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STERLING CONSTRUCTION CO INC

Form DEF 14A

December 08, 2003

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934  
(Amendment No. \_\_\_\_)

Filed by Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-12

STERLING CONSTRUCTION COMPANY, INC.  
(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a) (2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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STERLING CONSTRUCTION COMPANY, INC.

2751 CENTERVILLE ROAD -- SUITE 3131

WILMINGTON, DELAWARE 19803

(817) 416-0717

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Notice is hereby given that the Annual Meeting of Stockholders of Sterling Construction Company, Inc., a Delaware corporation, will be held as follows:

DATE: December 29, 2003

PLACE: Sheraton Hotel  
37 Forbes Road  
Braintree, MA 02184

TIME: 10:30 a.m., local time

PURPOSES: 1. To elect two Class II directors, each to serve for a term of three years and until his successor is duly elected and qualified;  
2. To transact such other business as may properly come before the meeting.

The stockholders of record at the close of business on December 3, 2003 are entitled to notice of, and to vote at, the meeting or any adjournment thereof.

By Order of the Board of Directors

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Roger M. Barzun, Secretary

December 8, 2003

YOU ARE URGED TO COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED. THE EXECUTION OF A PROXY WILL NOT AFFECT A RECORD HOLDER'S RIGHT TO VOTE IN PERSON IF PRESENT AT THE MEETING.

THIS PROXY STATEMENT WAS FIRST MAILED TO STOCKHOLDERS ON OR ABOUT DECEMBER 8, 2003

STERLING CONSTRUCTION COMPANY, INC.

2751 CENTERVILLE ROAD -- SUITE 3131  
WILMINGTON, DELAWARE 19803  
(817) 416-0717

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PROXY STATEMENT

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GENERAL INFORMATION

This Proxy Statement is furnished to stockholders of Sterling Construction Company, Inc., a Delaware corporation ("Sterling" or the "Company") in connection with the solicitation of proxies by the Board of Directors of the Company (the "Board of Directors") for use at the Annual Meeting of Stockholders to be held at 10:30 a.m. local time on December 29, 2003, at the Sheraton Hotel, 37 Forbes Road, Braintree, MA 02184 or at any adjournment thereof (the "Annual Meeting"). Proxies in the form enclosed will be voted at the Annual Meeting if they are properly executed, returned to the Company prior to the Annual Meeting and not revoked prior to the voting.

A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2002, as well as the Quarterly Report on Form 10-Q for the third fiscal quarter ended September 30, 2003, which contains financial statements and other information of interest to stockholders and accompanies the Notice of Annual Meeting and this Proxy Statement, is being mailed to stockholders on or about December 8, 2003.

## VOTES REQUIRED AND VOTING PROCEDURE

Quorum. The holders of a majority of the shares of common stock issued and outstanding and entitled to vote at the Annual Meeting constitute a quorum for the transaction of business at the Annual Meeting. Holders of shares of common stock present in person or represented by proxy (including holders of shares who abstain or do not vote with respect to one or more of the matters presented for stockholder approval) will be counted for purposes of determining whether there is a quorum at the Annual Meeting.

Proxies. All proxies will be voted in accordance with the instructions of the stockholder. If no choice is specified, the proxies will be voted FOR the

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election of the directors listed on the proxy and in the discretion of management as to any other matters to come before the Annual Meeting. Any proxy may be revoked by a stockholder at any time before its exercise by delivering to the Secretary of the Company a written revocation, by submitting a subsequently dated proxy, or by voting in person at the meeting. Attendance at the Annual Meeting will not itself be deemed to revoke a proxy unless the stockholder gives affirmative notice at the Annual Meeting that the stockholder intends to revoke the proxy and vote in person.

**Record Date.** On December 3, 2003, the date for the determination of stockholders of record entitled to vote at the Annual Meeting, there were an aggregate of 5,079,016 shares of common stock, \$.01 par value per share, outstanding and entitled to vote at the Annual Meeting. Each share of common stock entitles the record holder to one vote on each of the matters to be voted upon at the Annual Meeting.

**Vote Required.** Of the holders of shares who are entitled to vote and who are present or represented by proxy at the Annual Meeting, the affirmative vote of the holders of a plurality of the shares voted is required for the election of the directors. This means that the two director nominees with the most votes will be elected.

**Voting Procedure.** The shares of holders who abstain from voting as to a particular matter, and shares held in "street" name by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote such shares as to a particular matter, will not be counted as votes in favor of a matter and will also not be counted as votes cast or shares voting on such matter. Accordingly, abstentions and "broker non-votes" will have no effect in the voting on the election of the directors.

3

### PROXY SOLICITATION AND EXPENSES

The accompanying proxy is being solicited on behalf of the Board of Directors. The expense of preparing, printing and mailing the form of proxy and the solicitation materials will be borne by the Company. In addition to the use of the mails, proxies may be solicited by directors, officers and employees of the Company, and if deemed necessary, through a third party solicitation agent by means of personal interview, telephone, facsimile or e-mail. The Company will request banks, brokerage houses and other custodians, nominees and fiduciaries to solicit their customers who are beneficial owners of common stock and to forward solicitation materials to such beneficial owners. The Company will reimburse them for their reasonable out-of-pocket expenses incurred in such solicitation.

### PROPOSAL I - ELECTION OF DIRECTORS

The By-laws of the Company provide for such number of directors as is determined from time to time by the Board of Directors. Section 2 of Article SEVENTH of the Amended and Restated Certificate of Incorporation of the Company provides that directors shall be divided into three classes, as nearly equal in number as reasonably possible; with each class having a full term of three years. The Company currently has a seven member Board of Directors. All directors hold office until the expiration of their terms and until their successors are duly elected and qualified, except in the case of death, resignation or removal of a director.

Two directors of the Company are to be elected as Class II directors for a

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three-year term. The nominees are John D. Abernathy and Robert W. Frickel. Mr. Abernathy was first elected to the Board in 1994 and serves as Chairman of the Audit Committee and as a member of the Compensation Committee. Mr. Frickel was elected to the Board in July 2001, and serves as a member of the Audit Committee and Chairman of the Compensation Committee. Certain information with respect to their ages and background is set forth below.

The persons named in the enclosed proxy will vote to elect each of the nominees named above unless the proxy is marked otherwise. Each of the nominees has indicated his willingness to serve, if elected; however, if either nominee should be unable to serve, the proxy holder may vote the proxy for a substitute nominee. The Board of Directors has no reason to believe that either of the nominees will be unable to serve if elected. The enclosed proxy cannot be voted for a greater number of persons than the number of nominees named in this Proxy Statement.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES.

Director -----	Position -----	Age ---	Class ----	Director since -----
NOMINEES				
John D. Abernathy	Director	66	II	Director since 1994
Robert W. Frickel	Director	61	II	Director since 2001
CONTINUING				
Robert M. Davies	Director	53	III	Director since 1996
Maarten D. Hemsley	Chief Financial Officer, Director	54	III	Director since 1998
Christopher H.B. Mills	Director	51	III	Director since 2001
Joseph P. Harper, Sr.	President, Director	58	I	Director since 2001
Patrick T. Manning	Chairman of the Board, Chief Executive Officer, Director	56	I	Director since 2001

For information relating to shares of common stock owned by each of the nominees and the continuing directors, see "Security Ownership of Certain Beneficial Owners and Management," below.

### BUSINESS HISTORY OF NOMINEES

John D. Abernathy. Mr. Abernathy has been Chief Operating Officer of Patton Boggs LLP, a Washington D.C. law firm, since January 1995. From March 1991 to February 1994 he was the Managing Director of Summit, Solomon & Feldesman, a New York City law firm and from July 1983 until June 1990, Mr. Abernathy was Chairman and Chief Executive Partner of BDO Seidman LLP, a public accounting firm. He is currently a director of the Company's subsidiary, Steel City Products, Inc. ("SCPI") and of Pharmaceutical Resources, Inc., a generic drug manufacturer. Mr. Abernathy is a certified public accountant.

Robert W. Frickel. Mr. Frickel is the founder and President of R.W. Frickel Company, P.C., a certified public accounting firm that provides audit, tax and consulting services primarily to the construction industry. Prior to the

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founding of the R.W. Frickel Company in 1974, he was employed by Ernst & Ernst. Mr. Frickel is a certified public accountant.

### CONTINUING DIRECTORS

Robert M. Davies. Mr. Davies was the Company's Chairman and Chief Executive Officer from May 1997 to July 2001 and was its President from May 1997 to January 1999. Mr. Davies had previously been a member of the Company's Board of Directors from 1991 until 1994. From 1994 to March 1997, Mr. Davies was a Vice President of Wexford Capital Corporation, the investment manager to several private investment funds. Mr. Davies is a managing director of Menai Capital, L.L.C., a private equity advisory company, and Managing Director of Greenwich Power, LLC. He also serves as a director of event Resources LLC (a subsidiary of Cinergy Energy), and two private companies, Waterbury Companies and Industrial Acoustics Company, Inc.

Joseph P. Harper, Sr. Mr. Harper is Chief Financial Officer, Treasurer and Secretary of the Company's majority-owned subsidiary, Sterling Houston Holdings, Inc. ("SHH") and has been employed by that business since 1972. He has performed both estimating and project manager functions as well as his primary role as Chief Financial Officer. In July 2001 the Company increased its holdings of SHH to 80.1% (the "Sterling Transaction") and Mr. Harper was elected a director and President of the Company on July 23, 2001, and a director of SCPI.

Maarten D. Hemsley. Mr. Hemsley was re-elected to the Board of Directors of the Company and of SCPI in December 1998, having been an employee and/or director of the Company or SCPI in various capacities since 1988. In December 1995, he had resigned his positions with the Company and SCPI, but continued to provide consulting services to both companies through his wholly owned business, Bryanston Management, Ltd., a financial consultancy firm. Mr. Hemsley served as President, Chief Operating Officer and Chief Financial Officer of the Company until July 2001, and currently serves as Chief Financial Officer of both Sterling and SCPI. Since 1993, Mr. Hemsley has been President of Bryanston Management, Ltd. Since January 2001, Mr. Hemsley has also been a consultant to (and since May 2002 an employee of) JO Hambro Capital Management Limited ("JOHCM") (an investment management company based in the United Kingdom) with responsibility for Leisure & Media Venture Capital Trust, plc. Mr. Hemsley is a director of Industrial Acoustics Company Inc., of Tech/Ops Sevcon, Inc., a public company that manufactures electronic controls, of Nu Nu Nurseries, plc, a public company that operates children's nurseries in the United Kingdom, and of a number of privately-held companies in the United Kingdom.

Patrick T. Manning. Mr. Manning joined SHH in 1971 and led its move into the Houston, Texas market in 1978. He is currently SHH's President and Chief Executive Officer. Mr. Manning has served on a variety of construction industry committees, including the Gulf Coast Trenchless Association and the Houston Contractors' Association, where he served as a member of the Board of Directors and as President from 1987 to 1993. He attended Michigan State University from 1969 to 1972. Mr. Manning was elected Chairman of the Board and Chief Executive Officer of Sterling on July 23, 2001.

Christopher H.B. Mills. Mr. Mills is Chief Investment Officer of JOHCM. Prior to founding JOHCM in 1993, Mr. Mills was employed by Montagu Investment Management and its successor company, Invesco MIM, as an investment manager and director, from 1975 to 1993. He is the Chief Executive of North Atlantic Smaller Companies Investment Trust plc, ("NASCIT"), a 12% stockholder of the Company. and of American Opportunity Trust plc. Mr. Mills serves as a director and shareholder of JOHCM and of Lesco, Inc., a United States public company that manufactures and sells fertilizer and lawn products.

### EXECUTIVE OFFICERS

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The following are the names, ages, positions and a brief description of the business experience during the last five years of the executive officers of the Company and its subsidiaries who are not also directors of the Company, all of whom serve until they resign or are removed by the Board of Directors. The business histories of executive officers who are also directors (Messrs. Harper, Hemsley and Manning) are set forth above.

Roger M. Barzun (62): Vice President, Secretary and General Counsel. Mr. Barzun has been a Vice President, Secretary and General Counsel of the Company since August 1991 and was a Senior Vice President from May 1994 until July 2001. He is also Secretary and General Counsel of SCPI. Mr. Barzun has been a lawyer since 1968 and is a member of the New York and Massachusetts bars.

5

Terrance W. Allan (50): President and Chief Executive Officer, Steel City Products, Inc. Mr. Allan has been an officer of SCPI for more than the last five years. He was appointed President of SCPI in May 2000 and its Chief Executive Officer in May 2002.

### **COMMITTEES OF THE BOARD**

The standing committees of the Board of Directors consist of an Audit Committee and a Compensation Committee. The Board of Directors does not have a Nominating Committee.

**THE AUDIT COMMITTEE**  
John D. Abernathy, Chairman  
Robert W. Frickel  
Christopher H.B. Mills

The Audit Committee reviews the Company's system of internal controls, selects the Company's independent auditors and accountants and periodically reviews their services. The Audit Committee consists entirely of non-employee directors. The Audit Committee, which was reconstituted in July 2001 in connection with the Sterling Transaction, held three meetings during the fiscal year ended December 31, 2002. For additional information concerning the Audit Committee, see "Report of the Audit Committee for the Fiscal Year Ended December 31, 2001".

**THE COMPENSATION COMMITTEE**  
Robert W. Frickel, Chairman  
John D. Abernathy  
Christopher H.B. Mills

The Compensation Committee reviews and recommends compensation payable to executive officers of the Company, including the grant of options. For additional information regarding the Compensation Committee, see "Report of the Compensation Committee for the Fiscal Year Ended December 31, 2002". The Compensation Committee, which was reconstituted in July 2001 in connection with the Sterling Transaction, did not hold any meetings during the fiscal year ended December 31, 2002.

The Board of Directors held five meetings during the Company's fiscal year ended December 31, 2002. Mr. Manning did not attend one meeting of the Board; Mr. Mills did not attend two meetings of the Board of Directors and two meetings of the Audit Committee. All other directors attended all of the meetings of the Board of Directors while he was a director, as well as all meetings of committees of the Board of Directors on which he served.

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## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Except as otherwise indicated in the footnotes, the Company believes that the beneficial owners of the common stock listed in the following tables, based on information furnished by such owners, have sole investment and voting power with respect to the shares of common stock shown as beneficially owned by them. The numbers and percentages assume for each person or group listed the acquisition of all shares as to which beneficial ownership may be acquired by such person or group ("Option Shares") within sixty days of December 3, 2003, in accordance with Rule 13d-3(d)(1) of the Securities Exchange Act of 1934, as amended, but not the acquisition of Option Shares owned by any other person.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information as of December 3, 2003 with respect to the beneficial ownership of shares of the Company's common stock by each person (other than members of the Board of Directors or management) known to the Company to own beneficially more than 5% of the outstanding shares of common stock.

6

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES OF COMMON STOCK	PERCENT OF CLASS
Anthony N. Puma (1) 214 Loma Metisse Malibu, CA 90265	266,667	5.3%
North American Smaller Companies Investment Trust plc c/o North Atlantic Value LLP* Ryder Court 14 Ryder Street London SW1Y 6QB, England	605,520(2)	12.0%
JO Hambro Capital Management Group, Limited Ryder Court 14 Ryder Street London SW1Y 6QB, England	605,520(2)	12.0%
JO Hambro Capital Management Limited Ryder Court 14 Ryder Street London SW1Y 6QB, England	605,520(2)	12.0%
Christopher Harwood Bernard Mills c/o North Atlantic Value LLP* Ryder Court 14 Ryder Street London SW1Y 6QB, England	614,520(2) (3)	12.3%
Growth Financial Services Limited c/o North Atlantic Value LLP* Ryder Court 14 Ryder Street London SW1Y 6QB, England	605,520(2)	12.0%

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\*formerly JO Hambro Capital Management Limited

- (1) These shares were issued as part of the purchase by the Company of Puma Products, Inc. from Mr. Puma in fiscal 1995. In fiscal 1997, the Company sold Puma Products, Inc. back to Mr. Puma.
- (2) These shares were purchased at \$1.50 per share in July 2001 as part of the Sterling Transaction. JO Hambro Capital Management Group Limited, JOHCM, Christopher Harwood Bernard Mills, Growth Financial Services Limited and NASCIT claim shared voting power of 605,520 of these shares pursuant to Amendment No. 1 to a Schedule 13G filed with the Securities and Exchange Commission on February 14, 2002.
- (3) This number includes 9,000 shares issuable under outstanding stock options that are exercisable at \$1.50 per share and 605,520 shares purchased at \$1.50 per share in July 2001 as part of the Sterling Transaction.

## SECURITY OWNERSHIP OF MANAGEMENT.

The following table sets forth information as of December 3, 2003 regarding beneficial ownership of common stock by the nominees for election as a director; the Chief Executive Officer of the Company; the former Chief Executive Officer and the other executive officers of the Company listed in the Summary Compensation Table below; and all directors and executive officers as a group.

7

Name of Beneficial Owner	Shares of Common Stock	Percent of Class
John D. Abernathy**	126,162(1)	2.4%
Robert M. Davies	739,492(2)	13.2%
Robert W. Frickel**	9,000(3)	*
Joseph P. Harper, Sr	300,665	5.9%
Maarten D. Hemsley	527,812(4)	9.6%
Patrick T. Manning	237,068	4.7%
Christopher H.B. Mills	614,520(3)	12.0%
Terrance W. Allan	33,750(5)	*
Roger M. Barzun	42,161(6)	*
All directors and executive officers as a group (9 persons)	2,630,630(7)	42.0%

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\* Represents beneficial ownership of less than one percent (1%)

\*\* Nominee for director

1. This number includes 111,162 shares that are issuable under outstanding stock options that are presently exercisable at prices ranging from \$0.75 to \$3.375 per share.
2. This number includes 541,992 shares that are issuable under outstanding stock options that are presently exercisable at prices ranging from

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\$0.50 to \$2.75 per share. The options are subject to a standstill agreement that provides that the options may not be exercised if the effect of such exercise would be to jeopardize the Company's tax benefits.

3. This number includes 9,000 shares issuable under outstanding stock options that are presently exercisable at \$1.50 per share.
4. This number includes 436,424 shares issuable under outstanding stock options that are presently exercisable at prices ranging from \$0.50 to \$2.75 per share. The options are subject to a standstill agreement that provides that the options may not be exercised if the effect of such exercise would be to jeopardize the Company's tax benefits.
5. This number includes 33,250 shares issuable under outstanding stock options that are presently exercisable at prices ranging from \$1.00 to \$2.00 per share. Mr. Allan is an executive officer SCPI.
6. This number includes 36,000 shares issuable under outstanding stock options that are presently exercisable within sixty days of December 3, 2003 at prices ranging from \$0.88 to \$2.00 per share.
7. This number includes 1,182,642 shares issuable under outstanding stock options that are presently exercisable within sixty days of December 3, 2003 at prices ranging from \$0.50 to \$3.375 per share.

### SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities ("Insiders") to file reports of beneficial ownership and certain changes in beneficial ownership with the Securities and Exchange Commission and to furnish the Company with copies of those reports.

Based solely on a review of those reports and amendments thereto furnished to the Company during the Transition Period or written representations by Insiders that no reports were required to be filed, the Company believes that during the Fiscal Year ended December 31, 2002 all Section 16(a) filing requirements applicable to the Company's Insiders were satisfied, except as noted in the following paragraphs.

### EXECUTIVE COMPENSATION

This item contains information about compensation, stock options and awards, employment arrangements and other information concerning the executive officers of the Company and of its subsidiaries, SHH and SCPI

#### SUMMARY COMPENSATION TABLE

The following table sets forth all compensation for the 2002, 2001 and 2000 fiscal years allocated or paid on or before December 31, 2002 to those who served as the Company's Chief Executive Officer during fiscal 2002 and to the other executive officers of the Company who were serving at the end of the 2002 fiscal year for services rendered in all capacities to the Company and its subsidiaries and whose total annual salary and bonus exceeded \$100,000 in fiscal 2002. Also included is the compensation paid to an executive officer of SCPI who is not an employee of the Company.

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Name and Principal Position	Fiscal Year	Annual Compensation			Long-term		
		Salary	Bonus	Other Annual Compensation*	Restricted Stock Awards	Stock Options Under Option	
Patrick T. Manning(1) Chairman of the Board & Chief Executive Officer	2002	\$ 225,000	--	--	--	--	--
	2001	\$ 98,077	--	--	--	--	--
Joseph P. Harper, Sr.(2) President	2001	\$ 225,000	--	--	--	--	--
	2002	\$ 98,077	--	--	--	--	--
Maarten D. Hemsley(3) Chief Financial Officer	2002	\$ 80,396	--	--	--	--	--
	2001	\$ 65,146	--	--	--	--	--
	2000	\$ 129,392	--	--	--	--	--
Terrance W. Allan(4) Chief Executive Officer-SCPI	2002	\$ 177,424	\$ 25,118	--	--	--	--
	2001	\$ 124,385	\$ 40,771	--	--	--	--
	2000	\$ 132,072	\$ 60,515	--	--	--	--

\* Excludes perquisites and other personal benefits, securities or property, if the aggregate amount of such items of compensation was not in excess of the lesser of either \$50,000 or 10% of the total annual salary and bonus of the named executive officer.

1. In July 2001, Mr. Manning was elected Chairman of the Board and Chief Executive Officer of the Company. Except with respect to stock options and other stock awards, Mr. Manning is compensated by Texas-Sterling Construction, LP ("TSC"), a subsidiary of SHH, under a long-term employment agreement. Compensation in fiscal 2001 is included only for the period of ownership of SHH by the Company, since July 2001.
2. In July 2001, Mr. Harper was elected President of the Company. Except with respect to stock options and other stock awards, Mr. Harper is compensated by TSC, under a long-term employment agreement. Compensation in fiscal 2001 is included only for the period of ownership of SHH by the Company since July 2001.
3. In December 1998, Mr. Hemsley was elected President, Chief Operating Officer and Chief Financial Officer of the Company. Following the Sterling Transaction in July 2001, he remains Chief Financial Officer of the Company and of SCPI.
4. Mr. Allan is compensated only by SCPI, except with respect to stock options and stock awards.

OPTION GRANTS IN THE LAST FISCAL YEAR

Options were granted to individuals named in the Summary Compensation Table, above, during the fiscal year ended December 31, 2002, as summarized in the

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table below:

## OPTION GRANTS IN LAST FISCAL YEAR

Re

Individual Grants						
Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal 2002	Exercise Price (\$/Share)	Expiration Date		
Patrick T. Manning	3,500	5.3%	\$ 1.73	July 24, 2012	\$	
Joseph P. Harper, Sr	3,500	5.3%	\$ 1.73	July 24, 2012	\$	
Terrance W. Allan	5,000	7.6%	\$ 1.50	April 5, 2012	\$	

## AGGREGATE OPTION EXERCISES IN THE LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth certain information based upon the fair market value per share of the Company's Common Stock at December 31, 2002 or the day closest to December 31, 2002 on which trades were made (\$1.75), with respect to stock options held at that date by each of the individuals named in the Summary Compensation Table, above. The "value" of unexercised in-the-money options is the difference between the market value of the Common Stock subject to the options at December 31, 2002 and the exercise price of the option shares. Through December 31, 2002, there were no option exercises by any of these individuals.

Name	Number of Securities Underlying Unexercised Options at December 31, 2002		Value of Unexercised In-the-Money Options at December 31, 2002	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Patrick T. Manning	740	6,460	\$ 185	\$
Joseph P. Harper, Sr	1,234	5,966	\$ 309	\$
Maarten D. Hemsley	436,424	--	\$ 305,625	
Terrance W. Allan	32,000	3,750	\$ 15,125	\$

## EMPLOYMENT CONTRACTS; TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

Mr. Patrick T. Manning. Mr. Manning is Chief Executive Officer of the Company. TSC employs Mr. Manning under a three-year employment agreement dated July 18, 2001. The agreement provides for a base annual salary of \$200,000 and Mr. Manning is entitled to receive an annual bonus of \$100,000 in respect of any fiscal year during which SHH achieves 75% or greater of approved budgeted

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Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") for such fiscal year, so long as budgeted EBITDA is at least equal to actual EBITDA achieved in the prior year. An additional incentive bonus is payable if actual performance exceeds budget. The agreement also provides that Mr. Manning shall be subject to a non-compete provision for two years after employment with SHH ceases, payment for which shall be \$1,000 per month for the twenty-four month period.

Mr. Joseph P. Harper Sr. Mr. Harper is President of the Company. TSC employs Mr. Harper under a three-year employment agreement dated July 18, 2001. The agreement provides for a base annual salary of \$200,000 for the first two years and \$170,000 for the third year. Mr. Harper is entitled to receive an annual bonus of \$100,000 in respect of any fiscal year during which SHH achieves 75% or greater of approved budgeted EBITDA for such fiscal year, so long as budgeted EBITDA is at least equal to actual EBITDA achieved in the prior year. An additional incentive bonus is payable if actual performance exceeds budget. The agreement also provides that Mr. Harper shall be subject to a non-compete provision for two years after employment with SHH ceases, payment for which shall be \$1,000 per month for the twenty-four month period.

Mr. Maarten D. Hemsley. Mr. Hemsley was employed by and was a director of the Company or SCPI for several years prior to 1995. In 1995, he resigned his positions with the Company and entered into a consulting agreement with the Company through his wholly-owned company, Bryanston Management, Ltd. In December 1998, Mr. Hemsley was elected to the Board of Directors and was appointed President, Chief Operating Officer and Chief

10

Financial Officer of the Company subject to an employment agreement at the same rate of compensation as the Bryanston consulting agreement of \$85,000 per year (of which 10% was later deferred under a voluntary salary reduction, which deferral amount was converted into a subordinated note in July 2001). In December 1998, Mr. Hemsley also entered into a two-year employment agreement with a subsidiary of the Company, Oakhurst Technology, Inc. ("OTI"), which provided for an annual base salary of \$40,000, plus a car allowance. Both the Sterling and OTI employment agreements expired on February 28, 2001. The Sterling employment agreement continued on a month-to-month basis until July 2001, when, in connection with the closing of the Sterling Transaction the agreement was amended to extend the employment period for one year at an annual base salary of \$76,500. In July 2002, Mr. Hemsley's employment agreement was extended for three years and his salary was increased to \$85,000 per year.

Mr. Terrance W. Allan. SCPI has an employment agreement with Mr. Allan that commenced May 1, 2000 that provides for a base salary of \$133,000 with annual salary increases. Payment of the increase due September 2001 and part of his regular salary was voluntarily deferred by Mr. Allan in light of the Chapter 11 filing of Ames Department Stores, one of SCPI's largest customers. The deferral was reflected as an accrued liability of the Company. In January 2002, salary payments to Mr. Allan resumed at the contracted level and he began receiving payment of previously-deferred amounts. In January 2002, the bonus provisions of Mr. Allan's employment agreement were modified to reflect his participation in a new bonus plan for all members of SCPI's management. Pursuant to the new bonus program, Mr. Allan is entitled to a profit-based bonus reflecting achievement of budgeted EBITDA, ranging from 8% of his base salary if 75% of the budgeted level is achieved, to 51% of base salary if EBITDA equals twice the budgeted level. In addition, the new bonus program entitles all eligible employees of SCPI to a discretionary bonus of up to one-third of the profit-based bonus paid. The initial term of Mr. Allan's agreement expired on September 30, 2003, and has

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been extended.

## COMPENSATION OF DIRECTORS

Each director who is not an employee of the Company receives an annual fee of \$12,500. Commencing April 1, 2003, the Chairman of the Audit Committee receives an additional \$7,500 per year. Directors receive no meeting fees, but are entitled to reimbursement for out-of-pocket expenses incurred in attending meetings.

## REPORT OF THE AUDIT COMMITTEE FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. Three independent directors, Messrs. Abernathy, Frickel and Mills are members of the Audit Committee. The Committee operates under a written charter adopted by the Board of Directors in June 2000. Management has the primary responsibility for the financial statements and the reporting process. The Company's independent auditors are responsible for expressing an opinion on the conformity of the Company's financial statements with generally accepted accounting principles and whether the Company's financial statements present fairly, in all material respects, the financial position and results of operations of the Company.

In this context, the Audit Committee has reviewed and discussed with management and the independent auditors the audited financial statements. The Audit Committee has discussed with the independent auditors the matters required to be discussed by Statement on Accounting Standards No. 61 ("Communication with Audit Committees"). In addition, the Audit Committee has received from the independent auditors the written disclosures and the letter required by Independence Standards Board Standard No. 1 ("Independence Discussions with Audit Committees") and discussed with them their independence from the Company and its management.

In September 2001, the Company elected to change its independent auditors from Deloitte & Touche LLP to Grant Thornton LLP. The decision to change auditors arose after consummation of the Sterling Transaction in July 2001. As a result of the Sterling Transaction, the majority of the Company's operations consist of the operations of SHH, whose auditors were Grant Thornton.

The following table sets forth the aggregate fees billed to the Company for the year ended December 31, 2002 by its current independent auditors, Grant Thornton LLP:

Audit fees	\$ 171,000
Financial information systems design and implementation	--
All other fees	\$ 5,000

Audit fees include the fees for the separate audits of SCPI and SHH as well as the consolidated audit of the Company and resolution of issues that arose during the audit process.

Items included in the "All other fees" category include services related to an audit of SHH as of September 30, 2001, acquisition issues and other matters. The Audit Committee determined that services provided in the "All other fees"

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category did not impair the independence of Grant Thornton, LLP.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 for filing with the Securities and Exchange Commission.

The Audit Committee:

John D. Abernathy, Chairman  
Robert W. Frickel  
Christopher H.B. Mills

### REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION FOR FISCAL YEAR 2002

This report has been prepared by the Compensation Committee of the Board of Directors and addresses the Company's compensation policies with respect to the Chief Executive Officer and executive officers of the Company in general for the fiscal year ended December 31, 2002. All members of the Committee are non-employee directors. During fiscal 2002 the Company had no operating business of its own, but was a holding company of other operating businesses. The Company has elected to include in the Summary Compensation Table certain information concerning an executive officer of SCPI, Mr. Allan, who is not, however, an executive officer of the Company and accordingly, a discussion of his compensation is included here. Reference is made generally to the information under the heading "Employment Contracts and Termination of Employment and Change-in-Control Arrangements".

**Compensation Policy.** The overall intent for executive compensation is to establish levels of compensation that (i) provide appropriate incentives in order to command high levels of individual performance and thereby increase the value of the Company to its stockholders and (ii) are sufficiently competitive to attract and retain the skills required for the success and profitability of the Company. The principal components of executive compensation are salary, bonus and stock options.

**Chief Executive Officer's Compensation.** The compensation Mr. Manning received after July 2001 was determined to be appropriate by the members of the Committee serving at the time based on the nature of the position; the expertise and responsibility that the position requires; the Chief Executive Officer's experience in former employment; and the subjective judgment of the members of the Committee of a reasonable level of compensation.

**Other Executive Officers.** Mr. Allan is included in the Company's disclosures relating to executive compensation because of his importance to the success of the Company on a consolidated basis. Mr. Allan's employment agreement was reviewed and approved by the Company's Compensation Committee and by the SCPI Compensation Committee.

**Salary.** Since all of the executive officers named in the Summary Compensation Table are long-term employees of the Company and/or SCPI and SHH, their salaries in fiscal 2002 were based on the level of their prior salaries and the subjective judgment of the members of the Company's and SCPI's Compensation Committees as to the value of the executive's past contribution and potential future contribution to the business.

**Bonuses.** Mr. Manning and Mr. Harper are entitled to receive an incentive bonus of \$100,000 in respect of any fiscal year during which SHH achieves 75% or greater of its approved budgeted EBITDA for such fiscal year, provided that budgeted EBITDA is equal to 100% of actual EBITDA for the preceding fiscal year. Additional incentive bonuses may be earned up to 100% of base salary if EBITDA exceeds budgeted EBITDA by 10% to more than 30%. In fiscal 2002, those

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objectives were met, and accordingly, the maximum bonus payable was accrued, and paid following approval by the Company's Compensation Committee.

Until January 2002, the bonus payable to Mr. Allan under his employment agreement consisted of an Annual Management Bonus and an additional Annual Executive Bonus. The Annual Management Bonus was paid

12

from a pool of funds equal to 8% of SCPI's EBITDA. The Annual Executive Bonus was based on achievement of certain defined profit levels, which were not met in fiscal 2001. In 2002, Mr. Allan's employment agreement was amended to provide for Mr. Allan's participation in a new bonus plan for all members of SCPI's management. Pursuant to the new bonus program, Mr. Allan is entitled to a profit-based bonus reflecting achievement of budgeted EBITDA, ranging from 8% of his base salary if 75% of the budgeted level is achieved, to 51% of base salary if EBITDA equals twice the budgeted level. In addition, the new bonus program entitles all eligible employees of SCPI to a discretionary bonus of up to one-third of the profit-based bonus paid.

**Stock Options.** The Committee believes that stock ownership by executive officers is important in aligning management's and stockholders' interests in the enhancement of stockholder value over the long term. The exercise price of all outstanding stock option grants is equal to the market price of the common stock on the date of grant. In fiscal 2002, options were granted to certain executives in recognition of their performance.

Compliance with Internal Revenue Code Section 162(m). Section 162(m) of the Internal Revenue Code, enacted in 1993, generally disallows a tax deduction to public companies for compensation over \$1 million paid to its chief executive officer and its four other most highly compensated executives. The Company's compensation payable to any one executive officer (including potential income from outstanding stock options) is currently and for the foreseeable future unlikely to reach that threshold. In addition, because of the Company's significant net operating loss carryforwards, the tax-deductibility of compensation payments is not currently an issue. However, should circumstances change, the Compensation Committee will study the matter and make recommendations to the Board of Directors.

The Compensation Committee:	Robert W. Frickel, Chairman John D. Abernathy Christopher H.B. Mills
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### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Beginning in July 2001, Messrs. Abernathy, Frickel and Mills became the members of the Compensation Committee of the Company. Mr. Abernathy serves on the Compensation Committee of SCPI. Prior to July 2001 Mr. Davies was an executive officer of the Company, but none of the Company's executive officers served as a director or member of the Compensation Committee (or any other committee serving an equivalent function) of any other entity, whose executive officers served as a director or member of the Company's Compensation Committee.

The Board of Directors intends that any transactions with officers, directors and affiliates will be entered into on terms no less favorable to the Company than could be obtained from unrelated third parties and that they will be approved by a majority of the Board of Directors who are independent and disinterested with respect to the proposed transaction.

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See also "Compensation of Directors" and "Employment Contracts and Termination of Employment and Change-in-Control Arrangements."

### CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In October 1999, certain shareholders of SHH exercised their right to sell a second tranche of equity securities to OTI thereby increasing the Company's consolidated equity ownership of SHH from 7% to 12%. The equity purchase was financed through the issuance of two notes. One of these notes in the amount of \$559,000 was issued to Mr. Davies (the "First Note") in which Mr. Hemsley had a participation of \$116,000. The second note in the amount of \$800,000 (the "Manning Note") was issued to James D. Manning, the brother of Patrick T. Manning and one of the SHH shareholders who sold SHH equity securities to OTI. The First Note provided for interest at 14% payable quarterly and was due in October 2000, but in fact, no interest payments were made and the First Note was not repaid in October 2000. In connection with the Sterling Transaction, accrued unpaid interest on the First Note of \$134,000 was added to the principal of the First Note, the maturity date of the First Note was extended to July 2005, and the interest rate was reduced to 12%. In connection with the Sterling Transaction, the Company also issued an additional four-year 12% promissory note to each of Messrs. Hemsley (\$136,421) and Davies (\$250,623) (the "Second Notes") to repay certain amounts due to them by the Company or OTI, including deferred compensation, the fee (and related interest) owed to them in connection with the acquisition of the second tranche of SHH equity in

13

October 1999, the fee due in July 2001 to them in connection with the Sterling Transaction and a fee for the extension of the First Note.

In connection with the Sterling Transaction, the maturity date of the Manning Note also was extended to July 2005 and the interest rate was reduced from 14% to 12%. In consideration for the extension of the maturity date and interest rate reduction, Mr. James D. Manning received a zero coupon promissory note payable July 2005 with principal and interest payable at maturity in the aggregate amount of \$187,000. Interest and principal on the First Note, the Second Notes and the Manning Note are payable prior to maturity only to the extent of cash available to Sterling for these payments and as permitted by lenders to Sterling or its subsidiaries.

After the Sterling Transaction, Mr. Harper and another executive of TSC purchased \$300,000 and \$100,000, respectively, of the Manning Note from Mr. James D. Manning. As a result, Mr. Harper now holds a separate note in the principal amount of \$300,000, an executive of TSC holds a separate note in the principal amount of \$100,000, and Mr. James D. Manning holds a note in the principal amount of \$400,000, in each case, on the same terms and conditions as the Manning Note.

In September 2003, the First Note, the Manning Note and the Second Notes were amended to provide for a maturity date that is the date the Company is required to purchase the remaining shares of SHH if the holders of those shares exercise their rights to sell such shares to the Company, and to provide for payment of those notes with a combination of cash and five-year notes of the Company.

Mr. James D. Manning is employed by an operating subsidiary of SHH under a three-year employment agreement commencing January 1999 pursuant to which he receives an annual salary of \$75,000 plus \$75.00 per hour for each hour worked in excess of 1,000 hours during any calendar year. In addition, Mr. Manning is entitled to receive incentive compensation in the amount of \$50,000 if certain

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financial goals are met. The employment agreement limits the ability of Mr. Manning to compete for a period of two years after he ceases to be an employee if he terminated his employment without good cause or the company terminated his employment for good cause, and for a period of one year after he ceases to be an employee if he terminated his employment for good reason or the company terminated his employment without good cause; provided that these non-competition obligations may be avoided by Mr. Manning if the Company terminates the employment agreement other than for good cause.

In 1996, Mr. Patrick Manning, Mr. Harper and Mr. James D. Manning loaned \$864,000 to SHH pursuant to notes bearing interest at the prime rate plus 2%. The final principal installments on these loans were paid in October 2001 to (i) Mr. James D. Manning in the amount of \$240,000 plus accrued interest and (ii) each of Mr. Patrick Manning and Mr. Harper in the amount of \$24,000 plus accrued interest.

Since March 2001 Mr. Hemsley has provided consulting services to (and since May 2002 has been an employee of) JOHCM as a manager of Leisure & Media Venture Capital Trust plc, a fund that was not an investor in the Sterling Transaction.

In December 2001, in order to strengthen SCPI's working capital position, Sterling obtained funding in the amount of \$500,000 from members of management and directors, including Messrs. Frickel, Harper and Hemsley, who loaned \$155,000, \$100,000 and \$25,000, respectively. These notes are convertible into shares of common stock of the Company at a conversion price of \$2.50 per share at any time prior to the maturity date of December 2004. The notes, which rank senior to debt incurred in the Sterling Transaction, bear interest at 12% which is payable monthly.

In July 2001, Mr. Robert Frickel was elected to the Board of Directors. Mr. Frickel serves as President of R.W. Frickel Company, P.C., an accounting firm based in Michigan. R.W. Frickel Company has performed certain accounting and tax services for SHH in the past. Fees paid or accrued to R.W. Frickel Company for fiscal 2002 were approximately \$92,000.

Reference is made to information contained under the headings "Compensation of Directors," "Employment Contracts and Termination of Employment and Change-in-Control Arrangements," and "Compensation Committee Interlocks and Insider Participation".

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14

The following "Performance Graph" and the foregoing "Report of the Audit Committee" and "Report of the Compensation Committee on Executive Compensation" are not and shall not be deemed incorporated by reference into any filings of the Company with the Securities and Exchange Commission under the Securities Act of 1933, as amended or the Securities Exchange Act of 1934, as amended, by implication or by any reference in any such filings to this Proxy Statement.

### PERFORMANCE GRAPH

The following graph compares the percentage change in the Company's cumulative total stockholder return on Common Stock for the last five years with (i) the Dow Jones Total Return Index, a broad market index, and (ii) the Dow Jones Heavy Construction Index, a group of companies whose marketing strategy is focused on a limited product line, such as civil construction, over the same period. Both indices are published in The Wall Street Journal.

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The returns are calculated assuming the value of an investment in the Company's common stock and each index of \$100 on the Company's February 28, 1997 fiscal year end and that all dividends were reinvested into additional shares of common stock; however, the Company paid no dividends during the periods shown. The graph lines merely connect the beginning and end of the periodic measuring dates and do not reflect fluctuations between those dates. The historical stock performance shown on the graph is not intended to, and may not be indicative of, future stock performance.

### STERLING CONSTRUCTION COMPANY, INC.

#### (PERFORMANCE GRAPH)

	Dow Jones - Heavy Construction	Dow Jones - Total Return	Sterling Construction Company, Inc.
1997	100	100	100
1998	120	125	100
1999	128	153	139
2000	150	139	67
2001	158	122	149
2002	132	95	156

#### INDEPENDENT AUDITORS

Grant Thornton, LLP has served as the Company's independent auditors since September 2001 and was retained for fiscal 2002 and fiscal 2003.

A representative of Grant Thornton LLP is expected to be available at the Annual Meeting and will have an opportunity to make a statement if he or she desires to do so and will also be available to respond to appropriate questions from stockholders.

#### OTHER MATTERS

The Board of Directors knows of no other business that will be presented for consideration at the meeting other than the election of directors. However, if any other business should come before the meeting, it is the intention of the persons named in the enclosed proxy to vote or otherwise act in accordance with their best judgment on such matters.

#### SUBMISSION OF STOCKHOLDER PROPOSALS

Any proposal that a stockholder intends to present at the 2004 Annual Meeting of Stockholders must be submitted to the Secretary of the Company no later than April 1, 2004 in order to be considered timely received.

By Order of the Board of Directors

Roger M. Barzun, Secretary

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STERLING CONSTRUCTION COMPANY, INC.

ANNUAL MEETING OF STOCKHOLDERS

DECEMBER 29, 2003

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned, having received a Notice of the Annual Meeting of Stockholders of Sterling Construction Company, Inc. (the "Company") to be held on December 29, 2003 at 10:30 a.m. local time at the Sheraton Hotel, 37 Forbes Road, Braintree, MA 02184 or at any adjournment thereof (the "Annual Meeting") and the Board of Directors' Proxy Statement therefor, and revoking all prior proxies, hereby appoint(s) Patrick T. Manning, Maarten D. Hemsley and Roger M. Barzun, and each of them (with full power of substitution) as proxies of the undersigned to attend the Annual Meeting and any adjourned sessions thereof, and there to vote and act upon the following matters in respect of all shares of common stock of the Company which the undersigned would be entitled to vote or act upon, with all powers the undersigned would possess if personally present.

Attendance of the undersigned at the Annual Meeting or at any adjourned session thereof will not be deemed to revoke this proxy unless the undersigned shall affirmatively indicate thereat the intention of the undersigned to vote said shares in person. If the undersigned holds any shares in a fiduciary, custodial or joint capacity or capacities, this proxy is signed by the undersigned in every such capacity as well as individually.

[X] Please mark your votes as in this example.

The shares represented by this proxy will be voted as directed by the undersigned. If no direction is given with respect to any election to office or proposal specified below, this proxy will be voted FOR such election to office or proposal. None of the matters to be voted on is conditioned on, or related to, the approval of any other matter. All matters are proposed by the Company.

1. Election of two directors (or if the nominee is not available for election, such substitute as the Board of Directors may designate).

NOMINEES	CLASS	TERM
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John D. Abernathy	II	Three years
Robert W. Frickel	II	Three years

FOR ALL NOMINEES [ ]

WITHHOLD FROM ALL NOMINEES [ ]

[ ]

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INSTRUCTION: To withhold authority for any individual nominee, write the nominee's name in the space provided above.

IF YOU WISH TO VOTE IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE BOARD OF DIRECTORS, YOU NEED ONLY SIGN AND DATE THIS PROXY ON THE REVERSE SIDE -- YOU NEED NOT MARK ANY BOXES.

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CONTINUED AND TO BE SIGNED AND DATED ON THE REVERSE SIDE

In their discretion, the named proxies are authorized to vote upon such other matters as may properly come before the Annual Meeting, or any adjournment thereof.

FOR [ ]

AGAINST [ ]

ABSTAIN [ ]

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE COMPANY.

Please sign exactly as your name appears hereon. Joint owners should both sign. When signing as an attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Signature:

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Date:

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Signature:

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Date:

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PLEASE PROMPTLY MARK, SIGN, DATE AND RETURN THIS PROXY CARD USING THE ENCLOSED ENVELOPE.