# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended September 30, 2022**

**or**

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

**For the transition period from ___ to ___**

**Commission File Number 1-31993**

# STERLING INFRASTRUCTURE, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **25-1655321** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **1800 Hughes Landing Blvd.<br>The Woodlands, Texas** | **77380** |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: **(281) 214-0777**

Securities registered pursuant to Section 12(b) of the Act:

| | | |
|---|---|---|
| **Common Stock, $0.01 par value per share** | **STRL** | **The NASDAQ Stock Market LLC** |
| (Title of each class) | (Trading Symbol) | (Name of each exchange on which registered) |

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☑ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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

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

The number of shares outstanding of the registrant's common stock as of October 28, 2022 – 30,329,659

**STERLING INFRASTRUCTURE, INC.**
**QUARTERLY REPORT ON FORM 10-Q**
**TABLE OF CONTENTS**

## PART I—FINANCIAL INFORMATION

**Item 1.** ***Condensed Consolidated Financial Statements***

**STERLING INFRASTRUCTURE, INC. & SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In thousands, except per share data)**
**(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Revenues | $ 556,942 | $ 463,449 | $ 1,477,830 | $ 1,180,431 |
| Cost of revenues | (474,919) | (405,645) | (1,271,284) | (1,021,348) |
| Gross profit | 82,023 | 57,804 | 206,546 | 159,083 |
| General and administrative expense | (26,466) | (19,637) | (72,962) | (52,565) |
| Intangible asset amortization | (3,509) | (2,866) | (10,591) | (8,598) |
| Acquisition related costs | (277) | — | (762) | — |
| Other operating expense, net | (4,085) | (3,270) | (5,186) | (10,414) |
| Operating income | 47,686 | 32,031 | 117,045 | 87,506 |
| Interest income | 167 | 13 | 207 | 39 |
| Interest expense | (5,134) | (3,919) | (14,201) | (15,660) |
| Gain on extinguishment of debt, net | — | 968 | 2,428 | 2,032 |
| Income before income taxes | 42,719 | 29,093 | 105,479 | 73,917 |
| Income tax expense | (12,562) | (7,336) | (29,427) | (20,275) |
| Net income | 30,157 | 21,757 | 76,052 | 53,642 |
| Less: Net income attributable to noncontrolling interests | (634) | (631) | (1,316) | (1,905) |
| Net income attributable to Sterling common stockholders | $ 29,523 | $ 21,126 | $ 74,736 | $ 51,737 |
| | | | | |
| Net income per share attributable to Sterling common stockholders: | | | | |
| Basic | $ 0.98 | $ 0.74 | $ 2.48 | $ 1.81 |
| Diluted | $ 0.97 | $ 0.72 | $ 2.46 | $ 1.79 |
| | | | | |
| Weighted average common shares outstanding: | | | | |
| Basic | 30,278 | 28,710 | 30,156 | 28,527 |
| Diluted | 30,540 | 29,213 | 30,364 | 28,927 |

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

**STERLING INFRASTRUCTURE, INC. & SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(In thousands)**
**(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Net income | $ 30,157 | $ 21,757 | $ 76,052 | $ 53,642 |
| Other comprehensive income, net of tax | | | | |
| Change in interest rate swap, net of tax (Note 10) | (101) | 718 | 2,301 | 2,341 |
| Total comprehensive income | 30,056 | 22,475 | 78,353 | 55,983 |
| Less: Comprehensive income attributable to noncontrolling interests | (634) | (631) | (1,316) | (1,905) |
| Comprehensive income attributable to Sterling common stockholders | $ 29,422 | $ 21,844 | $ 77,037 | $ 54,078 |

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

**STERLING INFRASTRUCTURE, INC. & SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(In thousands, except per share data)**
**(Unaudited)**

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents ($28,994 and $35,378 related to variable interest entities (“VIEs”)) | $ 146,479 | $ 81,840 |
| Accounts receivable ($38,617 and $26,176 related to VIEs) | 329,548 | 232,153 |
| Contract assets ($19,458 and $10,249 related to VIEs) | 153,666 | 83,310 |
| Receivables from and equity in construction joint ventures ($5,530 and $7,058 related to VIEs) | 16,316 | 16,896 |
| Other current assets ($4,317 and $4,451 related to VIEs) | 23,549 | 20,492 |
| Total current assets | 669,558 | 434,691 |
| Property and equipment, net ($9,880 and $10,420 related to VIEs) | 222,647 | 204,316 |
| Operating lease right-of-use assets, net ($5,033 and $5,097 related to VIEs) | 60,384 | 24,520 |
| Goodwill ($1,501 and $1,501 related to VIEs) | 252,887 | 259,791 |
| Other intangibles, net | 293,532 | 303,223 |
| Other non-current assets, net | 4,325 | 4,455 |
| Total assets | $ 1,503,333 | $ 1,230,996 |
| **Liabilities and Stockholders’ Equity** | | |
| Current liabilities: | | |
| Accounts payable ($45,728 and $23,611 related to VIEs) | $ 192,902 | $ 144,982 |
| Contract liabilities ($16,137 and $22,583 related to VIEs) | 224,739 | 127,932 |
| Current maturities of long-term debt ($0 and $4,857 related to VIEs) | 29,705 | 28,230 |
| Current portion of long-term lease obligations ($2,407 and $2,334 related to VIEs) | 17,418 | 8,841 |
| Accrued compensation ($3,383 and $2,388 related to VIEs) | 37,448 | 22,803 |
| Other current liabilities ($496 and $889 related to VIEs) | 10,096 | 18,972 |
| Total current liabilities | 512,308 | 351,760 |
| Long-term debt ($0 and $81 related to VIEs) | 407,090 | 428,588 |
| Long-term lease obligations ($2,626 and $2,763 related to VIEs) | 43,121 | 15,831 |
| Members’ interest subject to mandatory redemption and undistributed earnings | 55,862 | 55,115 |
| Deferred tax liability, net | 40,311 | 14,656 |
| Other long-term liabilities | 4,754 | 4,819 |
| Total liabilities | 1,063,446 | 870,769 |
| Commitments and contingencies (Note 12) | | |
| Stockholders’ equity: | | |
| Common stock, par value $0.01 per share; 38,000 shares authorized, 30,318 and 29,838 shares issued and outstanding | 303 | 298 |
| Additional paid in capital | 281,576 | 280,274 |
| Retained earnings | 154,654 | 79,918 |
| Accumulated other comprehensive gain (loss) | 578 | (1,723) |
| Total Sterling stockholders’ equity | 437,111 | 358,767 |
| Noncontrolling interests | 2,776 | 1,460 |
| Total stockholders’ equity | 439,887 | 360,227 |
| Total liabilities and stockholders’ equity | $ 1,503,333 | $ 1,230,996 |

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

**STERLING INFRASTRUCTURE, INC. & SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousands)**
**(Unaudited)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2022** | **2021** |
| **Cash flows from operating activities:** | | |
| Net income | $ 76,052 | $ 53,642 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 38,550 | 25,336 |
| Amortization of debt issuance costs and non-cash interest | 1,636 | 1,756 |
| Gain on disposal of property and equipment | (1,926) | (1,176) |
| Gain on debt extinguishment, net | (2,428) | (2,032) |
| Deferred taxes | 24,975 | 17,413 |
| Stock-based compensation | 9,195 | 5,690 |
| Change in fair value of interest rate swap | (320) | (41) |
| Changes in operating assets and liabilities (Note 16) | (15,087) | 35,154 |
| Net cash provided by operating activities | 130,647 | 135,742 |
| **Cash flows from investing activities:** | | |
| Acquisitions, net of cash acquired | (3,033) | — |
| Capital expenditures | (47,832) | (39,315) |
| Proceeds from sale of property and equipment | 3,043 | 2,093 |
| Net cash used in investing activities | (47,822) | (37,222) |
| **Cash flows from financing activities:** | | |
| Repayments of debt | (17,612) | (44,184) |
| Distributions to noncontrolling interest owners | — | (1,959) |
| Other | — | (603) |
| Net cash used in financing activities | (17,612) | (46,746) |
| Net change in cash, cash equivalents, and restricted cash | 65,213 | 51,774 |
| Cash, cash equivalents, and restricted cash at beginning of period | 88,693 | 72,642 |
| Cash, cash equivalents, and restricted cash at end of period | 153,906 | 124,416 |
| Less: restricted cash (other current assets) | (7,427) | (6,714) |
| Cash and cash equivalents at end of period | $ 146,479 | $ 117,702 |
| Non-cash items: | | |
| Capital expenditures | $ 562 | $ 116 |

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

**STERLING INFRASTRUCTURE, INC. & SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**(In thousands)**
**(Unaudited)**

| | Nine Months Ended September 30, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Gain | Total Sterling Stockholders' Equity | Non-controlling Interests | Total Stockholders' Equity |
| | Shares | Amount | | | | | | |
| **Balance at December 31, 2021** | **29,838** | **$ 298** | **$ 280,274** | **$ 79,918** | **$ (1,723)** | **$ 358,767** | **$ 1,460** | **$ 360,227** |
| Net income | — | — | — | 19,252 | — | 19,252 | 271 | 19,523 |
| Change in interest rate swap | — | — | — | — | 1,563 | 1,563 | — | 1,563 |
| Stock-based compensation | — | — | 3,521 | — | — | 3,521 | — | 3,521 |
| Issuance of stock | 688 | 7 | 185 | — | — | 192 | — | 192 |
| Shares withheld for taxes | (263) | (3) | (7,383) | — | — | (7,386) | — | (7,386) |
| **Balance at March 31, 2022** | **30,263** | **$ 302** | **$ 276,597** | **$ 99,170** | **$ (160)** | **$ 375,909** | **$ 1,731** | **$ 377,640** |
| Net income | — | — | — | 25,961 | — | 25,961 | 411 | 26,372 |
| Change in interest rate swap | — | — | — | — | 839 | 839 | — | 839 |
| Stock-based compensation | — | — | 2,333 | — | — | 2,333 | — | 2,333 |
| Issuance of stock | 36 | 1 | 190 | — | — | 191 | — | 191 |
| **Balance at June 30, 2022** | **30,299** | **$ 303** | **$ 279,120** | **$ 125,131** | **$ 679** | **$ 405,233** | **$ 2,142** | **$ 407,375** |
| Net income | — | — | — | 29,523 | — | 29,523 | 634 | 30,157 |
| Change in interest rate swap | — | — | — | — | (101) | (101) | — | (101) |
| Stock-based compensation | — | — | 2,436 | — | — | 2,436 | — | 2,436 |
| Issuance of stock | 24 | — | 155 | — | — | 155 | — | 155 |
| Shares withheld for taxes | (5) | — | (135) | — | — | (135) | — | (135) |
| **Balance at September 30, 2022** | **30,318** | **$ 303** | **$ 281,576** | **$ 154,654** | **$ 578** | **$ 437,111** | **$ 2,776** | **$ 439,887** |

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

**STERLING INFRASTRUCTURE, INC. & SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**(In thousands)**
**(Unaudited)**

| | Nine Months Ended September 30, 2021 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid in Capital | Treasury Stock | | Retained Earnings | Accumulated Other Comprehensive Loss | Total Sterling Stockholders' Equity | Non-controlling Interests | Total Stockholders' Equity |
| | Shares | Amount | | Shares | Amount | | | | | |
| **Balance at December 31, 2020** | **28,184** | **$ 283** | **$ 256,423** | **95** | **$ (1,445)** | **$ 17,273** | **$ (5,264)** | **$ 267,270** | **$ 1,459** | **$ 268,729** |
| Net income | — | — | — | — | — | 10,555 | — | 10,555 | 1,113 | 11,668 |
| Change in interest rate swap | — | — | — | — | — | — | 895 | 895 | — | 895 |
| Stock-based compensation | — | — | 1,835 | — | — | — | — | 1,835 | — | 1,835 |
| Distributions to owners | — | — | — | — | — | — | — | — | (1,959) | (1,959) |
| Issuance of stock | 668 | 5 | (1,602) | (111) | 1,741 | — | — | 144 | — | 144 |
| Shares withheld for taxes | (246) | (2) | (5,321) | 16 | (296) | — | — | (5,619) | — | (5,619) |
| **Balance at March 31, 2021** | **28,606** | **$ 286** | **$ 251,335** | **—** | **$ —** | **$ 27,828** | **$ (4,369)** | **$ 275,080** | **$ 613** | **$ 275,693** |
| Net income | — | — | — | — | — | 20,056 | — | 20,056 | 161 | 20,217 |
| Change in interest rate swap | — | — | — | — | — | — | 728 | 728 | — | 728 |
| Stock-based compensation | — | — | 2,015 | — | — | — | — | 2,015 | — | 2,015 |
| Issuance of stock | 32 | — | 120 | — | — | — | — | 120 | — | 120 |
| Other | — | — | (3) | — | — | — | — | (3) | — | (3) |
| **Balance at June 30, 2021** | **28,638** | **$ 286** | **$ 253,467** | **—** | **$ —** | **$ 47,884** | **$ (3,641)** | **$ 297,996** | **$ 774** | **$ 298,770** |
| Net income | — | — | — | — | — | 21,126 | — | 21,126 | 631 | 21,757 |
| Change in interest rate swap | — | — | — | — | — | — | 718 | 718 | — | 718 |
| Stock-based compensation | — | — | 1,840 | — | — | — | — | 1,840 | — | 1,840 |
| Issuance of stock | 148 | 2 | 105 | — | — | — | — | 107 | — | 107 |
| Shares withheld for taxes | (4) | — | (99) | — | — | — | — | (99) | — | (99) |
| **Balance at September 30, 2021** | **28,782** | **$ 288** | **$ 255,313** | **—** | **$ —** | **$ 69,010** | **$ (2,923)** | **$ 321,688** | **$ 1,405** | **$ 323,093** |

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

## 1. NATURE OF OPERATIONS

### Business Summary

Sterling Infrastructure, Inc. ("Sterling," "the Company," "we," "our" or "us"), a Delaware corporation, operates through a variety of subsidiaries within three segments specializing in E-Infrastructure, Transportation and Building Solutions in the United States (the "U.S."), primarily across the Southern, Northeastern, Mid-Atlantic and the Rocky Mountain States, California and Hawaii, as well as other areas with strategic construction opportunities. E-Infrastructure Solutions projects develop advanced, large-scale site development systems and services for data centers, e-commerce distribution centers, warehousing, transportation, energy and more. Transportation Solutions includes infrastructure and rehabilitation projects for highways, roads, bridges, airports, ports, light rail, water, wastewater and storm drainage systems. Building Solutions projects include residential and commercial concrete foundations for single-family and multi-family homes, parking structures, elevated slabs and other concrete work. From strategy to operations, we are committed to sustainability by operating responsibly to safeguard and improve society's quality of life. Caring for our people and our communities, our customers and our investors – that is The Sterling Way.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

*Presentation Basis*—The accompanying Condensed Consolidated Financial Statements are presented in accordance with accounting policies generally accepted in the United States ("GAAP") and reflect all wholly owned subsidiaries and those entities the Company is required to consolidate. See *Note 5 - Consolidated 50% Owned Subsidiaries* and *Note 6 - Construction Joint Ventures* for further discussion of the Company's consolidation policy for those entities that are not wholly owned. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. Values presented within tables (excluding per share data) are in thousands. Reclassifications have been made to historical financial data to conform to the current period presentation.

*Estimates and Judgments*—The preparation of the accompanying Condensed Consolidated Financial Statements in conformance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Certain accounting estimates of the Company require a higher degree of judgment than others in their application. These include the recognition of revenue and earnings from construction contracts over time, the valuation of long-lived assets, goodwill and purchase accounting estimates. Management continually evaluates all of its estimates and judgments based on available information and experience; however, actual results could differ from these estimates.

### Significant Accounting Policies

Consistent with Regulation S-X Rule 10-1(a), the Company has omitted significant accounting policies in this quarterly report that would duplicate the disclosures contained in the Company's annual report on Form 10-K for the year ended December 31, 2021 under "Part II, Item 8. - Notes to Consolidated Financial Statements." This quarterly report should be read in conjunction with the Company's most recent annual report on Form 10-K.

*Accounts Receivable*—Receivables are generally based on amounts billed to the customer in accordance with contractual provisions. Receivables are written off based on the individual credit evaluation and specific circumstances of the customer, when such treatment is warranted. The Company performs a review of outstanding receivables, historical collection information and existing economic conditions to determine if there are potential uncollectible receivables. At September 30, 2022 and December 31, 2021, our allowance for our estimate of expected credit losses was zero.

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

Many of the contracts under which the Company performs work also contain retainage provisions. Retainage refers to that portion of our billings held for payment by the customer pending satisfactory completion of the project. Unless reserved, the Company assumes that all amounts retained by customers under such provisions are fully collectible. At September 30, 2022 and December 31, 2021, contract assets included $85,900 and $47,308 of retainage, respectively, and contract liabilities included $44,987 and $46,882 of retainage, respectively. Retainage on active contracts is classified as current regardless of the term of the contract and is generally collected within one year of the completion of a contract. We anticipate collecting approximately 64% of our September 30, 2022 retainage during the next twelve months. These assets and liabilities are reported on the Condensed Consolidated Balance Sheet within “Contract assets” and “Contract liabilities” on a contract-by-contract basis at the end of each reporting period.

Revenue recognized for the three and nine months ended September 30, 2022 that was included in the contract liability balance on December 31, 2021 was $45,315 and $517,579, respectively. Revenue recognized for the three and nine months ended September 30, 2021 that was included in the contract liability balance on December 31, 2020 was $111,887 and $409,257, respectively.

*Cash and Restricted Cash*—Our cash is comprised of highly liquid investments with maturities of three months or less. Restricted cash of $7,427 and $6,853 is included in “Other current assets” on the Condensed Consolidated Balance Sheets at September 30, 2022 and December 31, 2021, respectively. This primarily represents cash deposited by the Company into separate accounts and designated as collateral for standby letters of credit in the same amount in accordance with contractual agreements.

## 3. ACQUISITIONS

*General*—On December 30, 2021 (the “Closing Date”), Sterling completed the acquisition (the “Acquisition”) of Petillo LLC and its related entities (collectively, “Petillo”). The Acquisition is accounted for using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*.

*Purchase Consideration*—Sterling completed the Acquisition for a purchase price of $196,763, net of cash acquired, detailed as follows:

| | |
|---|---|
| Cash consideration transferred, net of cash acquired | $ 175,000 |
| Equity consideration transferred (759 shares at $26.87 per share[(1)]) | 20,406 |
| Target working capital adjustment | 1,357 |
| Total consideration | $ 196,763 |

[(1)] Sterling’s closing stock price on December 29, 2021.

*Preliminary Purchase Price Allocation*—The aggregate purchase price noted above was allocated to the assets and liabilities acquired based upon their estimated fair values at the acquisition closing date, which were based, in part, upon a preliminary external appraisal and valuation of certain assets, including specifically identified intangible assets. The excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired totaling $60,873 was recorded as goodwill. This goodwill represents the value of expected future earnings and cash flows, as well as the synergies created by the integration of the new business within our organization, including cross-selling opportunities to help strengthen our existing service offerings and expand our market position. Goodwill and intangibles of approximately $132,000 related to the Acquisition, are deductible and amortizable for tax purposes over the next 15 years.

The following table summarizes our purchase price allocation at the Acquisition Closing Date, net of cash acquired:

| | |
|---|---|
| Net tangible assets: | |
| Accounts receivable | $ 45,016 |
| Contract assets | 5,953 |
| Other current assets | 193 |
| Property and equipment, net | 47,141 |
| Other non-current assets, net | 5,498 |
| Accounts payable | (21,810) |
| Contract liabilities | (8,585) |
| Other current liabilities | (8,216) |
| Total net tangible assets | 65,190 |
| Identifiable intangible assets | 70,700 |
| Goodwill | 60,873 |
| Total consideration transferred | $ 196,763 |

During the nine months ended September 30, 2022, the total consideration and purchase price allocation (goodwill) changed by $7,800, primarily due to an updated estimate of the tax basis step-up payment. The purchase price allocation above is subject to further change when additional information is obtained. We have not finalized our assessment of the fair values primarily for intangible assets and property and equipment. We intend to finalize the purchase price allocation as soon as practicable within the measurement period, but in no event later than one year following the Closing Date of the Acquisition. Our final purchase price allocation may result in additional adjustments to various other assets and liabilities, including the residual amount allocated to goodwill during the measurement period.

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

| | **Weighted Average Life (Years)** | **December 30, 2021 Fair Value** |
|---|---|---|
| Customer relationships | 25 | $ 43,200 |
| Trade names | 25 | 27,500 |
| Total | | $ 70,700 |

*Supplemental Pro Forma Information (Unaudited)*—The following unaudited pro forma combined financial information ("the pro forma financial information") gives effect to the Acquisition, accounted for as a business combination using the purchase method of accounting. The pro forma financial information reflects the Acquisition and related events as if they occurred at the beginning of the period and includes adjustments to (1) include compensation expense associated with the employment agreement the Company entered into with Mr. Petillo, (2) include additional intangible asset amortization associated with the Acquisition, (3) include additional interest expense associated with the Acquisition and (4) include the pro forma results of Petillo for the three and nine months ended September 30, 2021. This pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the pro forma events taken place on the dates indicated. Further, the pro forma financial information does not purport to project the future operating results of the combined company following the Acquisition.

| | **Three Months Ended September 30, 2021** | **Nine Months Ended September 30, 2021** |
|---|---|---|
| Pro forma revenue | $ 524,405 | $ 1,323,771 |
| Pro forma net income attributable to Sterling | $ 27,985 | $ 62,330 |

## 4. REVENUE FROM CUSTOMERS

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

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| E-Infrastructure Solutions Backlog | $ 584,279 | $ 432,613 |
| Transportation Solutions Backlog | 965,546 | 963,267 |
| Building Solutions Backlog - Commercial | 115,518 | 97,235 |
| **Total Backlog** | $ 1,665,343 | $ 1,493,115 |

The Company expects to recognize approximately 70% of its backlog as revenue during the next twelve months, and the balance thereafter.

**Revenue Disaggregation—**The following tables present the Company's revenue disaggregated by major end market and contract type:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **Revenues by major end market** | **2022** | **2021** | **2022** | **2021** |
| **E-Infrastructure Solutions Revenues** | $ 255,530 | $ 121,286 | $ 658,005 | $ 341,601 |
| Heavy Highway | 155,847 | 188,746 | 408,216 | 427,451 |
| Aviation | 25,463 | 35,840 | 61,980 | 99,816 |
| Water Containment and Treatment | 23,373 | 11,463 | 60,377 | 41,890 |
| Other | 16,443 | 13,849 | 42,433 | 30,948 |
| **Transportation Solutions Revenues** | 221,126 | 249,898 | 573,006 | 600,105 |
| Residential | 51,304 | 65,295 | 166,045 | 156,078 |
| Commercial | 28,982 | 26,970 | 80,774 | 82,647 |
| **Building Solutions Revenues** | 80,286 | 92,265 | 246,819 | 238,725 |
| **Total Revenues** | $ 556,942 | $ 463,449 | $ 1,477,830 | $ 1,180,431 |
| | | | | |
| **Revenues by contract type** | | | | |
| Fixed-Unit Price | $ 217,296 | $ 267,092 | $ 554,014 | $ 670,526 |
| Lump-Sum | 287,472 | 129,742 | 752,614 | 348,313 |
| Residential and Other | 52,174 | 66,615 | 171,202 | 161,592 |
| **Total Revenues** | $ 556,942 | $ 463,449 | $ 1,477,830 | $ 1,180,431 |

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

### Variable Consideration

The Company has projects that it is in the process of negotiating, or awaiting final approval of, unapproved change orders and claims with its customers. The Company is proceeding with its contractual rights to recoup additional costs incurred from its customers based on completing work associated with change orders, including change orders with pending change order pricing, or claims related to significant changes in scope which resulted in substantial delays and additional costs in completing the work. Unapproved change order and claim information has been provided to the Company's customers and negotiations with the customers are ongoing. If additional progress with an acceptable resolution is not reached, legal action will be taken. Based upon the Company's review of the provisions of its contracts, specific costs incurred and other related evidence supporting the unapproved change orders and claims, together in some cases as necessary with the views of the Company's outside claim consultants, the Company concluded it was appropriate to include in project price amounts of $14,680 and $13,905, at September 30, 2022 and December 31, 2021, respectively, relating to unapproved change orders and claims. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

**Contract Estimates**

Accounting for long-term contracts and programs involves the use of various techniques to estimate total contract revenue and costs. For long-term contracts, the Company estimates the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognizes such profit over the life of the contract. Contract estimates are based on various assumptions to project the outcome of future events that often span several years. These assumptions include labor productivity and availability, the complexity of the work to be performed, the cost and availability of materials and the performance of subcontractors. Changes in job performance, job conditions and estimated profitability, including those changes arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Changes in contract estimates and variations in project scope of work resulted in net increases of approximately $13,400 and $39,400 for the three and nine months ended September 30, 2022, respectively, and in a net decrease of approximately $360 and a net increase of $11,700 for the three and nine months ended September 30, 2021, respectively, included in "Operating income" on the Condensed Consolidated Statements of Operations.

## 5. CONSOLIDATED 50% OWNED SUBSIDIARIES

The Company has 50% ownership interests in two subsidiaries ("Myers" and "RHB") that it fully consolidates as a result of its exercise of control over the entities. The earnings attributable to the 50% portions the Company does not own were approximately $4,100 and $5,200 for the three and nine months ended September 30, 2022, respectively, and were approximately $3,300 and $9,900 for the three and nine months ended September 30, 2021, respectively, and are eliminated within "Other operating expense, net" in the Condensed Consolidated Statements of Operations. Any undistributed earnings for partners are included in "Members' interest subject to mandatory redemption and undistributed earnings" within the Condensed Consolidated Balance Sheets and are mandatorily payable at the time of the noncontrolling owners' death or permanent disability.

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

The liability consists of the following:

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Members' interest subject to mandatory redemption | $ 40,000 | $ 40,000 |
| Net accumulated earnings | 15,862 | 15,115 |
| Total liability | $ 55,862 | $ 55,115 |

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

Summary financial information on an unconsolidated basis for Myers is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Revenues | $ 63,902 | $ 50,338 | $ 157,001 | $ 121,432 |
| Operating (loss) income | $ (128) | $ 808 | $ (6,184) | $ 2,273 |
| Net (loss) income | $ (126) | $ 2,757 | $ (1,261) | $ 4,192 |

## 6. CONSTRUCTION JOINT VENTURES

*Joint Ventures with a Controlling Interest*—We consolidate any venture that is determined to be a VIE for which we are the primary beneficiary, or which we otherwise effectively control. The equity held by the remaining owners and their portions of net income (loss) are reflected in stockholders' equity on the Condensed Consolidated Balance Sheets line item "Noncontrolling interests" and in the Condensed Consolidated Statements of Operations line item "Net income attributable to noncontrolling interests," respectively. The Company determined that a joint venture in which the Company's Ralph L.

Wadsworth Construction subsidiary is a 51% owner is a VIE and the Company is the primary beneficiary. Summary financial information for this construction joint venture is as follows:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | | 2021 | | 2022 | | 2021 | |
| Revenues | $ | 16,544 | $ | 19,846 | $ | 37,006 | $ | 37,412 |
| Operating income | $ | 1,285 | $ | 1,290 | $ | 2,673 | $ | 4,430 |
| Net income | $ | 1,294 | $ | 1,292 | $ | 2,688 | $ | 4,435 |

*Joint Ventures with a Noncontrolling Interest*—The Company accounts for unconsolidated joint ventures using 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 a permissible modification of the equity method of accounting which is a common practice in the construction industry. Combined financial amounts of joint ventures in which the Company has a noncontrolling interest and the Company's share of such amounts which are included in the Company's Condensed Consolidated Financial Statements are shown below:

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Current assets | $ | 111,871 | $ | 130,898 |
| Current liabilities | $ | (67,924) | $ | (91,121) |
| Sterling's receivables from and equity in construction joint ventures | $ | 16,316 | $ | 16,896 |

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | | 2021 | | 2022 | | 2021 | |
| Revenues | $ | 48,543 | $ | 69,116 | $ | 165,020 | $ | 181,022 |
| Income before tax | $ | 4,292 | $ | 9,311 | $ | 18,636 | $ | 22,726 |
| Sterling's noncontrolling interest: | | | | | | | | |
| Revenues | $ | 20,778 | $ | 30,326 | $ | 71,356 | $ | 79,264 |
| Income before tax | $ | 1,760 | $ | 4,149 | $ | 7,775 | $ | 9,959 |

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

*Other*—The use of joint ventures exposes us to a number of risks, including the risk that our partners may be unable or unwilling to provide their share of capital investment to fund the operations of the venture or complete their obligations to us, the venture, or ultimately, the customer. Differences in opinions or views among joint venture partners could also result in delayed decision-making or failure to agree on material issues, which could adversely affect the business and operations of the joint venture. In addition, agreement terms may subject us to joint and several liability for our venture partners, and the failure of our venture partners to perform their obligations could impose additional performance and financial obligations on us. The aforementioned factors could result in unanticipated costs to complete the projects, liquidated damages or contract disputes, including claims against our partners.

## 7. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Construction and transportation equipment | $ | 356,276 | $ | 316,381 |
| Buildings and improvements | | 25,581 | | 24,042 |
| Land | | 3,891 | | 3,891 |
| Office equipment | | 3,498 | | 3,270 |
| Total property and equipment | | 389,246 | | 347,584 |
| Less accumulated depreciation | | (166,599) | | (143,268) |
| Total property and equipment, net | $ | 222,647 | $ | 204,316 |

*Depreciation Expense*—Depreciation expense is primarily included within cost of revenues and was $9,629 and $27,959 for the three and nine months ended September 30, 2022, respectively, and $5,763 and $16,738 for the three and nine months ended September 30, 2021, respectively.

## 8. OTHER INTANGIBLE ASSETS

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

| | | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|---|
| | Weighted Average Life (Years) | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer relationships | 25 | $ 275,823 | $ (34,242) | $ 274,923 | $ (25,838) |
| Trade names | 24 | 57,607 | (6,560) | 57,607 | (4,726) |
| Non-compete agreements | 5 | 2,487 | (1,583) | 2,487 | (1,230) |
| Total | 24 | $ 335,917 | $ (42,385) | $ 335,017 | $ (31,794) |

The Company's intangible amortization expense was $3,509 and $10,591 for the three and nine months ended September 30, 2022, respectively, and $2,866 and $8,598 for the three and nine months ended September 30, 2021, respectively.

## 9. DEBT

The Company's outstanding debt was as follows:

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Term Loan Facility | $ 429,469 | $ 446,888 |
| Revolving Credit Facility | — | — |
| Credit Facility | 429,469 | 446,888 |
| Other debt | 11,069 | 15,309 |
| Total debt | 440,538 | 462,197 |
| Less - Current maturities of long-term debt | (29,705) | (28,230) |
| Less - Unamortized debt issuance costs | (3,743) | (5,379) |
| Total long-term debt | $ 407,090 | $ 428,588 |

*Credit Facility*—Our amended credit agreement (as amended, the "Credit Agreement") provides the Company with senior secured debt financing (collectively, the "Credit Facility") consisting of (i) a senior secured first lien term loan facility (the "Term Loan Facility") in the aggregate principal amount of $540,000 and (ii) a senior secured first lien revolving credit facility (the "Revolving Credit Facility") in an aggregate principal amount of $75,000 (with a $75,000 limit for the issuance of letters of credit and a $15,000 sublimit for swing line loans). The obligations under the Credit Facility are secured by substantially all assets of the Company and the subsidiary guarantors, subject to certain permitted liens and interests of other parties. The Credit Facility will mature on October 2, 2024.

The Term Loan Facility bears interest at either the base rate plus a margin, or at a one to twelve-month LIBOR rate plus a margin, at the Company's election. At September 30, 2022, the Company calculated interest using a one-month LIBOR rate and an applicable margin of 2.52% and 2.00% per annum, respectively. We continue to utilize an interest rate swap to hedge against $200,000 of the outstanding Term Loan Facility, which resulted in a weighted average interest rate of approximately 3.57% per annum during the nine months ended September 30, 2022. Scheduled principal payments on the Term Loan Facility are made quarterly and total approximately $23,200, $31,900, and $26,100 for each of the years ending 2022, 2023 and 2024, respectively. A final payment of all principal and interest then outstanding on the Term Loan Facility is due on October 2, 2024. The Company is required to make mandatory prepayments on the Credit Facility with proceeds received from issuances of debt, events of loss and certain dispositions, and is also required to prepay the Credit Facility with a certain percentage of its excess cash flow within 5 days after receipt of its annual audited financial statements. For the nine months ended September 30, 2022, the Company made scheduled term loan payments of $17,419.

The Revolving Credit Facility bears interest at the same rate options as the Term Loan Facility. In addition to interest on debt borrowings, we are assessed quarterly commitment fees on the unutilized portion of the facility as well as letter of credit fees on outstanding instruments. At September 30, 2022, we had no outstanding borrowings under the $75,000 Revolving Credit Facility.

*Debt Issuance Costs*—The costs associated with the Credit Facility are reflected on the Condensed Consolidated Balance Sheets as a direct reduction from the related debt liability and amortized over the term of the facility. Amortization of debt issuance costs was $534 and $1,636 for the three and nine months ended September 30, 2022, respectively, and $492 and $1,756 for the three and nine months ended September 30, 2021, respectively, and was recorded as interest expense.

*Other Debt*—At December 31, 2021, other debt primarily consisted of a $10,000 subordinated promissory note (the "Subordinated Promissory Note") to one of the Plateau sellers and a short-term Paycheck Protection Program loan (the "PPP Loan") received by one of the Company's 50% owned subsidiaries. The Subordinated Promissory Note bears interest at 8% and the final principal payment is due on April 2, 2025. During the first quarter of 2022, the Small Business Administration forgave the outstanding PPP Loan of approximately $4,800, of which the Company recorded a gain on debt extinguishment of $2,428 for its 50% portion of the gain.

*Compliance and Other*—The Credit Agreement contains various affirmative and negative covenants that may, subject to certain exceptions, restrict the ability of us and our subsidiaries to, among other things, grant liens, incur additional indebtedness, make loans, advances or other investments, make non-ordinary course asset sales, declare or pay dividends or make other distributions with respect to equity interests, purchase, redeem or otherwise acquire or retire capital stock or other equity interests, or merge or consolidate with any other person, among various other things. In addition, the Company is required to maintain certain financial covenants. As of September 30, 2022, we were in compliance with all of our restrictive and financial covenants. The Company's debt is recorded at its carrying amount in the Condensed Consolidated Balance Sheets. At September 30, 2022 and December 31, 2021, the fair value of our debt outstanding approximated the carrying value.

## 10. FINANCIAL INSTRUMENTS

*Interest Rate Derivative*—We continue to utilize a swap arrangement to hedge against interest rate variability associated with $200,000 of the $429,469 outstanding under the Term Loan Facility. The Company has designated its interest rate swap agreement as a cash flow hedging derivative. To the extent the derivative instrument is effective and the documentation requirements have been met, changes in fair value are recognized in other comprehensive income (loss) ("OCI") until the underlying hedged item is recognized in earnings. At September 30, 2022, the fair value of the swap recorded in accumulated other comprehensive income (loss) ("AOCI") was a net gain of $746.

### Derivatives Disclosures

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

- Level 1—Fair value is based on quoted prices in active markets.
- Level 2—Fair value is based on internally developed models that use, as their basis, readily observable market parameters. Our derivative positions are classified within level 2 of the valuation hierarchy as they are valued using quoted market prices for similar assets and liabilities in active markets. These level 2 derivatives are valued utilizing an income approach, which discounts future cash flow based on current market expectations and adjusts for credit risk.
- Level 3—Fair value is based on internally developed models that use, as their basis, significant unobservable market parameters. The Company did not have any level 3 classifications at September 30, 2022 or December 31, 2021.

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

| | September 30, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Derivative Assets** | | | | | | | | |
| Other current assets | $ — | $ 864 | $ — | $ 864 | $ — | $ — | $ — | $ — |
| Other non-current assets | — | — | — | — | — | — | — | — |
| Total assets at fair value | $ — | $ 864 | $ — | $ 864 | $ — | $ — | $ — | $ — |
| **Derivative Liabilities** | | | | | | | | |
| Other current liabilities | $ — | $ — | $ — | $ — | $ — | $ (2,438) | $ — | $ (2,438) |
| Other non-current liabilities | — | — | — | — | — | — | — | — |
| Total liabilities at fair value | $ — | $ — | $ — | $ — | $ — | $ (2,438) | $ — | $ (2,438) |

*OCI*—The following table presents the total value recognized in OCI and reclassified from AOCI into earnings during the three and nine months ended September 30, 2022 and 2021 for derivatives designated as cash flow hedges:

| | Three Months Ended September 30, 2022 | | | Nine Months Ended September 30, 2022 | | |
|---|---|---|---|---|---|---|
| | Before Tax | Tax | Net of Tax | Before Tax | Tax | Net of Tax |
| Net gain (loss) recognized in OCI | $ 165 | $ (38) | $ 127 | $ 2,122 | $ (484) | $ 1,638 |
| Net amount reclassified from AOCI into earnings[(1)] | (296) | 68 | (228) | 860 | (197) | 663 |
| Change in other comprehensive income | $ (131) | $ 30 | $ (101) | $ 2,982 | $ (681) | $ 2,301 |

| | Three Months Ended September 30, 2021 | | | Nine Months Ended September 30, 2021 | | |
|---|---|---|---|---|---|---|
| | Before Tax | Tax | Net of Tax | Before Tax | Tax | Net of Tax |
| Net gain (loss) recognized in OCI | $ (111) | $ 25 | $ (86) | $ (67) | $ 15 | $ (52) |
| Net amount reclassified from AOCI into earnings[(1)] | 1,041 | (237) | 804 | 3,099 | (706) | 2,393 |
| Change in other comprehensive income | $ 930 | $ (212) | $ 718 | $ 3,032 | $ (691) | $ 2,341 |

[(1)] Net unrealized gains totaling $746 are anticipated to be reclassified from AOCI into earnings during the next 12 months due to settlement of the associated underlying obligations.

## 11. LEASE OBLIGATIONS

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

The components of lease expense are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Operating lease cost | $ 5,955 | $ 1,672 | $ 14,100 | $ 4,694 |
| Short-term lease cost | $ 4,457 | $ 3,813 | $ 10,805 | $ 8,848 |
| Finance lease cost: | | | | |
| Amortization of right-of-use assets | $ 35 | $ 46 | $ 112 | $ 151 |
| Interest on lease liabilities | 3 | 5 | 10 | 16 |
| Total finance lease cost | $ 38 | $ 51 | $ 122 | $ 167 |

Supplemental cash flow information related to leases is as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | 2022 | 2021 |
| Operating cash flows from operating leases | $ 14,059 | $ 4,627 |
| Operating cash flows from finance leases | $ 10 | $ 16 |
| Financing cash flows from finance leases | $ 112 | $ 151 |
| Right-of-use assets obtained in exchange for lease obligations (non-cash): | | |
| Operating leases | $ 56,083 | $ 6,221 |
| Finance leases | $ — | $ — |

Supplemental balance sheet information related to leases is as follows:

| Operating Leases | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Operating lease right-of-use assets | $ 60,384 | $ 24,520 |
| Current portion of long-term lease obligations | $ 17,418 | $ 8,841 |
| Long-term lease obligations | 43,121 | 15,831 |
| Total operating lease liabilities | $ 60,539 | $ 24,672 |
| **Finance Leases** | | |
| Property and equipment, at cost | $ 1,479 | $ 1,479 |
| Accumulated depreciation | (1,022) | (907) |
| Property and equipment, net | $ 457 | $ 572 |
| Current maturities of long-term debt | $ 146 | $ 148 |
| Long-term debt | 114 | 224 |
| Total finance lease liabilities | $ 260 | $ 372 |
| **Weighted Average Remaining Lease Term** | | |
| Operating leases | 4.6 | 5.4 |
| Finance leases | 1.8 | 2.5 |
| **Weighted Average Discount Rate** | | |
| Operating leases | 5.4 % | 5.0 % |
| Finance leases | 4.3 % | 4.3 % |

Maturities of lease liabilities are as follows:

| Year Ending December 31, | Operating Leases | Finance Leases |
|---|---|---|
| 2022 (excluding the nine months ended September 30, 2022) | $ 4,409 | $ 39 |
| 2023 | 18,327 | 154 |
| 2024 | 16,174 | 77 |
| 2025 | 12,979 | — |
| 2026 | 7,838 | — |
| 2027 | 6,190 | — |
| Thereafter | 2,599 | — |
| Total lease payments | $ 68,516 | $ 270 |
| Less imputed interest | (7,977) | (10) |
| Total | $ 60,539 | $ 260 |

## 12. COMMITMENTS AND CONTINGENCIES

The Company is required by its insurance providers to obtain and hold standby letters of credit. These letters of credit serve as a guarantee by the banking institution to pay the Company's insurance providers the incurred claim costs attributable to its general liability, workers' compensation and automobile liability claims, up to the amount stated in the standby letters of credit, in the event that these claims were not paid by the Company. These letters of credit are cash collateralized, resulting in the cash being designated as restricted.

The Company, including its construction joint ventures and its consolidated 50% owned subsidiaries, is now and may in the future be involved as a party to various legal proceedings that are incidental to the ordinary course of business. Management, after consultation with legal counsel, does not believe that the outcome of these actions will have a material impact on the Condensed Consolidated Financial Statements of the Company.

## 13. INCOME TAXES

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Current tax expense | $ 2,092 | $ 1,216 | $ 4,452 | $ 2,862 |
| Deferred tax expense | 10,470 | 6,120 | 24,975 | 17,413 |
| Income tax expense | $ 12,562 | $ 7,336 | $ 29,427 | $ 20,275 |
| | | | | |
| Cash paid for income taxes | $ 1,345 | $ 485 | $ 4,143 | $ 2,167 |

The effective income tax rate for the three and nine months ended September 30, 2022 was 29.4% and 27.9%, respectively. The rates varied from the statutory rate primarily as a result of state income taxes, nondeductible compensation and other permanent differences. The rate for nine months ended September 30, 2022 was additionally benefited by non-taxed PPP loan forgiveness in the first quarter of 2022.

Due to net operating loss carryforwards, the Company expects no cash payments for federal income taxes for 2022. The Company makes cash payments for state income taxes in states in which the Company does not have net operating loss carry forwards.

At December 31, 2021 the Company had federal and state net operating loss ("NOL") carryforwards of $33,780 and $32,064, respectively, which expire at various dates in the next 17 years for U.S. federal income tax and in the next 6 to 16 years for the various state jurisdictions where we operate. Such NOL carryforwards expire beginning in 2028 through 2039. The Company expects to utilize the balance of its federal NOL carryforwards in 2022.

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

## 14. STOCK INCENTIVE PLAN

*General*—The Company has a stock incentive plan (the "Stock Incentive Plan") and an employee stock purchase plan (the "ESPP") that are administered by the Compensation and Talent Development Committee of the Board of Directors. Under the Stock Incentive Plan, the Company can issue shares to employees and directors in the form of restricted stock awards ("RSAs"), restricted stock units ("RSUs") and performance share units ("PSUs"). Changes in common stock, additional paid in capital and treasury stock during the nine months ended September 30, 2022 primarily relate to activity associated with the Stock Incentive Plan, the ESPP and shares withheld for taxes.

*Share Grants*—During the nine months ended September 30, 2022, the Company granted the following awards under the Stock Incentive Plan:

| | Shares | Weighted Average Grant-Date Fair Value per Share |
|---|---|---|
| RSAs | 26 | $ 23.43 |
| RSUs | 138 | $ 26.01 |
| PSUs (at target) | 166 | $ 26.52 |
| Total shares granted | 330 | |

*Share Issuances*—During the nine months ended September 30, 2022, the Company issued the following shares under the Stock Incentive Plan and the ESPP:

| | Shares |
|---|---|
| RSAs (issued upon grant) | 26 |
| RSUs (issued upon vesting) | 20 |
| PSUs (issued upon vesting) | 675 |
| ESPP (issued upon sale) | 27 |
| Total shares issued | 748 |

*Stock-Based Compensation*—During the three and nine months ended September 30, 2022, the Company recognized $2,436 and $7,065, respectively, of stock-based compensation expense, and during the three and nine months ended September 30, 2021, the Company recognized $1,840 and $5,690 of stock-based compensation expense, respectively, primarily within general and administrative expenses. Included within total stock-based compensation expense for the three and nine months ended September 30, 2022 is $27 and $94, respectively, of expense related to the ESPP, and during the three and nine months ended September 30, 2021, the Company recognized $19 and $66, respectively, of expense related to the ESPP. Additionally, the Company has liability-based awards for which the number of units awarded is not determined until the vesting date. During the three and nine months ended September 30, 2022, the Company recognized $0 and $1,225, respectively, within additional paid in capital for the vesting of liability-based awards. The Company did not have any liability-based awards vest during 2021. The Company recognizes forfeitures as they occur, rather than estimating expected forfeitures.

*Shares Withheld for Taxes*—The Company withheld 5 and 268 shares for taxes on RSU/PSU stock-based compensation vestings for $135 and $7,521 during the three and nine months ended September 30, 2022, respectively.

*AOCI*—During the three and nine months ended September 30, 2022, changes in AOCI were a result of net gains (losses) recognized in OCI and amounts reclassified from AOCI into earnings related to our interest rate derivative. See *Note 10 - Financial Instruments* for further discussion.

## 15. EARNINGS PER SHARE

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computations for the three and nine months ended September 30, 2022 and 2021:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Numerator: | 2022 | 2021 | 2022 | 2021 |
| Net income attributable to Sterling common stockholders | $ 29,523 | $ 21,126 | $ 74,736 | $ 51,737 |
| Denominator: | | | | |
| Weighted average common shares outstanding — basic | 30,278 | 28,710 | 30,156 | 28,527 |
| Shares for dilutive unvested stock and warrants | 262 | 503 | 208 | 400 |
| Weighted average common shares outstanding — diluted | 30,540 | 29,213 | 30,364 | 28,927 |
| Basic net income per share attributable to Sterling common stockholders | $ 0.98 | $ 0.74 | $ 2.48 | $ 1.81 |
| Diluted net income per share attributable to Sterling common stockholders | $ 0.97 | $ 0.72 | $ 2.46 | $ 1.79 |

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

*Operating Assets and Liabilities*—The following table summarizes the changes in the components of operating assets and liabilities:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2022 | 2021 |
| Accounts receivable | $ (97,447) | $ (41,259) |
| Contracts in progress, net | 26,451 | 26,694 |
| Receivables from and equity in construction joint ventures | 580 | (5,003) |
| Other current and non-current assets | (1,488) | (6,630) |
| Accounts payable | 47,411 | 47,423 |
| Accrued compensation and other liabilities | 11,087 | 12,916 |
| Members' interest subject to mandatory redemption and undistributed earnings | (1,681) | 1,013 |
| Changes in operating assets and liabilities | $ (15,087) | $ 35,154 |

## 17. SEGMENT INFORMATION

The Company's internal and public segment reporting are aligned based upon the services offered by its operating segments. With the December 30, 2021 acquisition of Petillo, the Company realigned its operating groups to reflect management's present oversight of operations. After realignment, the Company's operations consist of three reportable segments: E-Infrastructure Solutions, Transportation Solutions, and Building Solutions, with the commercial business reclassified from the previously reported Specialty Services operating group into the newly formed Building Solutions operating group. The segment information for the prior period has been recast to conform to the current presentation.

The Company's Chief Operating Decision Maker evaluates the performance of the operating segment based upon revenue and income from operations. We incur expenses at the corporate level that relate to our business as a whole. Certain of these amounts have been charged to our business segments by various methods, largely on the basis of usage, with the unallocated remainder reported in the "Corporate" line. Corporate overhead is primarily comprised of corporate headquarters facility expense, the cost of the executive management team, and expenses pertaining to certain centralized functions that benefit the entire Company but are not directly attributable to the businesses, such as corporate human resources, legal, governance and finance functions.

The following table presents total revenue and income from operations by reportable segment for the three and nine months ended September 30, 2022 and 2021:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **Revenues** | **2022** | **2021** | **2022** | **2021** |
| E-Infrastructure Solutions | $ 255,530 | $ 121,286 | $ 658,005 | $ 341,601 |
| Transportation Solutions | 221,126 | 249,898 | 573,006 | 600,105 |
| Building Solutions | 80,286 | 92,265 | 246,819 | 238,725 |
| Total Revenues | $ 556,942 | $ 463,449 | $ 1,477,830 | $ 1,180,431 |
| **Operating Income** | | | | |
| E-Infrastructure Solutions | $ 37,533 | $ 19,218 | $ 91,642 | $ 61,744 |
| Transportation Solutions | 9,635 | 9,334 | 18,428 | 16,796 |
| Building Solutions | 9,324 | 9,238 | 28,433 | 23,389 |
| Segment Operating Income | 56,492 | 37,790 | 138,503 | 101,929 |
| Corporate | (8,529) | (5,759) | (20,696) | (14,423) |
| Acquisition Related Costs | (277) | — | (762) | — |
| Total Operating Income | $ 47,686 | $ 32,031 | $ 117,045 | $ 87,506 |

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

### *Cautionary Statement Regarding Forward-Looking Statements*

This quarterly report on Form 10-Q ("Report") contains statements that are, or may be considered to be, "forward-looking statements" regarding the Company which represent our expectations and beliefs concerning future events. These forward-looking statements are intended to be covered by the safe harbor for certain forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements included herein relate to matters that are not based on historical facts and reflect our current expectations as of the date of this Report, regarding items such as: our industry and business outlook, including relating to federal, state and municipal funding for infrastructure projects, the residential home building market and demand from our customers; business strategy, including the integration of recent acquisitions and the potential for additional future acquisitions; expectations and estimates relating to our backlog; expectations concerning our market position; future operations; margins; profitability; capital expenditures; liquidity and capital resources; and other financial and operating information. Forward-looking statements may use or contain words such as "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "forecast," "future," "intend," "likely," "may," "plan," "potential," "predict," "project," "seek," "should," "strategy," "will," "would" and similar terms and phrases.

Actual events, results and outcomes may differ materially from those anticipated, projected or assumed in the forward-looking statements due to a variety of factors. Although it is not possible to identify all of these factors, they include, among others, the following:

- factors that affect the accuracy of estimates inherent in the bidding for contracts, estimates of backlog, and over time revenue recognition accounting policies, including onsite conditions that differ materially from those assumed in the original bid, contract modifications, mechanical problems with machinery or equipment and effects of other risks referenced below;
- cost escalations associated with our contracts, including changes in availability, proximity and cost of materials such as steel, cement, concrete, aggregates, oil, fuel and other construction materials, including changes in U.S. trade policies and retaliatory responses from other countries, and cost escalations associated with subcontractors and labor;
- changes in costs to lease, acquire or maintain our equipment;
- changes in general economic conditions, including a potential economic downturn or recession, reductions in federal, state and local government funding for infrastructure services, changes in those governments' budgets, practices, laws and regulations and adverse economic conditions in our geographic markets, such as those caused by the ongoing COVID-19 pandemic;
- 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;
- design/build contracts which subject us to the risk of design errors and omissions;
- our ability to obtain bonding or post letters of credit;
- adverse weather conditions;
- potential disruptions, failures or security breaches of the information technology systems on which we rely to conduct our business;
- potential risks and uncertainties relating to the ongoing COVID-19 pandemic and any future major public health crisis;
- 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;
- our dependence on a limited number of significant customers;
- our ability to attract and retain key personnel;
- increased unionization of our workforce or labor costs and any work stoppages or slowdowns;
- 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;
- citations issued by any governmental authority, including the Occupational Safety and Health Administration;
- our ability to qualify as an eligible bidder under government contract criteria;
- 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;
- any prolonged shutdown of the government;
- our ability to successfully identify, finance, complete and integrate recent and potential acquisitions, including the Petillo Acquisition;
- our ability to raise additional capital in the future on favorable terms or at all;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives;
- our ability to meet the terms and conditions of our debt obligations and covenants; and
- the other risks discussed in more detail in the Company's annual report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K") under "Part I, Item 1A. Risk Factors," or our other filings with the Securities and Exchange Commission.

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. 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. Additional factors or risks that we currently deem immaterial, that are not presently known to us or that arise in the future could also cause our actual results to differ materially from our expected results. Given these uncertainties, investors are cautioned that many of the assumptions upon which our forward-looking statements are based are likely to change after the date the forward-looking statements are made. Further, we may make changes to our business plans that could affect our results. Although we believe that our plans, intentions and expectations reflected in, or suggested by, the forward-looking statements that we make in this Report are reasonable, we can provide no assurance that they will be achieved.

*The forward-looking statements speak only as of the date made, and we undertake no obligation to publicly update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise, and notwithstanding any changes in our assumptions, changes in business plans, actual experience or other changes.*

## OVERVIEW

*General*—On June 1, 2022, we officially changed our legal name from “Sterling Construction Company, Inc.” to “Sterling Infrastructure, Inc.” (“Sterling” or “the Company”). Sterling operates through a variety of subsidiaries within three segments specializing in E-Infrastructure, Transportation and Building Solutions in the United States (the “U.S.”), primarily across the Southern, Northeastern, Mid-Atlantic and the Rocky Mountain States, California and Hawaii, as well as other areas with strategic construction opportunities. E-Infrastructure Solutions projects develop advanced, large-scale site development systems and services for data centers, e-commerce distribution centers, warehousing, transportation, energy and more. Transportation Solutions includes infrastructure and rehabilitation projects for highways, roads, bridges, airports, ports, light rail, water, wastewater and storm drainage systems. Building Solutions projects include residential and commercial concrete foundations for single-family and multi-family homes, parking structures, elevated slabs and other concrete work. From strategy to operations, we are committed to sustainability by operating responsibly to safeguard and improve society’s quality of life. Caring for our people and our communities, our customers and our investors – that is The Sterling Way.

*Petillo Acquisition*—On December 30, 2021, we completed our acquisition of Petillo for aggregate consideration of $196.8 million. Petillo is a leading specialty site development contractor based in Flanders, New Jersey and serves the Northeastern and Mid-Atlantic States, providing large-scale site infrastructure improvement services, including full-service excavation, underground utility construction, environmental remediation, drainage systems for commercial construction and water management and distribution systems. The results of Petillo are included within our E-Infrastructure Solutions segment. See *Note 3 - Acquisitions* for further discussion.

*Impact of COVID-19*—The Company continues to monitor closely the actual and expected impacts of the COVID-19 pandemic on our business, financial condition and results of operations. To date, we have not experienced significant shutdowns of project sites or operational interruptions. For further discussion see the Company’s 2021 Form 10-K under “Part I, Item 1A. Risk Factors.”

## MARKET OUTLOOK AND TRENDS

The market outlook and trends currently reflect favorable opportunities for long-term growth despite the challenging market pressures that include persistent inflation, supply chain issues and labor challenges. To remain competitive in the current market environments, Sterling remains focused on our strategic business elements and objectives as outlined. We continue to shift our focus from low-bid heavy highway work, which now represents approximately 15% of our total revenue, to increasing our revenue from our E-Infrastructure and Building Solutions segments and improving our margins in each of our segments.

*E-Infrastructure Solutions*—Sterling’s E-Infrastructure Solutions business is primarily driven by investments in the development of data centers, e-commerce distribution centers and warehouses. The continued revenue growth of the Company’s complex site development business is directly related to the continued implementation of publicly announced multi-year capital infrastructure campaigns from end users, including Amazon, Facebook and Home Depot. In our growing East Coast market, project activity includes data centers, advanced manufacturing and new warehouse and industrial development. Within this market, the warehouse vacancy rate remains low, despite over 37.6 million square feet of new leases in 2022 to date. Additionally, the market has experienced over 17.6 million square feet of absorption in 2022 to date, which is 7.1% above the 5-year average. Equipment and land availability, material delays and fuel price increases continue to be challenging factors for the segment, with some end users signaling pull back.

*Transportation Solutions*—Sterling’s Transportation Solutions business is primarily driven by federal, state and municipal funding. Federal funds, on average, provide 50% of annual State Department of Transportation capital outlays for highway and bridge projects. In October 2018, the Federal Aviation Administration reauthorized $3.35 billion annually through 2023. This reauthorization also includes more than $1 billion a year for airport infrastructure grants and about $1.7 billion for disaster relief. In November 2020, various state and local transportation measures were passed securing, and in some cases increasing, funding of major initiatives in Texas ($7.5 billion) and California ($520 million). On November 5, 2021 Congress passed the Infrastructure Investments and Jobs Act (“IIJA”) that provided a new five-year reauthorization of highway and public transportation programs with historic investment increases of $284 billion for all modes of transportation. With the passing of the IIJA, additional funding is reserved for transportation infrastructure with $110 billion reserved for roads and bridges, $66 billion for rail and $25 billion for airports. As a result of this bill, Sterling has seen an increase in bid activity and project awards starting in the third quarter of 2022, and we expect this trend to continue for the foreseeable future.

*Building Solutions*—Our Building Solutions segment is comprised of our residential and commercial businesses. The revenue growth of our residential business is directly related to the growth of new home starts in its key market of Dallas-Fort Worth, the continued expansion in the Houston market, and the mid-2021 entry into the Phoenix market. The core customer base of our residential business is primarily made up of leading national home builders as well as regional and custom home builders. Over the last several quarters, the residential market has experienced significant price volatility and availability for key materials including concrete, steel and lumber, as well as increases in subcontractor labor cost. While the Company has worked with customers to pass on the increases in material and labor cost, the Company may not be successful in recouping these additional costs in the future. In 2022, interest rates increased and inflation continued to escalate, which made new home ownership less affordable. In turn, we saw a decrease in housing starts in the markets we serve. If interest rates remain high or increase further, the demand for single family homes could continue to decline. For our commercial business, the demand in the multi-family market has started to increase as single family homes have become less affordable.

**BACKLOG**

Our backlog ("Backlog") of construction projects is the remaining amount of contracts that we expect to recognize as revenue in future periods. The contracts in Backlog are typically completed in 6 to 36 months. Our unsigned low-bid awards ("Unsigned Low-bid Awards") are excluded from Backlog until the contract is executed by our customer. We refer to the combination of our Backlog and Unsigned Low-bid Awards as "Combined Backlog." Our book-to-burn ratio, a non-GAAP measure, is determined by taking our additions to Backlog and dividing it by revenue for the applicable period. This metric allows management to monitor the Company's business development efforts to ensure we grow our Backlog and our business over time, and management believes that this measure is useful to investors for the same reason.

At September 30, 2022, our Backlog was $1.67 billion, as compared to $1.49 billion at December 31, 2021, with a book-to-burn ratio of 1.1X for the nine months ended September 30, 2022.

Unsigned Low-bid Awards were $235.3 million at September 30, 2022 and $22.5 million at December 31, 2021. Combined Backlog totaled $1.90 billion and $1.52 billion at September 30, 2022 and December 31, 2021, with a book-to-burn ratio of 1.3X for the nine months ended September 30, 2022.

The Company's margin in Backlog has increased to 13.1% at September 30, 2022 from 12.2% at December 31, 2021 and the Combined Backlog margin increased to 12.9% at September 30, 2022 from 12.2% at December 31, 2021, driven by a greater mix of E-Infrastructure Solutions backlog and an improved backlog margin mix within Transportation Solutions.

**RESULTS OF OPERATIONS**

**Consolidated Results**

Consolidated financial highlights for the three and nine months ended September 30, 2022 as compared to the three and nine months ended September 30, 2021 are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(In thousands)* | 2022 | 2021 | 2022 | 2021 |
| Revenues | $ 556,942 | $ 463,449 | $ 1,477,830 | $ 1,180,431 |
| Gross profit | 82,023 | 57,804 | 206,546 | 159,083 |
| General and administrative expenses | (26,466) | (19,637) | (72,962) | (52,565) |
| Intangible asset amortization | (3,509) | (2,866) | (10,591) | (8,598) |
| Acquisition related costs | (277) | — | (762) | — |
| Other operating expense, net | (4,085) | (3,270) | (5,186) | (10,414) |
| Operating income | 47,686 | 32,031 | 117,045 | 87,506 |
| Interest, net | (4,967) | (3,906) | (13,994) | (15,621) |
| Gain on extinguishment of debt, net | — | 968 | 2,428 | 2,032 |
| Income before income taxes and noncontrolling interests | 42,719 | 29,093 | 105,479 | 73,917 |
| Income tax expense | (12,562) | (7,336) | (29,427) | (20,275) |
| Less: Net income attributable to noncontrolling interests | (634) | (631) | (1,316) | (1,905) |
| Net income attributable to Sterling common stockholders | $ 29,523 | $ 21,126 | $ 74,736 | $ 51,737 |
| Gross margin | 14.7 % | 12.5 % | 14.0 % | 13.5 % |

*Revenues*—Revenues were $556.9 million for the third quarter of 2022, an increase of $93.5 million or 20.2% compared with the third quarter of 2021. The increase in the third quarter of 2022 was driven by a $134.2 million increase in E-Infrastructure Solutions (including $83.6 million related to the acquired Petillo operations), partly offset by a $28.8 million decrease in Transportation Solutions and a $12.0 million decrease in Building Solutions. Revenues were $1,477.8 million for the nine months ended September 30, 2022, an increase of $297.4 million or 25.2% compared with the nine months ended September 30, 2021. The increase in the nine months ended September 30, 2022 was driven by a $316.4 million increase in E-

Infrastructure Solutions (including $207.0 million related to the acquired Petillo operations) and an $8.1 million increase in Building Solutions, partly offset by a $27.1 million decrease in Transportation Solutions.

*Gross profit*—Gross profit was $82.0 million for the third quarter of 2022, an increase of $24.2 million or 41.9% compared to the third quarter of 2021. The increase in gross profit for the third quarter of 2022 was primarily driven by the inclusion of Petillo operations and higher volume within E-Infrastructure Solutions, and cost recovery efforts within Building Solutions, partly offset by continued headwinds from inflation, labor and material supply issues primarily within E-Infrastructure Solutions and Building Solutions. Gross profit was $206.5 million for the nine months ended September 30, 2022, an increase of $47.5 million or 29.8% compared to the nine months ended September 30, 2021. The increases in gross profit for the nine months ended September 30, 2022 were primarily driven by the factors mentioned above.

*Gross margin*—The Company's gross margin as a percent of revenue increased to 14.7% in the third quarter of 2022, as compared to 12.5% in the third quarter of 2021. The Company's gross margin as a percent of revenue increased to 14.0% in the nine months ended September 30, 2022, as compared to 13.5% in the nine months ended September 30, 2021. The increases in gross margin as a percent of revenue were primarily due to an increased proportion of revenue from the higher margin E-Infrastructure Solutions segment, improved margin mix from Transportation Solutions, and cost recovery efforts from Building Solutions.

Contracts in progress which were not substantially completed totaled approximately 290 and 200 at September 30, 2022 and 2021, respectively, with the increase primarily related to the acquired Petillo operations. These contracts are of various sizes, of different expected profitability and in various stages of completion. The nearer a contract progresses toward completion, the more visibility the Company has in refining its 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 were $26.5 million, or 4.8% of revenue, for the third quarter of 2022, compared to $19.6 million, or 4.2% of revenue, for the third quarter of 2021. General and administrative expenses were $73.0 million, or 4.9% of revenue, for the nine months ended September 30, 2022, compared to $52.6 million, or 4.5% of revenue, for the nine months ended September 30, 2021. The increases were primarily driven by the inclusion of $2.8 million and $8.4 million of general and administrative expense generated from Petillo operations for the three and nine months ended September 30, 2022, respectively, as well as higher professional fees, continued supply-chain issues and increasing inflation. The Company anticipates that general and administrative expense will be approximately 5% of revenue for the full year 2022.

*Other operating expense, net*—Other operating expense, net, includes 50% of earnings and losses related to members' interest of consolidated 50% owned subsidiaries, earn-out expense and other miscellaneous operating income or expense. Members' interest earnings are treated as an expense and increase the liability account. The change in other operating expense, net, was an increase of $0.8 million during the third quarter of 2022 compared to the prior year, due entirely to a decrease in members' interest, as there was no earn-out expense during the second and third quarters of 2022 and 2021. The change in other operating expense, net, was a decrease of $5.2 million for the nine months ended September 30, 2022 compared to the prior year. Members' interest earnings decreased by $4.7 million for the nine months ended September 30, 2022 to $5.2 million from $9.9 million in the prior year. Earn-out expense decreased by $0.5 million for the nine months ended September 30, 2022 to zero from $0.5 million in the prior year as the result of the end of the earn-out period at the end of the first quarter of 2021.

*Interest expense*—Interest expense was $5.1 million for the third quarter of 2022 compared to $3.9 million for the third quarter of 2021. The increase is due to additional borrowings related to the Petillo Acquisition and increasing interest rates in 2022. Interest expense was $14.2 million for the nine months ended September 30, 2022, compared to $15.7 million for the nine months ended September 30, 2021. The decrease is due to a 2% lower applicable interest rate provided under the amended Credit Agreement, which was amended in the second quarter of 2021, partly offset by the additional borrowings related to the Petillo Acquisition and increasing interest rates in 2022.

*Income taxes*—The effective income tax rate was 29.4% for the third quarter of 2022 and 27.9% for the nine months ended September 30, 2022. The rates varied from the statutory rate primarily as a result of state income taxes, non-taxed PPP loan forgiveness, non-deductible compensation and other permanent differences. The Company anticipates an effective income tax rate for the full year 2022 of approximately 28%. Due to its net operating loss carryforwards, the Company expects no cash payments for federal income taxes for 2022 or 2021. See *Note 13 - Income Taxes* for more information.

**Segment Results**

In connection with the 2021 acquisition of Petillo, the Company realigned its operating groups to reflect management's oversight of operations. After realignment, the Company's operations consist of three reportable segments: E-Infrastructure Solutions, Transportation Solutions and Building Solutions, with the commercial business reclassified from the previously reported Specialty Services operating group into the newly formed Building Solutions operating group. The segment information for the prior period has been recast to conform to the current presentation.

| *(In thousands)* | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | **2022** | **% of Revenue** | **2021** | **% of Revenue** | **2022** | **% of Revenue** | **2021** | **% of Revenue** |
| E-Infrastructure Solutions | $ 255,530 | 46% | $ 121,286 | 26% | $ 658,005 | 45% | $ 341,601 | 29% |
| Transportation Solutions | 221,126 | 40% | 249,898 | 54% | 573,006 | 38% | 600,105 | 51% |
| Building Solutions | 80,286 | 14% | 92,265 | 20% | 246,819 | 17% | 238,725 | 20% |
| Total Revenues | $ 556,942 | | $ 463,449 | | $1,477,830 | | $1,180,431 | |
| **Operating Income** | | | | | | | | |
| E-Infrastructure Solutions | $ 37,533 | 14.7% | $ 19,218 | 15.8% | $ 91,642 | 13.9% | $ 61,744 | 18.1% |
| Transportation Solutions | 9,635 | 4.4% | 9,334 | 3.7% | 18,428 | 3.2% | 16,796 | 2.8% |
| Building Solutions | 9,324 | 11.6% | 9,238 | 10.0% | 28,433 | 11.5% | 23,389 | 9.8% |
| Segment Operating Income | 56,492 | 10.1% | 37,790 | 8.2% | 138,503 | 9.4% | 101,929 | 8.6% |
| Corporate | (8,529) | | (5,759) | | (20,696) | | (14,423) | |
| Acquisition Related Costs | (277) | | — | | (762) | | — | |
| Total Operating Income | $ 47,686 | 8.6% | $ 32,031 | 6.9% | $ 117,045 | 7.9% | $ 87,506 | 7.4% |

*E-Infrastructure Solutions*

*Revenues*—Revenues were $255.5 million for the third quarter of 2022, an increase of $134.2 million or 110.7% compared to the third quarter of 2021, and revenues were $658.0 million for the nine months ended September 30, 2022, an increase of $316.4 million or 92.6% compared to the nine months ended September 30, 2021. The increases were primarily driven by the inclusion of $83.6 million and $207.0 million of revenue generated from Petillo operations for the three and nine months ended September 30, 2022, respectively, as well as higher volume.

*Operating income*—Operating income was $37.5 million (or 14.7% of revenue) for the third quarter of 2022, an increase of $18.3 million, compared to $19.2 million (or 15.8% of revenue) for the third quarter of 2021. The increase in operating income was primarily driven by the inclusion of Petillo operations and higher volume in the third quarter of 2022, partly offset by continued headwinds from inflation and supply chain issues, and the related impact on productivity and efficiency. The decrease in operating margin was primarily due to the inclusion of certain lower margin activities within Petillo's operations and the aforementioned headwinds.

Operating income was $91.6 million (or 13.9% of revenue) for the nine months ended September 30, 2022, an increase of $29.9 million, compared to $61.7 million (or 18.1% of revenue) for the nine months ended September 30, 2021. The increase in operating income was driven by the inclusion of Petillo operations and higher volume in the nine months ended September 30, 2022, partly offset by the aforementioned headwinds, but also seasonality of weather in the Northeastern and Mid-Atlantic U.S. region in the first quarter of 2022. The decrease in operating margin was primarily due to the factors mentioned above.

*Transportation Solutions*

*Revenues*—Revenues were $221.1 million for the third quarter of 2022, a decrease of $28.8 million or 11.5% compared to the third quarter of 2021. The decrease was primarily driven by lower heavy highway and aviation revenue due to the timing of backlog execution, partly offset by an increase in water containment and treatment and other revenue. As part of our strategy to continually reduce low-bid heavy highway work, during the third quarter of 2022, our low-bid heavy highway revenue decreased by $9.9 million compared to the third quarter of 2021.

Revenues were $573.0 million for the nine months ended September 30, 2022, a decrease of $27.1 million or 4.5% compared to the nine months ended September 30, 2021. The decrease was primarily driven by lower aviation and heavy highway revenue due to the timing of backlog execution, partly offset by an increase in water containment and treatment and other revenue. During the nine months ended September 30, 2022, our low-bid heavy highway revenue decreased by $18.8 million compared to the nine months ended September 30, 2021, consistent with our strategy.

*Operating Income*—Operating income was $9.6 million (or 4.4% of revenue) for the third quarter of 2022, an increase of $0.3 million, compared to $9.3 million (or 3.7% of revenue) for the third quarter of 2021, and operating income was $18.4 million (or 3.2% of revenue) for the nine months ended September 30, 2022, an increase of $1.6 million, compared to $16.8 million (or 2.8% of revenue) for the nine months ended September 30, 2021. The increases were the result of improved margin mix with the ramp up of construction on large design-build projects and the continued execution of our strategic plan to reduce revenue from lower margin low-bid heavy highway work, partly offset by lower volume.

Building Solutions

*Revenues*—Revenues were $80.3 million for the third quarter of 2022, a decrease of $12.0 million or 13.0%, compared to the third quarter of 2021. The decrease was primarily driven by a decline in housing demand as home ownership became less affordable due to increasing interest rates and inflation.

Revenues were $246.8 million for the nine months ended September 30, 2022, an increase of $8.1 million or 3.4%, compared to the nine months ended September 30, 2021. The revenue increase was due to a higher volume of slabs poured in the first and second quarters of 2022, compared to 2021, partly offset by the aforementioned third quarter impact.

*Operating income*—Operating income was $9.3 million (or 11.6% of revenue) for the third quarter of 2022, an increase of $0.1 million, compared to $9.2 million (or 10.0% of revenue) for the third quarter of 2021. The increase in operating income and margin were driven by our successful efforts to work with customers to pass on the increases in material and labor cost, partly offset by the aforementioned lower volume.

Operating income was $28.4 million (or 11.5% of revenue) for the nine months ended September 30, 2022, an increase of $5.0 million, compared to $23.4 million (or 9.8% of revenue) for the nine months ended September 30, 2021. The increase in operating income and margin were driven by the aforementioned higher volume in the first and second quarters of 2022 and cost recovery efforts from customers. Our operating margins may continue to be impacted by higher material costs for concrete, steel and lumber, and the lack of consistent availability of these materials, as well as labor shortages and increased subcontractor labor costs, and while the Company continues to work with customers to pass on the increases in material and labor cost, the Company may not be successful in recouping these additional costs in the future.

Corporate

*Operating expense*—Corporate overhead is primarily comprised of corporate headquarters facility expense, the cost of the executive management team, and expenses pertaining to certain centralized functions that benefit the entire Company but are not directly attributable to the businesses, such as corporate human resources, legal, governance and finance functions. The corporate overhead element of general and administrative expenses, which is not allocated to the business segments, was $8.5 million for the third quarter of 2022, an increase of $2.8 million compared to the third quarter of 2021 and operating expense was $20.7 million for the nine months ended September 30, 2022, an increase of $6.3 million, compared to the nine months ended September 30, 2021. The increases were primarily driven by higher professional fees as well as continued inflation and supply-chain issues.

## LIQUIDITY AND SOURCES OF CAPITAL

*Cash*—Cash at September 30, 2022, was $146.5 million, and includes the following components:

| *(In thousands)* | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Generally Available | $ 77,559 | $ 29,812 |
| Consolidated 50% Owned Subsidiaries | 45,176 | 30,429 |
| Construction Joint Ventures | 23,744 | 21,599 |
| Total Cash | $ 146,479 | $ 81,840 |

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

| *(In thousands)* | Nine Months Ended September 30, | |
|---|---|---|
| Net cash provided by (used in): | 2022 | 2021 |
| Operating activities | $ 130,647 | $ 135,742 |
| Investing activities | (47,822) | (37,222) |
| Financing activities | (17,612) | (46,746) |
| Net change in cash and cash equivalents | $ 65,213 | $ 51,774 |

*Operating Activities*—During the nine months ended September 30, 2022, net cash provided by operating activities was $130.6 million compared to net cash provided by operating activities of $135.7 million in the nine months ended September 30, 2021. Cash flows provided by operating activities were driven by higher net income, adjusted for various non-cash items and changes in accounts receivable, net contracts in progress and accounts payable balances (collectively, "Contract Capital"), as discussed below, and other assets and accrued liabilities.

*Changes in Contract Capital*—The change in operating assets and liabilities varies due to fluctuations in operating activities and investments in Contract Capital. The changes in the components of Contract Capital during the nine months ended September 30, 2022 and 2021 were as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| ***(In thousands)*** | **2022** | **2021** |
| Contracts in progress, net | $ 26,451 | $ 26,694 |
| Accounts receivable | (97,447) | (41,259) |
| Receivables from and equity in construction joint ventures | 580 | (5,003) |
| Accounts payable | 47,411 | 47,423 |
| Change in Contract Capital, net | $ (23,005) | $ 27,855 |

During the nine months ended September 30, 2022, the change in Contract Capital decreased liquidity by $23.0 million. The Company's Contract Capital fluctuations are impacted by the mix of projects in Backlog, seasonality (particularly with the acquired Petillo operations), the timing of new awards and related payments for work performed and the contract billings to the customer as projects are completed. Contract Capital is also impacted at period-end by the timing of accounts receivable collections and accounts payable payments for projects.

*Investing Activities*—During the nine months ended September 30, 2022, net cash used in investing activities was $47.8 million, compared to net cash used of $37.2 million in the nine months ended September 30, 2021. The use of cash was driven by purchases of capital equipment, less cash proceeds from the sale of property and equipment, and a net payment of the final working capital adjustment for the Petillo Acquisition. Capital equipment is acquired as needed to support changing levels of production activities and to replace retiring equipment.

*Financing Activities*—During the nine months ended September 30, 2022, net cash used in financing activities was $17.6 million, compared to net cash used of $46.7 million in the prior year. The financing cash outflow was driven by $17.4 million of repayments on the Term Loan Facility.

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

*Inflation*—While inflation did not have a material impact on our financial results for many years, beginning in 2021 and continuing in 2022, supply chain volatility has resulted in price increases in oil, fuel, lumber, concrete and steel which have increased our cost of operations, and inflation has increased our general and administrative expense. Anticipated cost increases are considered in our bids to customers; however, inflation has had, and may continue to have, a negative impact on the Company's financial results.

## JOINT VENTURES

We participate in various construction joint venture partnerships in order to share expertise, risk and resources for certain highly complex projects. The joint 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 was 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 incurred a loss or additional costs that we could incur should the partner fail to provide the services and resources toward project completion to which it committed in the joint venture agreement. See the 2021 Form 10-K under "Part I, Item 1A. Risk Factors."

At September 30, 2022, there was approximately $210 million of construction work to be completed on unconsolidated construction joint venture contracts, of which approximately $93 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, 2022, we are not aware of any situation that would require us to fulfill responsibilities of our joint venture partners pursuant to the joint and several liability under our contracts.

**NEW ACCOUNTING STANDARDS**

There have been no material changes to the Company's discussion of new accounting standards from those described in *Note 2 - Basis of Presentation and Significant Accounting Policies* of our 2021 Form 10-K.

**CRITICAL ACCOUNTING ESTIMATES**

There have been no material changes to the Company's discussion of critical accounting estimates from those described in Item 7 of our 2021 Form 10-K.

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

**Interest Rate Risk**

We continue to utilize a swap arrangement to hedge against interest rate variability associated with $200 million of the $429 million outstanding under the Term Loan Facility. The Company has designated its interest rate swap agreement as a cash flow hedging derivative. To the extent the derivative instrument is effective and the documentation requirements have been met, changes in fair value are recognized in other comprehensive income (loss) until the underlying hedged item is recognized in earnings. The total fair value of the contract was a net gain of approximately $0.7 million at September 30, 2022. For the $229 million remaining portion of the Term Loan Facility not associated with the interest rate swap hedge, at September 30, 2022 a 100-basis point (or 1%) increase or decrease in the interest rate would increase or decrease interest expense by approximately $2.3 million per year.

**Other**

The carrying values of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate their fair values because of the short-term nature of these instruments. At September 30, 2022, the fair value of the term loan, based upon the current market rates for debt with similar credit risk and maturities, approximated its carrying value as interest is based on LIBOR plus an applicable margin.

**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) as of September 30, 2022. As previously disclosed, we completed the Petillo and Kimes Acquisitions on December 30, 2021 and December 28, 2021, respectively, and, as permitted by SEC guidance for newly acquired businesses, we have elected to exclude the acquired operations of Petillo and Kimes from the scope of design and operation of our disclosure controls and procedures for the quarter ended September 30, 2022. Based on the evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective at September 30, 2022 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.

**Changes in Internal Control over Financial Reporting**

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 quarter ended September 30, 2022 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*

The Company, including its construction joint ventures and its consolidated 50% owned subsidiaries, is now and may in the future be involved as a party to various legal proceedings that are incidental to the ordinary course of business. The Company regularly analyzes current information about these proceedings and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters.

In the opinion of management, after consultation with legal counsel, there are currently no threatened or pending legal matters that would reasonably be expected to have a material adverse impact on the Company's Consolidated Results of Operations, Financial Position or Cash Flows.

### Item 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 2021 Form 10-K. You should carefully consider such risk factors, which could materially affect the business, financial condition or future results.

### Item 6. *Exhibits*

The following exhibits are filed with this Report:

| Exhibit No. | Exhibit Title |
|---|---|
| 3.1 (1) | Certificate of Incorporation of Sterling Infrastructure, Inc. as amended through June 1, 2022 (incorporated by reference to Exhibit 3.1 to Sterling Infrastructure, Inc.'s Quarterly Report on Form 10-Q, filed on August 2, 2022 (SEC File No. 1-31993)). |
| 3.2 (1) | Amended and Restated Bylaws of Sterling Infrastructure, Inc. (incorporated by reference to Exhibit 3.2 to Sterling Construction Company, Inc.'s Current Report on Form 8-K, filed on June 1, 2022 (SEC File No. 1-31993)). |
| 31.1 (2) | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a). |
| 31.2 (2) | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a). |
| 32.1 (3) | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350. |
| 32.2 (3) | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350. |
| 101.INS | Inline XBRL Instance Document—The instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101) |

(1) Incorporated by reference to the filing indicated
(2) Filed herewith
(3) Furnished 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 INFRASTRUCTURE, INC.**

Date: November 1, 2022

By: /s/ Ronald A. Ballschmiede

Ronald A. Ballschmiede

Chief Financial Officer and Duly Authorized Officer