

**STERLING CONSTRUCTION COMPANY, INC.**  
**CHARTER OF THE AUDIT COMMITTEE**  
**OF THE**  
**BOARD OF DIRECTORS**

**1. The Audit Committee.**

- (a) The Audit Committee (sometimes referred to herein as the "*Committee*") is a standing committee of the Board of Directors that is charged with assisting the Board of Directors in fulfilling its responsibility to oversee the Company's accounting and financial reporting processes and the audits of the Company's financial statements.
- (b) The Audit Committee reviews the Company's financial reports and other financial information, the Company's internal accounting and financial controls, its controls and procedures relating to public disclosure of information, and the audit of the Company's financial statements by the Company's independent auditors (hereinafter referred to as the "*Auditors*.")
- (c) The Board of Directors shall ensure that the Company provides the Audit Committee with the resources needed to carry out its responsibilities and to exercise its authority under this Charter, including staff and administrative support, as well as continuing education.
- (d) Any issue of significant financial misconduct shall be brought by the Company's management ("*Management*") to the attention of the Committee for its consideration.
- (e) Each year, the Committee will assess its own performance and the adequacy of this Charter and will recommend any changes regarding either of them to the Board of Directors.

**2. Authority of the Audit Committee.**

- (a) The Audit Committee shall have the responsibility and the authority required by Rule 10A-3 of the Securities and Exchange Commission (Regulation §240.10A-3). Such authority shall include, but shall not be limited to the authority in its sole discretion to institute an investigation of any matter brought to its attention, including suspected or alleged improprieties or illegalities involving the Company, its personnel, the Auditors, legal counsel or other advisers.
- (b) The Audit Committee shall have full access to all books, records, facilities and personnel of the Company, and the authority to engage and compensate independent counsel and other advisers that it determines are necessary, appropriate or advisable in carrying out its responsibilities and exercising its authority.
- (c) Without limiting the generality of the foregoing, the Audit Committee shall have the authority to expend such funds of the Company as it deems necessary, appropriate or advisable in carrying out its responsibilities under this Charter.

**3. The Company's Auditors .**

- (a) The Audit Committee shall be directly responsible for the appointment of the Company's Auditors, for approving their compensation and for supervising their work. In the event of any dispute between the Company's Management and the Auditors regarding financial reporting, it shall be the responsibility of the Committee to assist in resolving it.
- (b) The Committee shall receive direct reports from the Auditors, and shall be responsible for overseeing their independence and approving all their auditing services and permitted non-audit services (subject to any *de minimis* exceptions permitted by Securities and Exchange Commission rules), taking into account whether such non-audit services are compatible with maintaining the Auditors' independence. The Committee may designate to one of its members the authority to approve audit and permissible non-audit services provided that such approvals are reported to the full Committee at its next scheduled meeting.

**4. Audit Committee Membership.** Anything in the By-Laws of the Company to the contrary notwithstanding —

- (a) The Audit Committee shall consist of not less than three members each of whom shall be an independent director of the Company (as defined below) and is able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement. Committee members and the chairman of the Committee shall be elected annually by the affirmative vote of no less than a majority of the Company's independent directors.
- (b) At least one member of the Committee must be an "audit committee financial expert" as that term is defined from time to time by the Securities and Exchange Commission
- (c) An independent director for purposes of membership on the Audit Committee is one who —
  - (i) The Board of Directors affirmatively determines does not have a material relationship with the Company that would interfere with the exercise of his or her independent judgment;
  - (ii) Does not receive, directly or indirectly, any consulting, advisory or other compensation from the Company other than in his or her capacity as a director or as a member of one or more committees of the Board of Directors;
  - (iii) Is not an "affiliated person"<sup>(1)</sup> of the Company or of any subsidiary of the Company, other than by reason of his or her status as a director or as a member of one or more committees of the Board of Directors; and
  - (iv) Does not otherwise fall within the category of persons that are not considered independent for purposes of Audit Committee membership under the rules of the exchange on which the Company's common stock is listed or under applicable SEC rules.

**5. Audit Committee Governance.**

- (a) *Quorum & Voting.* Anything in the By-Laws of the Company to the contrary notwithstanding, at meetings of the Audit Committee, the presence of a majority of all members shall be necessary to constitute a quorum for the transaction of business, and the affirmative vote of a majority of all members shall be necessary to take any action. The responsibilities of the Committee may be delegated to one or more members of the Committee to the extent permitted by applicable law and the rules and regulations of any exchange on which the common stock of the Company is listed.
- (b) *Committee Rules & Regulations.* The Audit Committee may adopt such rules and regulations for the calling and holding of meetings of the Committee and for the transaction of business at its meetings as the Committee may deem necessary, appropriate or advisable provided that such rules and regulations are not inconsistent with (i) laws, rules or regulations applicable to the Audit Committee; (ii) the Certificate of Incorporation or the By-Laws of the Company; (iii) any resolution of the Board of Directors; or (iv) the express terms of this Charter.
- (c) *Meeting Minutes.* The Committee shall keep minutes of its proceedings and shall report thereon to the Board of Directors at the following meeting of the Board.

**6. Continuing Responsibilities of the Audit Committee.** Management is responsible for preparing the Company's financial statements, and the Auditors are responsible for auditing those financial statements. The Audit Committee has oversight responsibilities with respect to those two activities. The following is a non-exclusive list of steps that the Audit Committee should take to ensure that it is fulfilling its responsibilities. These steps may change from time to time as circumstances dictate.

- (a) *Meetings.* The Committee shall meet at least quarterly and shall call additional meetings, as circumstances require. When appropriate, the Audit Committee shall meet with legal counsel to discuss legal matters that may have an impact on the Company's financial statements. The Committee shall also meet with the Auditors at least once a year without any member of Management present.
- (b) *Accounting Controls.* The Committee shall periodically discuss with Management and the Auditors the quality and adequacy of the Company's internal controls and internal auditing

procedures, including (i) any significant deficiencies in the design or operation of those controls that could adversely affect the Company's ability to record, process, summarize and report financial data; and (ii) any fraud, whether or not material, that involves Management or other employees who have a significant role in the Company's internal controls.

- (c) *Disclosure Controls.* The Committee shall periodically review the adequacy and effectiveness of the Company's disclosure controls and procedures.
- (d) *Financial Statements.* The Committee shall review with Management and the Auditors the audited financial statements to be included in the Company's Annual Report on Form 10-K and the Annual Report to Stockholders and shall review and consider with the Auditors the matters required to be discussed by Statements on Auditing Standards Number 61 *Communication with Audit Committees* and Number 90 *Audit Committee Communications*. The Committee shall review with the Auditors the Company's interim financial information to be included in the Company's Quarterly Reports on Form 10-Q prior to filing.
- (e) *Accounting Policies.* The Committee shall periodically review with Management and the Auditors the quality as well as the acceptability of the Company's accounting policies. The Committee shall periodically discuss with the Auditors how the Company's accounting policies compare with those of other companies in the Company's industry and alternative treatments of financial information within generally accepted accounting principles that have been discussed with Management, the ramifications of the use thereof and the treatment preferred by the Auditors.
- (f) *Adjustments & Transactions.* The Committee shall discuss with the Auditors whether all material correcting adjustments identified by the Auditors in accordance with generally accepted accounting principles and the rules of the Securities and Exchange Commission are reflected in the Company's financial statements. The Committee shall review with Management and the Auditors any material financial or other arrangements of the Company which do not appear in the Company's financial statements and any transactions or courses of dealing with third parties that are significant in size or that involve terms or other aspects that differ from those that are likely to have been negotiated with independent parties and which arrangements or transactions are relevant to an understanding of the Company's financial statements.
- (g) *Communications.* The Committee shall review with the Auditors all material communications between the Auditors and Management, such as any management letter or schedule of unadjusted differences.
- (h) *Auditors' Independence.* The Committee shall (i) request from the Auditors an annual formal written statement delineating all relationships between the auditor and the Company consistent with Independence Standards Board Standard 1 — *Independence Discussions with Audit Committees* and such other requirements as may be established by the Public Company Accounting Oversight Board; (ii) discuss with the Auditors any such disclosed relationships or services that may impact the objectivity and independence of the Auditors'; and (iii) shall take any appropriate action regarding the independence and objectivity of the Auditors resulting therefrom.
- (i) *Auditors' Performance.* The Committee shall periodically review and evaluate the qualifications and performance of the Auditors. This review shall include obtaining annual reports on the Auditors' quality control procedures and any material issues raised by the most recent internal quality control and peer reviews of the Auditors.
- (j) *Releases & Guidance.* The Committee shall review and discuss with Management the Company's policies with respect to press releases on earnings and earnings guidance, including the use of *pro forma* information provided by the Company to the public or to analysts and ratings agencies.
- (k) *Risks.* The Committee shall discuss with Management the Company's major financial risk exposures and the steps Management has taken to monitor and control such exposures.

- (l) *Related Party Transactions.* The Committee shall conduct a review of all proposed "related party transactions" in which the amount involved exceeds \$50,000. All such transactions shall be subject to the prior written approval of the Committee and shall be reported to the Board of Directors. Related party transactions generally include transactions between the Company and its directors; executive officers; nominees for election as director; stockholders; or their respective affiliates or immediate family members. For purposes of this Charter, the broadest definition of "related party transactions" found in the rules of any exchange on which the Company's common stock is listed, the rules of the Securities and Exchange Commission or in applicable law shall be used.
- (m) *Form 10-K.* The Committee shall recommend to the Board of Directors whether, based on the exercise of the Committee members' responsibilities under this Charter, the year-end financial statements of the Company should be included in the Company's Annual Report on Form 10-K.

**7. Complaint & Reporting Procedures.**

- (a) The Audit Committee shall establish procedures for —
  - (i) The receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
  - (ii) The confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- (b) The existence and the nature of the reporting procedures shall be communicated to all employees and, to the extent appropriate, to agents of the Company.
- (c) It shall be a violation of the Company's Code of Ethics to intimidate or impose any form of retribution on any employee or agent who utilizes such reporting system in good faith to report suspected violations, except that appropriate action may be taken against such employee or agent if he or she is one of the wrongdoers.

---

<sup>(1)</sup> The term affiliate of, or a person affiliated with, a specified person, means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.