disproportionate to its interest in the entity, which could have the effect of requiring us to consolidate the entity in which we have a noncontrolling variable interest. Refer to Note 10 for further information regarding the Company’s consolidated VIE.

Use of Estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Certain of the Company's accounting policies require higher degrees of judgment than others in their application. These include the recognition of revenue and earnings from construction contracts under the percentage-of-completion method, the valuation of long-term assets (including goodwill), and income taxes. Management continually evaluates all of its estimates and judgments based on available information and experience; however, actual results could differ from these estimates.

Reclassification

A reclassification has been made to historical financial data on our condensed consolidated statement of cash flows to conform to our current year presentation.

Revenue Recognition

The Company is a general contractor which engages in various types of heavy civil construction projects principally for public (government) owners. Credit risk is minimal with public owners since the Company ascertains that funds have been appropriated by the governmental project owner prior to commencing work on such projects. While most public contracts are subject to termination at the election of the government entity, in the event of termination the Company is entitled to receive the contract price for completed work and reimbursement of termination-related costs. Credit risk with private owners is minimized because of statutory mechanic's liens, which give the Company high priority in the event of lien foreclosures following financial difficulties of private owners.

Revenues are recognized on the percentage-of-completion method, measured by the ratio of costs incurred up to a given date to estimated total costs for each contract. This cost to cost measure is used because management considers it to be the best available measure of progress on these contracts. Contract costs include all direct material, labor, subcontract and other costs and those indirect costs related to contract performance, such as indirect salaries and wages, equipment repairs and depreciation, insurance and payroll taxes. Administrative and general expenses are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those changes arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Changes in estimated revenues and gross margin resulted in a net charge of $1.1 million and $12.3 million during the three months and nine months ended September 30, 2015, respectively, included in Operating income (loss), or $(0.06) and $(0.64) per diluted share attributable to Sterling common stockholders, respectively, included in Net income (loss) attributable to Sterling common stockholders. Changes in estimated revenues and gross margin resulted in a net loss of $4.5 million and a net gain of $0.4 million during the three months and nine months ended September 30, 2014, respectively, included in Operating income (loss), or $(0.24) and $0.02 per diluted share attributable to Sterling common stockholders, respectively, included in Net income (loss) attributable to Sterling common stockholders.

Our contracts generally take 12 to 36 months to complete. The Company generally provides a one to two-year warranty for workmanship under its contracts when completed. Warranty claims historically have been insignificant.

Financial Instruments and Fair Value

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company's financial instruments are cash and cash equivalents, restricted cash used as collateral for a letter of credit and restricted cash maintained in an escrow account, short-term and long-term contracts receivable, derivatives, accounts payable, mortgage and notes payable, a revolving loan (the "Revolving Loan") with Nations Fund I, LLC and Nations Equipment Finance, LLC, as administrative agent and collateral agent for the lender ("Nations"), a term loan (the "Term Loan") with Nations, and an earn-out liability related to the acquisition of J. Banicki Construction, Inc. ("JBC").

The recorded values of cash and cash equivalents, and restricted cash, short-term contracts receivable and accounts payable approximate their fair values based on their liquidity and/or short-term nature. The recorded value of long-term contracts receivable was based on the amount of future cash flows discounted using the creditor's borrowing rate and such recorded value approximated fair value.

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The Company provides credit in the normal course of business, principally to public (government) owners, and performs ongoing credit evaluations, as deemed necessary, but generally does not require collateral to support such receivables. In an effort to reduce its credit exposure, as well as accelerate its cash flows, in August 2015, the Company completed the sale, on a non-recourse basis, of its only long-term contract receivable pursuant to a factoring agreement with a related party. The Company received approximately $7.1 million upon the closing of this transaction and recorded a loss of approximately $1.4 million in "Other operating (expense) income, net." As such, we did not have a long-term contract receivable at September 30, 2015. The long-term contract receivable was historically discounted at 4.25% and recorded at fair value. Interest earned related to the long-term contract receivable was less than $0.1 million and $0.2 million for the three and nine months ended September 30, 2015, respectively, and $0.1 million and $0.3 million for the three and nine months ended September 30, 2014, respectively.

Refer to Note 5 regarding the fair value of derivatives, Note 8 regarding the fair value of an earn-out liability along with the most current amendments, and Note 12 regarding the fair value of the Revolving Loan and the Term Loan. The Company had one mortgage outstanding at December 31, 2014 with a remaining balance of $0.1 million and was fully paid in June 2015. At December 31, 2014, the fair value of the mortgage approximated book value. The Company also has long-term notes payable of $2.5 million related to machinery and equipment purchased which have payment terms ranging from 3 to 5 years and associated interest rates ranging from 3.12% to 6.29%. The fair value of the notes payable approximates their book value. The Company does not have any off-balance sheet financial instruments other than operating leases (refer to Note 14 of the Notes to Consolidated Financial Statements in the 2014 Form 10-K).

In order to assess the fair value of the Company's financial instruments, the Company uses the fair value hierarchy established by GAAP which prioritizes the inputs used in valuation techniques into the following three levels:

Level 1 Inputs – Based upon quoted prices for identical assets in active markets that the Company has the ability to access at the measurement date.

Level 2 Inputs – Based upon quoted prices (other than Level 1) in active markets for similar assets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset such as interest rates, yield curves, volatilities and default rates and inputs that are derived principally from or corroborated by observable market data.

Level 3 Inputs – Based on unobservable inputs reflecting the Company's own assumptions about the assumptions that market participants would use in pricing the asset based on the best information available.

For each financial instrument, the Company uses the highest priority level input that is available in order to appropriately value that particular instrument. In certain instances, Level 1 inputs are not available and the Company must use Level 2 or Level 3 inputs. In these cases, the Company provides a description of the valuation techniques used and the inputs used in the fair value measurement.

Out-of-Period Adjustment

During the first quarter of 2015, the Company recorded a $2.8 million out-of-period decrease in revenue that affected our results of operations for the nine months ended September 30, 2015. The adjustment was identified during our first quarter review of projects. Management evaluated the effect of the adjustment on the Company's financial statements based on SEC Staff Accounting Bulletin ("SAB") No. 99 and SAB 108 and concluded that it was immaterial to the current and prior year's consolidated financial statements.

Recent Accounting Pronouncements

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements." The guidance, which incorporates the SEC Staff Announcement at the June 18, 2015 EITF meeting and is effective upon announcement, provides clarification related to the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The guidance states that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company is currently accounting for its debt issuance costs for its Term Loan and line-of-credit Revolver Loan in this manner and would only expect a change in presentation of the deferred amounts related to the Term Loan upon adoption as required by ASU 2015-03. See below for the discussion related to ASU 2015-03.

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In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." The guidance, which is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those fiscal years, requires an entity to measure in scope inventory at the lower of cost and net realizable value. Early adoption is permitted as of the beginning of an interim or annual reporting period. Although early adoption is permitted, the Company expects to adopt this guidance as required and does not expect a material impact to the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs." The guidance, which is effective for annual reporting periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2015, requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The adoption of this ASU requires retrospective application to all periods presented. Although early adoption is permitted, the Company expects to adopt this guidance as required and expects a change in the presentation of our consolidated balance sheets and related disclosures. The Company does not expect a material impact to the consolidated statements of operations.

In February 2015, the FASB issued ASU 2015-02, "Consolidation: Amendments to the Consolidation Analysis." The guidance, which is effective for annual reporting periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2015, modifies the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Early adoption is permitted. The Company does not expect a material impact to the Company's consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statement – Going Concern." The guidance, which is effective for annual reporting periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016, requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and to provide related footnote disclosures. Early adoption is permitted. Although early adoption is permitted, the Company expects to adopt this guidance as required and does not expect a material impact to the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The guidance defines the steps to recognize revenue for entities that have contracts with customers. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year. As a result, the amendments in ASU 2014-09 are effective for public companies for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Entities would be permitted to adopt this ASU as early as the original public entity effective date, which was annual reporting periods beginning after December 15, 2016 and interim periods therein. Early adoption prior to that date would not be permitted. The Company is currently evaluating the impact of the adoption of this ASU to the Company's consolidated financial statements and related disclosures.

2. Cash and Cash Equivalents and Restricted Cash

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. Cash and cash equivalents include cash balances held by our wholly-owned and less than wholly-owned subsidiaries as well as the Company's VIE. Refer to Note 10 for more information regarding the Company's consolidated VIE.

Restricted cash of approximately $3.0 million is included in "other assets, net" on the condensed consolidated balance sheet as of September 30, 2015, and represents cash deposited by the Company into a separate account and designated

as collateral for a standby letter of credit in the same amount in accordance with contractual agreements. Refer to Note 7 for more information about our standby letter of credit. In addition, restricted cash of approximately $2.0 million is included in “other current assets” on the condensed consolidated balance sheet as of September 30, 2015, and represents cash deposited by a customer, for the benefit of the Company, in an escrow account which is restricted until the customer releases the restriction upon the completion of the job.

The Company holds cash on deposit in U.S. banks, at times, in excess of federally insured limits. Management does not believe that the risk associated with keeping cash deposits in excess of federal deposit insurance limits represents a material risk.

3. Construction Joint Ventures

The Company participates in various construction joint venture partnerships. Generally, each construction joint venture is formed to construct a specific project and is jointly controlled by the joint venture partners. Refer to Note 6 of the Notes to Consolidated Financial Statements in the 2014 Form 10-K for further information about our joint ventures. Condensed combined financial amounts of joint ventures in which the Company has a noncontrolling interest and the Company's share of such amounts which are included in the Company's condensed consolidated financial statements are shown below (amounts in thousands):

	September 30, 2015	December 31, 2014
Total combined:		
Current assets	$18,042	$18,132
Less current liabilities	(50,817)	(49,035)
Net assets	$(32,775)	$(30,903)
Backlog	$35,202	$55,063
Sterling's noncontrolling interest in backlog	$10,894	$15,889
Sterling's receivables from and equity in construction joint ventures	$11,089	$9,153

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Total combined:				
Revenues	$9,458	$7,734	$50,450	$44,959
Income before tax	808	922	5,886	3,047
Sterling's noncontrolling interest:				
Revenues	$3,437	$2,747	$19,986	$18,371
Income before tax	357	453	2,021	1,885

Approximately $11 million of the Company's backlog at September 30, 2015 was attributable to projects performed by joint ventures. The majority of this amount is attributable to the Company's joint venture with Shimmick Construction Company, where the Company has a 30% interest.

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

4. Property and Equipment

Property and equipment are summarized as follows (amounts in thousands):

	September 30, 2015	December 31, 2014
Construction equipment	$116,221	$129,150
Transportation equipment	17,864	18,205
Buildings	10,796	10,777
Office equipment	2,810	2,761
Leasehold improvement	894	878
Construction in progress	1,823	387
Land	4,257	5,530
Water rights	200	200
	154,865	167,888
Less accumulated depreciation	(80,315)	(80,790)
	$74,550	$87,098

Asset Sold - Land

On August 24, 2015, the Company completed the sale of a parcel of land located in Harris County, Texas to Joseph P. Harper, Sr., a former President and Chief Operating Officer of the Company. Proceeds received were approximately $2.4 million. Upon completion of the sale, the Company recognized a gain of approximately $1.4 million included in "Other operating (expense) income, net" on the condensed consolidated statement of operations.

Assets Held for Sale – Construction and Transportation Equipment

The Company intends to sell certain construction and transportation equipment during the next twelve months. At September 30, 2015, the Company's condensed consolidated balance sheet included assets held for sale with a carrying value of approximately $3.8 million, net of an immaterial impairment charge, which have been reclassified out of "Property and equipment, net," and into "other current assets."

5. Derivative Financial Instruments

From time to time, the Company historically entered into various fixed rate commodity swap contracts in an effort to manage its exposure to price volatility of diesel fuel. Refer to Note 9 of the Notes to Consolidated Financial Statements in the 2014 Form 10-K for further information about our derivative financial instruments.

At September 30, 2015, accumulated other comprehensive income consisted of unrecognized losses of zero, down from $101,000 at December 31, 2014, which represented the unrealized change in fair value of the effective portion of the Company's commodity contracts, designated as cash flow hedges, as of the balance sheet date. For the nine months ended September 30, 2015 and 2014, the Company recognized a pre-tax net realized cash settlement loss on commodity contracts of $107,000 and gain of $15,000, respectively.

Due to the recent decline in oil and fuel prices, the Company has not entered into any new derivative instruments and we retired our hedging program when the last swap contract was settled in August 2015.

Fair Value

The Company's swaps were historically valued based on a discounted future cash flow model. The primary input for the model was the forecasted prices for ULSD. The Company's model was validated by the counterparty's fair value statements. The swaps were designated as Level 2 within the valuation hierarchy. Refer to Note 1 for a description of the inputs used to value the information shown above.

At September 30, 2015 and December 31, 2014, the Company did not have any derivative assets or liabilities measured at fair value on a recurring basis that meet the definition of Level 1 or Level 3 fair value inputs.

6. Income Taxes

The Company and its subsidiaries file U.S. federal and various U.S. state income tax returns. Current income tax expense or (benefit) represents federal and state taxes based on tax paid or expected to be payable or receivable for the periods shown in the condensed consolidated statements of operations. The income tax (benefit) expense in the

accompanying condensed consolidated financial statements consists of the following (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Current tax (benefit) expense	$(39)	$546	$(8)	$573
Deferred tax expense	–	–	–	–
Total tax (benefit) expense	$(39)	$546	$(8)	$573

The Company is not expecting a current federal tax liability for the year due to a projected taxable loss. The Company does expect a state tax liability for 2015 in states without sufficient net operating loss carry forwards. This state tax expense has been offset with a state tax benefit related to a prior year. Therefore, a net current tax benefit has been recorded for those states for the three and nine months ended September 30, 2015.

The Company's deferred tax expense or (benefit) reflects the change in deferred tax assets or liabilities. The Company performs an analysis at the end of each reporting period to determine whether it is more likely than not the deferred tax assets are expected to be realized in future years. Based upon this analysis, a valuation allowance has been applied to our net deferred tax assets as of September 30, 2015 and December 31, 2014. Therefore, there has been no change in net deferred taxes for the three and nine months ended September 30, 2015.

The income tax expense or (benefit) differs from the amounts using the statutory federal income tax rate of 35% for the following reasons (amounts in thousands, except for percentages):

	Nine Months Ended September 30,			
	2015		2014	
	Amount	%	Amount	%
Tax (benefit) expense at the U.S. federal statutory rate	$(5,718)	35.0 %	$449	35.0 %
State tax based on income, net of refunds and federal benefits	(398)	2.4	(53)	(4.1)
Taxes on subsidiaries' earnings allocated to noncontrolling interests owners	(1,326)	8.1	(1,906)	(148.8)
Valuation allowance	7,438	(45.5)	1,529	119.4
Reduction of tax receivable	–	–	524	40.9
Other permanent differences	(4)	–	30	2.4
Income tax (benefit) expense	$(8)	– %	$573	44.8 %

As a result of the Company's analysis, management has determined that the Company does not have any material uncertain tax positions.

7. Commitments and Contingencies

The Company is required by our insurance provider to obtain and hold a standby letter of credit. This letter of credit serves as a guarantee by the banking institution to pay our insurance provider the incurred claim costs attributable to our general liability, workers compensation and automobile liability claims, up to the amount stated in the standby letter of credit, in the event that these claims were not paid by the Company. Due to our new Equipment-based Facility, as defined in Note 12, we have now cash collateralized the letter of credit, resulting in the cash being designated as restricted. Refer to Note 2 for more information on our restricted cash and Note 12 for more information on our new Equipment-based Facility.

The Company is the subject of certain claims and lawsuits occurring in the normal course of business. Management, after consultation with legal counsel, does not believe that the outcome of these actions will have a material impact on the condensed consolidated financial statements of the Company.

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

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

8. Acquisitions and Subsidiaries and Joint Ventures with Noncontrolling Owners' Interests

On December 30, 2013, the Company and Richard Buenting revised the Second Amended and Restated Operating Agreement entered into on April 27, 2012 and their Management Agreement entered into on February 1, 2012. The

Third Amended and Restated Operating Agreement and the amended Management Agreement eliminated the buy/sell option and instead included the obligation for the Company to purchase Mr. Buenting's interest upon his death or permanent disability for $20 million or $18 million, respectively. In the event of Mr. Buenting's death or permanent disability, his estate representative, trustee or designee shall become the selling representative and sell his 50% interest to the Company. In order to fund the purchase of Mr. Buenting's interest, the Company has purchased term life insurance with a payout of $20 million in the event of Mr. Buenting's death. The Company will be the beneficiary and will also pay the premiums related to this life insurance contract. The life insurance proceeds of $20 million shall be used as full payment for Mr. Buenting's interest in the occurrence of his death. On June 2, 2015, the Company purchased an insurance policy with a five-year term on Mr. Buenting that provides a lump sum disability benefit in the principal sum of $20 million. In the event of Mr. Buenting's permanent total disability, the principal sum becomes payable to the Company, and in turn the Company is obligated to use the proceeds of the policy to purchase Mr. Buenting's 50% member's interest in RHB in accordance with the terms of the amended agreements. No other transfer of member's interest is permitted other than to the selling representative in the event of Mr. Buenting's death or permanent disability. In the event that Mr. Buenting resigns his 50% interest in RHB or is terminated without cause (i.e., termination other than through cause, permanent disability or death), RHB shall be dissolved unless both members agree otherwise. The amended agreements were entered into in order to eliminate the earnings-per-share volatility caused by the buy/sell option.

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The amended agreements resulted in an obligation to purchase Mr. Buenting's 50% member's interest that the Company is certain to incur, either because of Mr. Buenting's permanent disability or death; therefore, the Company has classified the noncontrolling interest as mandatorily redeemable and has recorded a liability in "Member's interest subject to mandatory redemption and undistributed earnings" on the condensed consolidated balance sheets. The liability consists of the following (amounts in thousands):

	September 30, 2015	December 31, 2014
Member's interest subject to mandatory redemption	$ 20,000	$ 20,000
Accumulated undistributed earnings attributable to this interest	6,892	6,079
Earnings distributed	(5,114)	(3,200)
Total liability	$ 21,778	$ 22,879

Due to the amended agreements and the accounting classification, Mr. Buenting's 50% member's interest, or undistributed earnings, is included in "Other operating (expense) income, net" on the Company's condensed consolidated statements of operations. Undistributed earnings attributable to this interest increased $1.5 million and $0.8 million for the three and nine months ended September 30, 2015, respectively, and undistributed earnings increased by $0.5 million and $2.0 million for the three and nine months ended September 30, 2014, respectively.

Changes in Noncontrolling Interests

The following table summarizes the changes in the noncontrolling owners' interests in subsidiaries (amounts in thousands):

	Nine Months Ended September 30,	
	2015	2014
Balance, beginning of period	$7,462	$4,097
Net income attributable to noncontrolling interest included in equity	2,948	3,238
Distributions to noncontrolling interest owners	(3,402)	(1,190)
Balance, end of period	$7,008	$6,145

The "Noncontrolling owners' interest in earnings of subsidiaries" for the three and nine months ended September 30, 2015 and 2014, shown in the accompanying condensed consolidated statements of operations, was $1.1 million and $2.9 million, respectively, and $1.7 million and $3.2 million, respectively, which the Company includes in "Equity", "Noncontrolling interests" in the accompanying condensed consolidated balance sheets. There was a distribution of $1.0 million and $3.4 million to certain noncontrolling interest members during the three and nine months ended September 30, 2015 and there were no distributions and distributions of $1.2 million during the three and nine months

ended September 30, 2014, respectively.

Noncontrolling Interests' – Call Options

During the nine months ended September 30, 2015, the Company entered into two agreements, one with RHB and one with Myers, which gives the 50% owners of these entities the option to buy the Company's 50% interest in these entities for $1.00 should the Company ever become subject to the repossession or disposition of its collateral as defined in the Company's new debt agreement with Nations or if the Company dissolves or becomes insolvent. Based on these agreements, the Company does not believe that it is likely that the exercise of these options would ever transpire; therefore, there has been no value placed on these options which resulted in no impact to our condensed consolidated financial statements. Refer to Note 12 for more information about the debt agreement with Nations.

Earn-out Agreement

In connection with the August 1, 2011, acquisition of JBC by Ralph L. Wadsworth Construction Company, LLC ("RLW"), RLW agreed to additional purchase price payments of up to $5 million to be paid over a five-year period. The additional purchase price is in the form of an earn-out and is classified as a Level 3 fair value measurement. In making this valuation, the unobservable input consisted of forecasted EBITDA for the periods after the period being reported on through July 31, 2016. The additional purchase price is calculated generally as 50% of the amount by which EBITDA exceeds $2.0 million for each of the calendar years 2011 through 2015 and $1.2 million for the seven months ended July 31, 2016.

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On January 23, 2014, RLW, the former owner of JBC and the Company agreed to amend the above mentioned earn-out agreement in order to reduce the Company's recorded liability at that time, while providing the former owner, who at the time was the chief executive officer of JBC, a greater incentive to meet earnings benchmarks. The amendment resulted in a reduction of $0.6 million in the Company's earn-out liability, thereby reducing the total earn-out liability to $1.4 million on December 31, 2013. As part of the amendment, a payment of $0.8 million was made during the first quarter of 2014. The amendment increased the total available earn-out from $5.0 million to $10.0 million if certain EBITDA benchmarks are met. The amendment extended the earn-out period through December 31, 2017 and reduced the benchmark EBITDA for 2014 and 2015 to $1.5 million and increased it to $2.0 million in 2016 and 2017. This earn-out liability continues to be classified as a Level 3 fair value measurement and the unobservable inputs continue to be the forecasted EBITDA for the periods after the period being reported on through December 31, 2017. There was no yearly excess forecasted EBITDA in our calculation at September 30, 2015 of the minimum EBITDA benchmarks for the years 2015 through 2017. The discounted present value of the additional purchase price was estimated to be $0.3 million as of September 30, 2014 which included a revaluation benefit of $0.3 million recorded in interest income on the condensed consolidated statement of operations. The undiscounted earn-out liability as of September 30, 2015 is estimated at zero and could increase by $9.3 million if EBITDA during the earn-out period increases $18.5 million or more and could decrease by the full amount of the liability for the year if EBITDA does not exceed the minimum threshold for that year. Each year is considered a discrete earnings period and future losses by JBC, if any, would not reduce the Company's liability in years in which JBC has exceeded its earnings benchmark. Any significant increase or decrease in actual EBITDA compared to the forecasted amounts would result in a significantly higher or lower fair value measurement of the additional purchase price. This liability is included in other long-term liabilities on the accompanying condensed consolidated balance sheets. As part of recording the present value of this liability, the Company incurs accreted interest expense for the passage of time until the time of settlement. The Company incurred accreted interest expense of zero and $0.3 million for the three months and nine months ended September 30, 2014, respectively. As part of the updated EBITDA forecast, the Company reduced its liability to zero and recorded interest income of $0.3 million in the first quarter of 2015. There has been no change in the value of this liability; therefore, the interest income was zero and $0.3 million for the three and nine months ended September 30, 2015, respectively.

9. Stockholders' Equity

Stock-Based Compensation Plan

The Company has a stock-based incentive plan which is administered by the Compensation Committee of the Board of Directors. Refer to Note 16 of the Notes to Consolidated Financial Statements included in the 2014 Form 10-K for further information. The Company recorded stock-based compensation expense of $0.8 million and $1.3 million for the three and nine months ended September 30, 2015, respectively, and $0.2 million and $0.6 million for the three and nine months ended September 30, 2014, respectively.

At September 30, 2015, total unrecognized compensation cost related to unvested common stock awards was $3.0 million. This cost is expected to be recognized over a weighted average period of 2.0 years. There was no unrecognized compensation expense related to stock options at September 30, 2015 and 2014. There were no proceeds received by the Company from the exercise of stock options for the three and nine months ended September 30, 2015 and such proceeds were immaterial for the three and nine months ended September 30, 2014. No stock options were granted in the three or nine months ended September 30, 2015 or 2014. At September 30, 2015, there were 0.8 million shares of common stock covered by outstanding unvested common stock.

On January 1, 2015, the Company launched a long- and short-term incentive program for certain employees. The short-term incentive plan is paid in cash if certain short-term achievements are met and the long-term incentive plan is paid with the Company's stock if certain long-term achievements are met. The stock based awards are awarded based in two parts; 50% is based on completing a service period of three years and 50% is based on the level of achievement of the Company's total shareholder return ("TSR") compared to the TSR of a designated peer group over a three year period. The service based awards are recorded as usual; however, the awards based on TSR must be valued using a Monte Carlo simulation. Based on the valuation obtained using Monte Carlo simulation and valuation on the service based awards, the Company recorded an expense of $0.1 million and $0.3 million, which was included in the $0.8 million and $1.3 million expense mentioned above, for the three and nine months ended September 30, 2015, respectively.

On March 9, 2015, the Company entered into a three-year employment agreement with Paul J. Varello, the Company's Chief Executive Officer ("CEO"). As part of the agreement, Mr. Varello will be paid an annual salary of $1 and received 600,000 shares of the Company's common stock which vest in three equal installments on the first three anniversaries of the March 9, 2015 award date. The award is a special one-time plan for the CEO and was approved by the Company's stockholders at its 2015 Annual Meeting in May 2015 and was valued at approximately $2.5 million.

On July 3, 2015**,** the Company granted our former CFO a discretionary bonus consisting of 106,478 shares of the Company's common stock valued at $0.4 million which was included in the $0.8 million and $1.3 million expense mentioned above for the three and nine months ended September 30, 2015.

10. Variable Interest Entities

The Company owns a 50% interest in Myers, of which it is the primary beneficiary, and has consolidated Myers into the Company's financial statements. Because the Company exercises primary control over activities of the partnership and it is exposed to the majority of potential losses of the partnership, the Company has consolidated Myers within the Company's financial statements since August 1, 2011, the date of acquisition. Refer to Note 3 of the Notes to Consolidated Financial Statements included in the 2014 Form 10-K for additional information on the acquisition of this limited partnership.

The condensed financial information of Myers, which is reflected in the Company's condensed consolidated balance sheets and statements of operations, is as follows (amounts in thousands):

	September 30, 2015	December 31, 2014
Assets:		
Current assets:		
Cash and cash equivalents	$ 946	$ 148
Contracts receivable, including retainage	28,758	21,327
Other current assets	8,777	7,656
Total current assets	38,481	29,131
Property and equipment, net	10,444	9,303
Goodwill	1,501	1,501
Total assets	$ 50,426	$ 39,935
Liabilities:		
Current liabilities:		
Accounts payable	$ 24,179	$ 15,795
Other current liabilities	11,644	9,000
Total current liabilities	35,823	24,795
Long-term liabilities:		
Other long-term liabilities	400	16
Total liabilities	$ 36,223	$ 24,811

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	$43,444	$40,159	$134,035	$101,953

Operating income	2,216	3,461	5,885	6,760
Net (loss) income attributable to Sterling common stockholders	(1,108)	1,728	(2,941)	3,376

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11. Net Income (Loss) per Share Attributable to Sterling Common Stockholders

Basic net income (loss) per share attributable to Sterling common stockholders is computed by dividing net income (loss) attributable to Sterling common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share attributable to Sterling common stockholders is the same as basic net income (loss) per share attributable to Sterling common stockholders but includes dilutive unvested stock and stock options 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 (loss) attributable to Sterling common stockholders (amounts in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income (loss) attributable to Sterling common stockholders	$256	$(3,935)	$(19,278)	$(2,529)
Denominator:				
Weighted average common shares outstanding — basic	19,628	18,809	19,269	17,814
Shares for dilutive unvested stock and stock options	–	–	–	–
Weighted average common shares outstanding and incremental shares assumed repurchased— diluted	19,628	18,809	19,269	17,814
Basic and diluted income (loss) per share attributable to Sterling common stockholders	$0.01	$(0.21)	$(1.00)	$(0.14)

In accordance with the treasury stock method, 0.2 million and 0.4 million shares of unvested common stock and stock options were excluded from the diluted weighted average common shares outstanding for the three and nine months ended September 30, 2015, as the assumed proceeds related to these shares would purchase more shares than the unvested shares outstanding resulting in anti-dilution.

In addition, in accordance with the treasury stock method, 0.1 million and 0.1 million shares of unvested common stock and stock options were excluded from the diluted weighted average common shares outstanding for the three and nine months ended September 30, 2014, respectively, as the Company incurred a loss during these periods and the impact of such shares would have been antidilutive.

12. Debt

On May 29, 2015, the Company and its wholly-owned subsidiaries entered into a $40.0 million loan and security agreement with Nations, consisting of a $20.0 million Term Loan and a $20.0 million Revolving Loan (combined, the “Equipment-based Facility”), which replaced its prior credit facility with Comerica (“Prior Credit Facility”). The amount of the Revolving Loan that may be borrowed from time to time is determined quarterly and may not exceed $20.0 million. In addition, the sum of the outstanding balances of the Equipment-based Facility may not exceed the lesser of

$40.0 million or 65% of the appraised value of the collateral pledged for the loans. At September 30, 2015, the Company had approximately $34.3 million of borrowing base which was the result of calculating 65% of the appraised value (where appraised value equals net operating liquidated value) of the Company’s collateral. The Revolving Loan may be utilized by the Company to provide ongoing working capital and for other general corporate purposes. At September 30, 2015, the Company had $13.1 million drawn on the Revolving Loan, $19.0 million Term Loan outstanding and $2.2 million of borrowings available.

The Equipment-based Facility bears interest at an initial fixed annual rate of 12%, which is subject to (i) a decrease of up to two percentage points based on the Company's fixed charge coverage ratio for each of the most recently ended four quarters beginning with the four quarters ended June 30, 2016; and (ii) an increase of two percentage points beginning December 31, 2015 based on the fixed charge coverage ratio at the end of the following two quarters. Principal on the Term Loan is payable in 47 monthly installments (with accrued interest) with a final payment of the then outstanding principal amount on May 29, 2019. Up to $5.0 million of the Term Loan may be prepaid in any year, but subject to a pre-payment fee that declines as the Term Loan nears maturity. Outstanding Revolving Loans are payable in full thirty days before the maturity date of the Term Loan.

The Equipment-based Facility is secured by all of the Company's personal property except accounts receivable, including all of its construction equipment, which forms the basis of availability under the Revolving Loan. The Equipment-based Facility is also secured by one-half of the equipment of the Company's 50%-owned affiliates, Road and Highway Builders, LLC and Myers & Sons Construction, L.P. pursuant to a separate security agreement with those entities. If a default occurs, Nations may exercise the Company's rights in the collateral, with all of the rights of a secured party under the Uniform Commercial Code, including, among other things, the right to sell the collateral at public or private sale.

The proceeds of the Term Loan of $20.0 million and our initial draw of $14.6 million under the Revolving Loan were utilized by the Company to repay the balance outstanding and terminate the Prior Credit Facility and for other general corporate purposes. In addition, in connection with incurring this debt, we recorded $1.3 million in deferred debt issuance costs which are included in “Other assets, net” in our condensed consolidated balance sheet, which is being amortized over the term of the Equipment-based Facility.

The Company’s Equipment-based Facility has no financial covenants; however, it contains restrictions on the Company’s ability to:

- Incur liens and encumbrances;
- Incur further indebtedness;
- Dispose of a material portion of assets or merge with a third party;
- Make acquisitions; and
- Make investments in securities.

Due to this new Equipment-based Facility agreement, the Company’s Letter of Credit, which under our Prior Credit Facility reduced the Company’s borrowing availability, is now collateralized with cash. Refer to Note 2 for more information regarding the Company’s cash and cash equivalents including restricted cash used as collateral.

Interest expense was $1.1 million and $2.1 million for the three and nine months ended September 30, 2015, respectively, compared to $0.2 million and $0.8 million for the three and nine months ended September 30, 2014, respectively. This increase in interest expense was driven by the increased interest rate on the new Equipment-based Facility agreement, as described above.

Fair Value

The Company’s debt is recorded at the carrying amount in the condensed consolidated balance sheets. The Company uses an income approach to determine the fair value of its 12% Equipment-based Term Loan due May 29, 2019 using estimated cash flows, which is a Level 3 fair value measurement. As of September 30, 2015, the carrying values and fair values are as follows (amounts in thousands):

	September 30, 2015	
	Carrying Value	Fair Value
Equipment-based revolving loan	$13,100	$–
Equipment-based term loan	18,980	18,980
Total Equipment-based Facility debt	$32,080	$18,980

The Equipment-based revolving loan’s fair value was not practicable to estimate as the timing of cash drawdowns and repayments cannot be determined. The effective interest rate of the Equipment-based revolving loan was 12.17% at September 30, 2015 with a maturity date of May 29, 2019.

As of December 31, 2014, the recorded value of the Company's Prior Credit Facility approximated its fair value, as the amount outstanding at any given point in time was the principal amount due and interest was paid based on this amount considering the duration outstanding. In order to extinguish this Prior Credit Facility debt, the Company incurred costs of $0.2 million which is included in the Company's condensed consolidated statement of operations.

13. Goodwill

During the first quarter of 2015, the Company made announcements regarding the Company's earnings and noncompliance with one of our Prior Credit Facility covenants. On January 27, 2015, the Company announced its preliminary fourth quarter and full year 2014 results and that the Company was not in compliance with the Prior Credit Facility's tangible net worth covenant. On March 16, 2015, the Company announced actual fourth quarter and full year 2014 results and that a waiver of the covenant breach had been obtained. As a result of these announcements, the Company's stock price fluctuated greatly during the first quarter of 2015, dropping from a January 2nd price of $6.41 to a March 31st price of $4.52.

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Due to the decrease in the stock price that resulted and our first quarter loss, the Company noted that a goodwill impairment triggering event occurred during the first quarter of 2015. Therefore, we updated our fourth quarter goodwill impairment assessment using the two methods discussed in Note 8 of the Notes to Consolidated Financial Statements in the 2014 Form 10-K. The assessment used updated first quarter information which incorporated the Company's stock price at March 31, 2015 and reduced gross margins used in our discounted cash flow model projections. Based on this revised testing, there was no goodwill impairment and we determined that the fair value of the Company's equity was approximately 8% above the carrying value of the Company's equity.

During the third quarter of 2015, the Company noted that the revenue projections used in our first quarter goodwill impairment assessment were higher than our actual results for the second and third quarters of 2015; therefore, the Company determined that a goodwill impairment triggering event occurred during the third quarter of 2015. As such, we updated our first quarter goodwill impairment assessment with third quarter 2015 information which incorporated the Company's stock price at September 30, 2015 and reduced the projected revenue used in our discounted cash flow model. The forecasted cash flows took into consideration historical and recent results, backlog and near term projects, recent developments, strategic actions and management's outlook for the future. The forecast and growth assumptions included, among other things, improved project performance, continuation of a strong base market, and margin improvements driven by incremental margin product opportunities and pursuing work in adjacent markets. Based on this revised testing, there was no goodwill impairment and we passed by an improved margin compared to that of our first quarter's 2015 assessment margin.

Our third quarter goodwill impairment assessment's concluded fair value could be negatively impacted if actual future performance falls short of the collective cash flow model assumptions or if our stock price is adversely affected. If based on future assessments, our goodwill is deemed to be impaired; the impairment would result in a charge to earnings which could be material.

14. Subsequent event

On October 19, 2015, the Company and Richard Buenting executed the Fourth Amended and Restated Operating Agreement ("Fourth Amendment") which amends, restates and replaces the Third Amended and Restated Operating Agreement in its entirety which was entered into on December 30, 2013. This revised Fourth Amendment consolidates and clarifies certain conflicting provisions in earlier agreements. The Company is still evaluating the impact of the Fourth Amendment. Refer to Note 8 for further information on this member's interest.

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

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 this section, "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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 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;
- factors that affect the accuracy of estimates inherent in our bidding for contracts, estimates of backlog, 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 limited number of 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 ours, 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 where non-compliance can result in penalties and/or termination of contracts as well as civil and criminal liability;

- adverse economic conditions in our markets; and
- the other factors discussed in more detail in our Annual Report on Form 10-K for the year ended December 31, 2014 ("2014 Form 10-K") under "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.

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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.

Overview

Sterling Construction Company, Inc. ("Sterling" or "the Company"), is a leading heavy civil construction company that specializes in building and reconstruction of transportation and water infrastructure projects in Texas, Utah, Nevada, Arizona, California, Hawaii, and other states in which there are profitable construction opportunities. Its transportation infrastructure projects include highways, roads, bridges, airfields and light rail. Its water infrastructure projects include water, wastewater and storm drainage systems.

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 consist of one reportable segment, one operating segment and one reporting unit component: heavy civil construction. In making this determination, the Company considered the discrete financial information used by our Chief Operating Decision Maker ("CODM"). Based on this approach, the Company noted that the CODM organizes, evaluates and manages the financial information around each heavy civil construction project when making operating decisions and assessing the Company's overall performance. Furthermore, we considered that each heavy civil construction project has similar characteristics, includes similar services, has similar types of customers and is subject to similar economic and regulatory environments.

Sterling has grown its service profile and geographic reach both organically and through acquisitions. Expansions into Utah, Arizona and California were achieved with the 2009 acquisition of RLW and the 2011 acquisitions of JBC and Myers, respectively. These acquisitions also extended Sterling's service profiles. For a more detailed discussion of the Company's business, readers of this report are advised to review "Item 1, Business," of the 2014 Form 10-K.

For purposes of the discussions which follow, "Current Quarter" refers to the three-month period ended September 30, 2015, "Prior Quarter" refers to the three-month period ended September 30, 2014, "Current Period" refers to the nine-month period ended September 30, 2015, and "Prior Period" refers to the nine-month period ended September 30, 2014.

Financial Results for the Current Quarter and Current Period, Operational Issues and Outlook for 2015 Financial Results

In the Current Quarter and Current Period, we had an operating income (loss) of $2.4 million and $(14.5) million, respectively, income (loss) before income taxes and earnings attributable to noncontrolling interest owners of $1.3 million and $(16.3) million, respectively, net income (loss) attributable to Sterling common stockholders of $0.3 million and $(19.3) million, respectively, and net income (loss) per diluted share attributable to Sterling common stockholders of $0.01 and (1.00), respectively.

Revenues for the Current Quarter and the Current Period decreased 7.0% and 9.2% from the Prior Quarter and Prior Period, respectively. The decrease in the Current Quarter as compared to the Prior Quarter is primarily related to the completion of large projects in Texas which were ongoing in the Prior Quarter, slightly offset with increased revenue from projects under construction in Utah. The decrease in the Current Period as compared to the Prior Period is

primarily the result of downward percent-complete revisions made to certain projects in the first quarter of 2015, largely related to construction projects in Texas, combined with the completion of certain large projects in Texas which were ongoing in the Prior Period and a $2.8 million out-of-period decrease in revenue that was recorded in the first quarter of 2015 and was the result of our first quarter review of projects.

Our gross margins increased to 8.2% in the Current Quarter as compared to 4.4% in the Prior Quarter and decreased to 3.6 % in the Current Period as compared to 5.5% in the Prior Period. The increase in gross margin during the Current Quarter as compared to the Prior Quarter was primarily the result of the Prior Quarter's downward revision of gross profits related to three problem jobs. The decrease in the Current Period as compared to the Prior Period is a result of the downward percent-complete revisions made to certain projects in the first quarter of 2015, largely related to construction projects in Texas, along with unseasonably more rainfall during the second quarter of 2015, also in Texas, which caused declines in productivity and unanticipated delays.

Our highway and related bridge work is generally funded through federal and state authorizations. In recent years, federal and state legislation related to infrastructure spending has been slow to pass. Funding for federal highway projects primarily originates from the Highway Trust Fund where federal motor fuel taxes are the major source of income into the fund. Additional income is provided from the General Fund and certain other funds to maintain the solvency of the Highway Trust Fund, as sources of income remain a challenge. While government spending on highway and related bridge work has not significantly increased in recent years, we have won sufficient work to keep our backlog above $700 million, and total backlog was $718 million at September 30, 2015. In addition to highway and related bridge work, we continually look for projects that diversify our book of projects to obtain higher margins and to thereby relieve the continued pressure on our gross margins from new contract awards from local, state and federal authorities that are typically more competitive.

See "Item 1. Business— Our Markets, Competition and Customers" in the 2014 Form 10-K for a more detailed discussion of our markets and their funding sources.

Results of Operations

Backlog at September 30, 2015

At September 30, 2015, our backlog of construction projects was $718 million, as compared to $764 million at December 31, 2014. Our contracts are typically completed in 12 to 36 months. At September 30, 2015, approximately $112 million was excluded from our consolidated backlog for projects in which we were the apparent low bidder, but had not yet been formally awarded the contract or the contract price had not been finalized. Backlog includes $11 million attributable to our share of estimated revenues related to joint ventures where we are a noncontrolling joint venture partner.

Results of Operations for the Current Quarter as Compared to the Prior Quarter and for the Current Period as compared to the Prior Period

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Revenues	$176,000	$189,275	(7.0)%	$471,107	$518,618	(9.2)%
Gross profit	$14,458	$8,356	73.0	$16,733	$28,724	(41.7)
General and administrative expenses	(11,119)	(9,326)	19.2	(32,320)	(27,316)	18.3
Other operating (expense) income, net	(958)	(603)	58.9	1,128	(4)	NM
Operating income (loss)	2,381	(1,573)	NM	(14,459)	1,404	NM
Interest income	32	113	(71.7)	464	644	(28.0)

Interest expense	(1,087)	(211)	NM	(2,103)	(766)	NM
Loss on extinguishment of debt	–	–	NM	(240)	–	NM
Income (loss) before taxes and earnings attributable to noncontrolling interests	1,326	(1,671)	NM	(16,338)	1,282	NM
Income tax benefit (expense)	39	(546)	NM	8	(573)	NM
Net income (loss)	1,365	(2,217)	NM	(16,330)	709	NM
Noncontrolling owners' interests in earnings of subsidiaries and joint ventures	(1,109)	(1,718)	(35.4)	(2,948)	(3,238)	(9.0)
Net income (loss) attributable to Sterling common stockholders	$256	$(3,935)	NM	$(19,278)	$(2,529)	NM
Gross margin	8.2 %	4.4 %	86.4	3.6 %	5.5 %	(34.5)
Operating margin (deficit)	1.4 %	(0.8)%	NM	(3.1)%	0.3 %	NM

NM – Not meaningful.

	Amount as of		
	September 30, 2015	June 30, 2015	December 31, 2014
Contract Backlog, end of period	$718,000	$743,000	$764,000

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Revenues

Revenues decreased $13.3 million, or 7.0%, in the Current Quarter compared with the Prior Quarter and decreased $47.5 million, or 9.2%, for the Current Period compared with the Prior Period. The decrease in the Current Quarter as compared to the Prior Quarter is primarily related to the completion of large projects in Texas which were ongoing in the Prior Quarter, slightly offset with increased revenue from projects under construction in Utah. The decrease in the Current Period as compared to the Prior Period is primarily the result of downward percent-complete revisions made to certain projects in the first quarter of 2015, largely related to construction projects in Texas, combined with the completion of certain large projects in Texas which were ongoing in the Prior Period and a $2.8 million out-of-period decrease in revenue that was recorded in the first quarter of 2015 and was the result of our first quarter review of projects.

Gross Profit

Gross profit increased $6.1 million for the Current Quarter compared with the Prior Quarter and decreased $12.0 million for the Current Period compared with the Prior Period. Gross margins increased to 8.2% in the Current Quarter from a margin of 4.4% in the Prior Quarter and decreased to 3.6% in the Current Period from 5.5% in the Prior Period. The increase in gross margin during the Current Quarter as compared to the Prior Quarter was primarily the result of the Prior Quarter's downward revision of gross profits related to three problem jobs. The decrease in the Current Period as compared to the Prior Period is a result of the downward percent-complete revisions made to certain projects in the first quarter of 2015, largely related to construction projects in Texas, along with unseasonably more rainfall during second quarter of 2015, also in Texas, which caused declines in productivity and unanticipated delays.

At September 30, 2015 and 2014, we had approximately 133 and 113 contracts-in-progress, respectively, which were less than 90% complete. These contracts are of various sizes, of different expected profitability and in various stages of completion. The nearer a contract progresses toward completion, the more we are able to refine our estimate of total revenues (including incentives, delay penalties and change orders), costs and gross profit. Thus, gross profit as a percent of revenues can increase or decrease from comparable and subsequent quarters due to variations among contracts and depending upon the stage of completion of contracts.

General and Administrative Expenses

General and administrative expenses increased $1.8 million to $11.1 million during the Current Quarter from $9.3 million in the Prior Quarter and increased $5.0 million to $32.3 million in the Current Period from $27.3 million in the Prior Period. The increase in the Current Quarter as compared to the Prior Quarter is primarily the result of certain non-recurring costs related to consulting and employee severance payments of $1.1 million and $0.5 million, respectively. The increase during the Current Period as compared to the Prior Period is primarily the result of certain non-recurring costs related to consulting and employee severance payments of $1.2 million and $2.9 million, respectively, recognized in the Current Period.

As a percent of revenues, general and administrative expenses increased 1.4% to 6.3% and 1.6% to 6.9% in the Current Quarter and Current Period, respectively, compared with 4.9% and 5.3% in the Prior Quarter and Prior Period, respectively. The increases in general and administrative expenses, as a percentage of revenue, for the Current Quarter and Current Period are primarily the result of the non-recurring consulting and employee severance costs paid in the first quarter of 2015 and the decline in revenue mentioned above. Excluding these non-recurring costs, general and administrative expenses would have been 5.4% and 6.0% for the Current Quarter and the Current Period, respectively.

Income Taxes

Our effective income tax rates for the Current and Prior Quarter were (2.9)% and (32.7)%, respectively. The Company is not expecting a current federal tax liability for 2015. The Company does expect a state tax liability for 2015 in states without sufficient net operating loss carry forwards. Therefore, a current tax expense has been recorded for those states for the three and nine months ended September 30, 2015. Additionally, we have recorded a current tax benefit for the increase in our state tax receivable. In the Current Quarter and Prior Quarter, the effective income tax rate varied from the statutory rate primarily as a result of the change in the valuation allowance, net income attributable to noncontrolling interest owners which is taxable to those owners rather than to the Company, state income taxes, and other permanent differences.

In order to determine that a valuation allowance was necessary, management assessed the available positive and negative evidence to estimate whether sufficient future taxable income would be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended September 30, 2015. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth. The ability to realize deferred tax assets and the need for a valuation allowance is evaluated and assessed quarterly. The amount of the deferred tax asset considered realizable could be adjusted if objective negative evidence or cumulative losses are no longer present, and additional weight may be given to subjective evidence such as our projections for growth. For the nine months ended September 30, 2015, there was no change in management’s assessment of the amount of deferred tax asset considered realizable from the assessment made at December 31, 2014.

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Goodwill

During the first quarter of 2015, the Company made announcements regarding the Company's earnings and noncompliance with one of our Prior Credit Facility covenants. On January 27, 2015, the Company announced its preliminary fourth quarter and full year 2014 results and that the Company was not in compliance with the Prior Credit Facility's tangible net worth covenant. On March 16, 2015, the Company announced actual fourth quarter and full year 2014 results and that a waiver of the covenant breach had been obtained. As a result of these announcements, the Company's stock price fluctuated greatly during the first quarter of 2015, dropping from a January 2nd price of $6.41 to a March 31st price of $4.52.

Due to the decrease in the stock price that resulted and our first quarter loss, the Company noted that a goodwill impairment triggering event occurred during the first quarter of 2015. Therefore, we updated our fourth quarter goodwill impairment assessment using the two methods discussed in Note 8 of the Notes to Consolidated Financial Statements in the 2014 Form 10-K. The assessment used updated first quarter information which incorporated the Company's stock price at March 31, 2015 and reduced gross margins used in our discounted cash flow model projections. Based on this revised testing, there was no goodwill impairment and we determined that the fair value of the Company's equity was approximately 8% above the carrying value of the Company's equity.

During the third quarter of 2015, the Company noted that the revenue projections used in our first quarter goodwill impairment assessment were higher than our actual results for the second and third quarters of 2015; therefore, the Company determined that a goodwill impairment triggering event occurred during the third quarter of 2015. As such, we updated our first quarter goodwill impairment assessment with third quarter 2015 information which incorporated the Company's stock price at September 30, 2015 and reduced the projected revenue used in our discounted cash flow model. The forecasted cash flows took into consideration historical and recent results, backlog and near term projects, recent developments, strategic actions and management's outlook for the future. The forecast and growth assumptions included, among other things, improved project performance, continuation of a strong base market, and margin improvements driven by incremental margin product opportunities and pursuing work in adjacent markets. Based on this revised testing, there was no goodwill impairment and we passed by an improved margin compared to that of our first quarter's 2015 assessment margin.

Our third quarter goodwill impairment assessment's concluded fair value could be negatively impacted if actual future performance falls short of the collective cash flow model assumptions or if our stock price is adversely affected. If based on future assessments, our goodwill is deemed to be impaired; the impairment would result in a charge to earnings which could be material.

Historical Cash Flows

The following tables set forth information about our cash flows and liquidity (amounts in thousands):

	Nine Months Ended September 30,	
	2015	2014
Net cash provided by (used in):		
Operating activities	$3,492	$(17,298)
Capital expenditures	(7,086)	(11,224)
Proceeds from sales of property and equipment	5,859	4,874

Net (repayment) drawdown on the Credit Facility	(34,602)	26,335
Equipment-based Facility	32,080	–
Restricted cash	(4,945)	–
Distributions to noncontrolling interest owners	(3,402)	(1,190)
Net proceeds from stock issued	–	14,078
Other	(2,751)	(447)
Total	$(11,355)	$15,128

	Amount as of	
	September 30, 2015	December 31, 2014
Cash and cash equivalents	$11,488	$22,843
Working capital	$41,562	$52,324

Operating Activities

Significant non-cash items included in operating activities include depreciation and amortization expense which was $12.5 million and $13.8 million in the Current Period and Prior Period, respectively. Depreciation expense has decreased from the Prior Period to the Current Period as a result of our efforts to maintain our current fleet of equipment and supplement it as necessary with leased equipment.

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Besides the net loss and net income in the Current Period and Prior Period, respectively, and the non-cash items discussed above, other significant components of cash flows from operations were:

- contracts receivable increased by $20.8 million in the Current Period and increased $28.1 million in the Prior Period while the net cash effect of billings in excess of costs and estimated earnings, and costs and estimated earnings in excess of billings increased cash by $17.5 million in the Current Period and decreased cash by $23.1 million in the Prior Period;
- other assets decreased $12.8 million in the Current Period and $1.8 million in the Prior Period; the decrease in the Current Period is primarily due to the sale of our long-term contract receivable;
- accounts payable decreased by $7.3 million in the Current Period and increased $19.5 million in the Prior Period; and
- member's interest subject to mandatory redemption and undistributed earnings decreased by $1.1 million in the Current Period and increased by $1.2 million in the Prior Period as a result of undistributed earnings (losses).

Investing Activities

Capital equipment is acquired as needed to support increased levels of production activities and to replace retiring equipment. Expenditures for the replacement of certain equipment and to expand our construction fleet of equipment for the Current Period and Prior Period totaled $7.1 million and $11.2 million, respectively. Proceeds from the sale of property and equipment for the Current Period and Prior Period totaled $5.9 million and $4.9 million, respectively, with associated net gains for the Current Period and Prior Period of $1.2 million and $0.9 million, respectively. Included in the proceeds and net gains was $2.4 million and $1.4 million, respectively, for the sale of a parcel of land located in Harris County, Texas. The level of expenditures in the Current Period decreased by $4.1 million from the Prior Period as a result of management's efforts to optimize utilization of our existing fleet of equipment based on current and projected workloads while supplementing our fleet with leased and financed equipment as needed.

Financing Activities

Financing activities in the Current Period consisted of the net repayments on our Prior Credit Facility of $34.6 million and cumulative drawdowns on our equipment-based revolver of $13.1 million and cash received from our equipment-based term loan of $19.0 million, both of which were used to fund our operating activities and replace our Prior Credit Facility. During the Current Period, a distribution of $3.4 million was approved to a noncontrolling interest member. In the Prior Period, we received $14.1 million from our common stock offering which was used to strengthen our balance sheet. In addition, there was a net drawdown of $26.3 million on our Prior Credit Facility which was primarily used to fund our operating activities. During the Prior Period, a distribution of $1.2 million was approved to a noncontrolling interest member.

Liquidity and Sources of Capital

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

- contract 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; and
- the amounts owed to suppliers and subcontractors.

Some of these fluctuations can be significant.

At September 30, 2015, we had working capital of $41.6 million, a decrease of $10.8 million from December 31, 2014. The decrease in working capital was the result of the following (amounts in thousands):

Net loss	$(16,330)
Depreciation and amortization	12,479
Capital expenditures	(7,086)
Proceeds from sales of property and equipment, net of gain	4,654
Restricted cash	(4,945)
Current portion of long-term debt – equipment-based term loan	(4,085)
Distributions to noncontrolling interest owners	(3,402)
Net repayment on the Prior Credit Facility	(34,602)
Borrowings under Equipment-based Facility	32,080
Prepaid expenses and other assets	12,780
Other	(2,305)
Total decrease in working capital	$(10,762)

In addition to our available cash and cash equivalents and cash provided by operations, from time to time we use borrowings under our available credit or equipment-based facilities to finance our capital expenditures and working capital needs.

On May 29, 2015, the Company and its wholly-owned subsidiaries entered into a $40.0 million loan and security agreement with Nations, consisting of a $20.0 million Term Loan and a $20.0 million Revolving Loan (combined, the "Equipment-based Facility"), which replaced the Company's Prior Credit Facility with Comerica. The amount of the Revolving Loan that may be borrowed from time to time is determined quarterly and may not exceed $20.0 million. In addition, the sum of the outstanding balances of the Equipment-based Facility may not exceed the lesser of $40.0 million or 65% of the appraised value of the collateral pledged for the loans. At September 30, 2015, the Company had approximately $34.3 million of borrowing base which was the result of calculating 65% of the appraised value (where appraised value equals net operating liquidated value) of the Company's collateral. The Revolving Loan may be utilized by us to provide ongoing working capital and for other general corporate purposes. At September 30, 2015, we had the $19.0 million outstanding on the Term Loan, $13.1 million drawn on the Revolving Loan, and $2.2 million of borrowings available.

The Equipment-based Facility bears interest at an initial fixed annual rate of 12%, which is subject to (i) a decrease of up to two percentage points based on the Company's fixed charge coverage ratio for each of the most recently ended four quarters beginning with the four quarters ended June 30, 2016; and (ii) an increase of two percentage points beginning December 31, 2015 based on the fixed charge coverage ratio at the end of the following two quarters. Principal on the Term Loan is payable in 47 monthly installments (with accrued interest) with a final payment of the then outstanding principal amount on May 29, 2019. Up to $5.0 million of the Term Loan may be prepaid in any year, but subject to a pre-payment fee that declines as the Term Loan nears maturity. Outstanding Revolving Loans are payable in full thirty days before the maturity date of the Term Loan.

The Equipment-based Facility is secured by all of the Company's personal property except accounts receivable, including all of its construction equipment, which forms the basis of availability under the Revolving Loan. The Equipment-based Facility is also secured by one-half of the equipment of the Company's 50%-owned affiliates, Road and Highway Builders, LLC and Myers & Sons Construction, L.P. pursuant to a separate security agreement with those entities. If a default occurs, Nations may exercise the Company's rights in the collateral, with all of the rights of a secured party under the Uniform Commercial Code, including, among other things, the right to sell the collateral at

public or private sale.

The proceeds of the Term Loan of $20.0 million and our initial draw of $14.6 million under the Revolving Loan were utilized by the Company to repay the balance outstanding and terminate the Prior Credit Facility and for other general corporate purposes. In addition, in connection with incurring this debt, we recorded $1.3 million in deferred debt issuance costs which are included in “Other assets, net” in our condensed consolidated balance sheet, which is being amortized over the term of the Equipment-based Facility. In order to extinguish the Prior Credit Facility debt, the Company incurred costs of $0.2 million which is included in the Company’s condensed consolidated statement of operations.

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The Company's Equipment-based Facility has no financial covenants; however, it contains restrictions on the Company's ability to:

- Incur liens and encumbrances;
- Incur further indebtedness;
- Dispose of a material portion of assets or merge with a third party;
- Make acquisitions; and
- Make investments in securities.

Due to this new Equipment-based Facility agreement, the Company's Letter of Credit, which under our Prior Credit Facility reduced the Company's borrowing availability, is now collateralized with cash.

Average combined borrowings under the Equipment-based Facility for the Current Quarter were $33.4 million and the largest amount of borrowings was under the Equipment-based Facility of $34.2 million from July 1, 2015 through July 31, 2015. Average borrowings under the Prior Credit Facility for the Prior Quarter were $11.4 million, and the largest amount of borrowings under the Prior Credit Facility was $36.8 million on April 21, 2014.

Interest expense was $1.1 million and $2.1 million in the Current Quarter and Current Period, respectively, compared to $0.2 million and $0.8 million in the Prior Quarter and Prior Period, respectively. This increase in interest expense in the Current Quarter and Current Period was driven by the increased interest rate on the new Equipment-based Facility agreement, as described above.

Based on our average borrowings and cash on hand during the Current Period and our forecasted cash needs for the remainder of the year, we believe that we have sufficient liquid financial resources to fund our requirements for the next twelve months of operations, including our bonding requirements. However, in the event of a substantial cash constraint and were unable to secure adequate debt financing, or we continue to incur losses, our working capital could be materially and adversely affected. Refer to "Item 1A. Risk Factors" in the 2014 Form 10-K for further discussion of liquidity related risks.

The Company is continually assessing ways to increase revenues and reduce costs to improve liquidity. During the third quarter of 2015, we scrutinized our fleet of equipment in order to identify underutilized and non-core assets. We identified $3.8 million of underutilized and non-core assets that we intend to sell within the next twelve months. We expect to use the proceeds from the sale of these assets to reduce a portion of our debt and for other working capital needs.

Inflation

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

In order to mitigate our exposure to increases in fuel prices, we historically engaged in a program to hedge our exposure to increases in diesel fuel prices by entering into swap contracts for diesel fuel. Due to the decline in oil and fuel prices, we have not entered into any new derivative instruments in 2015. In addition, we retired this program when our last swap contract was settled in August 2015.

Where we are the successful bidder on a project, we execute purchase orders with material suppliers and contracts with subcontractors covering the prices of most materials and services, other than oil and fuel products, thereby mitigating future price increases and supply disruptions. These purchase orders and subcontracts do not contain quantity guarantees, and we have no obligation to the suppliers or subcontractors for materials and services beyond those required to complete the contracts with our customers. There can be no assurance that increases in prices of oil

and fuel used in our business will be adequately covered by the estimated escalation we have included in our bids and there can be no assurance that all of our vendors will fulfill their pricing and supply commitments under their purchase orders and contracts with the Company. We adjust our total estimated costs on our projects when we believe it is probable that we will have cost increases which will not be recovered from customers, vendors or through project re-engineering.

Off-Balance Sheet Arrangements and Joint Ventures

As discussed further in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation–Off-Balance Sheet Arrangements and Joint Ventures" in the 2014 Form 10-K, we participate in various construction joint venture partnerships in order to share expertise, risk and resources for certain highly complex projects. The venture's contract with the project owner typically requires joint and several liability among the joint venture partners. Although our agreements with our joint venture partners provide that each party will assume and fund its share of any losses resulting from a project, if one of our partners is unable to pay its share, we would be fully liable for such share under our contract with the project owner. Circumstances that could lead to a loss under these guarantee arrangements include a partner's inability to contribute additional funds to the venture in the event that the project incurs a loss or additional costs that we could incur should the partner fail to provide the services and resources toward project completion that had been committed to in the joint venture agreement.

At September 30, 2015, there was approximately $35 million of construction work to be completed on unconsolidated construction joint venture contracts, of which $11 million represented our proportionate share. Due to the joint and several liability under our joint venture arrangements, if one of our joint venture partners fails to perform, we and the remaining joint venture partners would be responsible for completion of the outstanding work. As of September 30, 2015, we are not aware of any situation that would require us to fulfill responsibilities of our joint venture partners pursuant to the joint and several liability provisions under our contracts.

Off-balance sheet arrangements related to operating leases are discussed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations –Liquidity and Sources of Capital– Contractual Obligations” in the 2014 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Changes in interest rates are one of our sources of market risks. Outstanding indebtedness under our Prior Credit Facility incurred interest at floating rates. There were no borrowings under this facility during the Current Quarter. As the new Equipment-based Facility does not bear interest at floating rates, we are not subject to an impact on our results from operations from a change interest rate. However, our interest rate could increase by 2% based on our fixed charge coverage ratio as noted above in Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Sources of Capital.

We are exposed to market risk from changes in commodity prices. In the normal course of business, we historically entered into derivative transactions, specifically cash flow hedges, to mitigate our exposure to diesel fuel commodity price movements. We did not participate in these transactions for trading or speculative purposes. While the use of these arrangements may have limited the benefit to us of decreases in the prices of diesel fuel, it also limited the risk of adverse price movements. Due to the recent decline in oil and fuel prices, we have not entered into any new derivative instruments and we retired our hedging program when our last swap contract was settled in August 2015. As such, there are no outstanding contracts at September 30, 2015:

See “Inflation” above regarding risks associated with materials and fuel purchases required to complete our construction contracts.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

The Company's principal executive officer and principal financial officer reviewed and evaluated the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Due to the material weakness in internal control described in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, and the material weakness identified during our preparation of the third quarter 2015 financial statements as described below, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were not effective at September 30, 2015 to ensure that the information required to be disclosed by the Company in this Report is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to the Company's management including the principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Reported Material Weakness

As of September 30, 2015, management identified a material weakness in internal controls over financial reporting. Specifically, the Company did not adequately review and challenge the inputs to their valuation model, including giving sufficient consideration to current experience which differed from historical assumptions. This control deficiency could have resulted in a material adjustment to goodwill and related disclosures in the condensed consolidated financial statements for the quarter ended September 30, 2015. Unless remediated, this control deficiency could result in a material misstatement of the Company's condensed consolidated financial statements that would not be prevented or detected.

In response to the material weakness identified above, management completed the following action plan prior to filing the September 30, 2015 Form 10-Q:

- Formed a new team which included and received input from the Company's senior operational and financial management, and its outside advisors including the Company's recently announced new Chief Financial Officer to review and challenge the various inputs to the revised valuation model. These inputs included, among other things, historical actual results versus forecasted data, recent performance, backlog, and near term projects, recent developments, strategic actions and management's outlook for the future. The forecast and growth assumptions included, among other things, improved project performance, continuation of a strong base market, and margin improvements driven by incremental margin product opportunities and pursuing work in adjacent markets.

The Company's management believes that this additional and enhanced procedure and internal control is appropriate. Additionally, this additional action and control will be included as an integral component of the company's future periodic impairment analysis.

Previously Reported Material Weakness

In connection with preparing its financial statements for the quarter ended March 31, 2015, management identified a material weakness in internal control over financial reporting as it relates to the operation of our processes and controls to review the status of our construction projects (i.e., work-in-progress review) in terms of both job costs and revenues at our Texas subsidiary.

In order to remediate the material weakness in internal control over financial reporting, we continue to execute a plan which includes, among other things, the following actions:

- Personnel changes at our Texas subsidiary are being made to ensure an adequate number of competent project managers are on staff to increase the precision of monthly project reviews.
- New procedures are being put in place to provide a more detailed evaluation of the work-in-progress report for all on-going projects.

These remediation plans are being administered by the Chief Financial Officer and involves key leaders from across the organization. As we continue to evaluate and work to enhance internal control over financial reporting, we may determine that additional measures should be taken to address these or other control deficiencies, and/or that we should modify the remediation plan described above.

Changes in Internal Control over Financial Reporting

Other than the description of the material weaknesses in internal control over financial reporting and our efforts to remediate such material weaknesses described above, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are now and may in the future be involved as a party to various legal proceedings that are incidental to the ordinary course of business. We regularly analyze current information about these proceedings and, as necessary, provide accruals for probable liabilities on the eventual disposition of these matters.

In the opinion of management, after consultation with legal counsel, there are currently no threatened or pending legal matters that would reasonably be expected to have a material adverse impact on our condensed consolidated results of operations, financial position or cash flows.

Item 1A. Risk Factors

There have not been any material changes from the risk factors previously disclosed in Part I, Item 1A Risk Factors of the 2014 Form 10-K. You should carefully consider such risk factors, which could materially affect our business, financial condition or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table shows, by month, the number of shares of the Company's common stock that the Company repurchased in the quarter ended September 30, 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares (or Units) Purchased as Part of Publicly- Announced Plans or Program	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 – 31, 2015	44,310 [1]	$ 4.15	–	–

(1) These shares were repurchased from an employee holding shares of the Company's common stock that had been awarded to him by the Company and that were released (in the month of July) from Company-imposed transfer restrictions. The repurchase was to enable the employee to satisfy the Company's tax withholding obligations occasioned by the release of the restrictions. The repurchase was made at the election of the employee pursuant to a procedure adopted by the Compensation Committee of the Board of Directors.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

The information concerning mine safety violations and other regulatory matters required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95.1 of this Quarterly Report on Form 10-Q, which is incorporated by reference.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No.	Description
31.1*	Certification of Paul J. Varello, Chief Executive Officer of Sterling Construction Company, Inc.
31.2*	Certification of Kevan M. Blair, Chief Financial Officer of Sterling Construction Company, Inc.
32*	Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) of Paul J. Varello, Chief Executive Officer, and Kevan M. Blair, Chief Financial Officer
95.1*	Mine Safety Disclosure
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

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:	November 9, 2015	By:	/s/ Paul J. Varello Paul J. Varello Chief Executive Officer
Date:	November 9, 2015	By:	/s/ Kevan M. Blair Kevan M. Blair Chief Financial Officer

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STERLING CONSTRUCTION COMPANY, INC.

Quarterly Report on Form 10-Q for Period Ended September 30, 2015

Exhibit Index

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