GRANITE CONSTRUCTION INC
Form 10-K
February 26, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009
OR

o 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 1-12911
Granite Construction Incorporated
(Exact name of registrant as specified in its charter)

Delaware	77-0239383
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
585 West Beach Street Watsonville, California	95076
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (831) 724-1011

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately $1.3 billion as of June 30, 2009, based upon the average of the bid and asked prices per share of the registrant's Common Stock as reported on the New York Stock Exchange on such date. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

At February 12, 2010, 38,629,378 shares of Common Stock, par value $0.01, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Shareholders of Granite Construction Incorporated to be held on May 7, 2010, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2009.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements that are not based on historical facts and which may be forward-looking in nature. Under the Private Securities Litigation Reform Act of 1995, a "safe harbor" may be provided to us for certain of these forward-looking statements. Words such as "outlook," "believes," "expects," "appears," "may," "will," "should," "anticipates" or the negative thereof or comparable terminology, are intended to identify these forward-looking statements. These forward-looking statements are estimates reflecting the best judgment of our senior management and are based on our current expectations and projections concerning future events, many of which are outside of our control, and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those risks described in this Report under "Item 1A. Risk Factors." Except as required by law, we undertake no obligation to revise or update any forward-looking statements for any reason. As a result, the reader is cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report.

PART I

Item 1. BUSINESS

Introduction

Granite Construction Company was originally incorporated in 1922. In 1990, Granite Construction Incorporated was formed as the holding company for Granite Construction Company and its wholly owned subsidiaries and was incorporated in Delaware. Unless otherwise indicated, the terms "we," "us," "our," "Company" and "Granite" refer to Granite Construction Incorporated and its consolidated subsidiaries.

We are one of the largest heavy civil construction contractors in the United States. We operate nationwide, serving both public and private sector clients. Within the public sector, we primarily concentrate on heavy-civil infrastructure projects, including the construction of roads, highways, mass transit facilities, airport infrastructure, bridges, dams and canals. Within the private sector, we perform site preparation and infrastructure services for residential development, commercial and industrial buildings, and other facilities.

We own and lease substantial aggregate reserves and own a number of construction materials processing plants. We also have one of the largest contractor-owned heavy construction equipment fleets in the United States. We believe that the ownership of these assets enables us to compete more effectively by ensuring availability of these resources at a favorable cost.

In 2000, we diversified into real estate investment and development, investing our own capital in carefully selected real estate projects throughout the western United States and Texas.

Operating Structure

Our construction business has been organized into two geographic segments, Granite West and Granite East. Included in our Granite West segment is our vertically integrated construction materials business. The Company also has a real estate investment and development business, Granite Land Company ("GLC"). Our results of operations discussed herein have been reported with the segment structure that was in place during 2009. See Note 20 of "Notes to the Consolidated Financial Statements" for additional information about our operating segments.

On August 31, 2009, we announced changes to our organizational structure designed to improve operating efficiencies and position the Company for long-term growth. In conjunction with the reorganization we are changing our reportable segments to reflect our business product lines. Beginning in fiscal 2010, the Company’s new reportable segments are: Construction, Large Project Construction, Construction Materials and Real Estate. The Real Estate segment will contain what was previously known as Granite Land Company. We will continue to provide geographic information within the new segment structure.

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Granite West: In 2009 and 2008, Granite West contract revenue and sales of construction materials was $1.4 billion and $2.0 billion (71.9% and 73.7% of our total revenue), respectively. Granite West revenue is derived from both public and private sector clients. Typical public sector projects include both new construction and improvement of roads, highways, airport infrastructure and bridges. Major private sector contracts typically include site preparation for housing and commercial development, including excavation, grading and street paving and installation of curbs, gutters, sidewalks and underground utilities.

Granite West's decentralized operating structure includes 14 branch offices in the western United States, several with additional satellite operations. In 2009, individual branch revenues ranged from $47.0 million to $210.1 million. Although most Granite West projects are started and completed within a year, the division also has the capability of constructing larger projects and, as of December 31, 2009, had four active large projects, each with total contract revenue greater than $50.0 million.

The Company mines aggregates and/or operates plants that process aggregates into construction materials for internal use and for sale to third parties. These activities are vertically integrated into Granite West and provide both a source of profits and a competitive advantage to our construction business through the readily available supply of materials. We have significant aggregate reserves that we have acquired by ownership in fee or through long-term leases.

Aggregate products used in our construction projects represented approximately 54.9% of our aggregate sales during 2009 and ranged from 42.3% to 54.9% over the last five years. The remainder is sold to third parties.

Granite East: In 2009, revenue from Granite East was $550.2 million (28.0% of our total revenue), compared with $695.0 million (26.0% of our total revenue) in 2008. Granite East's focus is on large, complex infrastructure projects and included major highways, mass transit facilities, bridges, tunnels, waterway locks and dams, pipelines, canals, and airport infrastructure. It also performs activities such as demolition, clearing, large-scale earthwork and grading, dewatering, drainage improvements, structural concrete, rail signalization, and concrete and asphalt paving. Granite East also has the ability to process locally sourced aggregates into construction materials using owned or rented portable crushing, concrete and asphalt processing plants.

Granite East operates out of three regional offices that provide management and administrative support and are the primary hubs for estimating efforts. Granite East construction contracts are typically greater than two years in duration with contract values ranging from $12.0 million to $466.5 million at December 31, 2009.

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Joint Ventures and Design/Build Projects: We participate in joint ventures with other construction companies. Joint ventures are used for large, technically complex projects, including design/build projects, where it is desirable to share risk and resources. Joint venture partners typically provide independently prepared estimates, shared financing and equipment and often bring local knowledge and expertise (see “Joint Ventures; Off-Balance-Sheet Arrangements” under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”).

We also utilize the design/build method of project delivery. Unlike traditional projects where owners first hire a design firm or design a project themselves and then put the project out to bid for construction, design/build projects provide the owner with a single point of responsibility and a single contact for both final design and construction. Revenue from design/build projects represented 64.0% and 66.4% of Granite East revenue in 2009 and 2008, respectively, and 10.1% and 14.1% of Granite West revenue in 2009 and 2008, respectively. Although these projects carry additional risk as compared to traditional bid/build projects, the profit potential can also be higher.

Granite Land Company: GLC is an investor in a diversified portfolio of land assets and provides real estate services for other Granite operations. GLC’s current portfolio consists of residential, retail and office site development projects for sale to home and commercial property developers, or held for rental income. The range of our involvement in an individual project may vary from passive investment to management of land rights or entitlement (use of land authorized by government agency), development, construction, leasing and eventual sale of the project. GLC projects have long lead times affording us the flexibility to stage our land entitlement and construction activities to meet market demand. Our strategy is to remain flexible, and to evaluate opportunities to sell any of our investments at any stage of the development process.

Generally, we team with partners who have local knowledge and expertise in the development of each property. Each of these developments is affected by such factors as changes in general economic conditions, bank-lending practices, interest rate fluctuations, and demand for real estate. In addition, each project is subject to issues unique to that property such as environmental conditions, local entitlement policies and market conditions.

Our current investments are located in Washington, Oregon, California and Texas. In 2009, revenue from GLC was $2.3 million (0.1% of our total revenue), compared with $9.0 million (0.3% of our total revenue) in 2008.

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Business Strategy

Our fundamental objective is to increase long-term shareholder value as measured by the appreciation of the value of our common stock over a period of time as well as dividend yields. A specific measure of our financial success is the achievement of a return on net assets greater than the cost of capital, creating “Granite Value Added.” The following are key factors in our ability to achieve these objectives:

Controlled Growth - We intend to grow our business by working on many types of infrastructure projects as well as by expanding into new geographic areas. In addition, we are focusing our efforts on larger projects wherein our financial strength and project experience provide us with a competitive advantage.

Decentralized Profit Centers - Each of our operating groups is established as an individual profit center which encourages entrepreneurial activity while allowing the offices to benefit from centralized administrative and support functions.

Diversification - To mitigate the risks inherent in the construction business as the result of general economic factors, we pursue projects: (i) in both the public and private sectors, (ii) for a wide range of customers within each sector (from the federal government to small municipalities and from large corporations to individual homeowners), (iii) in diverse geographic markets, (iv) that are design/build, lump sum and fixed unit price and (v) of various sizes, durations and complexity.

Employee Development - We believe that our employees are key to the successful implementation of our business strategies. Significant resources are employed to attract, develop and retain extraordinary talent and fully promote each employee’s capabilities.

Infrastructure Construction Focus - We concentrate our core competencies on this segment of the construction industry, which includes the building of roads, highways, bridges, dams, tunnels, mass transit facilities, railroad infrastructure and underground utilities as well as site preparation. This focus allows us to most effectively utilize our specialized strengths, which include grading, paving and concrete structures.

Aggregate Materials - We own and lease aggregate reserves and own processing plants that are vertically integrated into our construction operations. By ensuring availability of these resources and providing quality products, we believe we have a competitive advantage in many of our markets as well as a source of revenue and income from the sale of construction materials to third parties.

Ownership of Construction Equipment - We own a large fleet of well maintained heavy construction equipment. We believe that ownership of construction equipment enables us to compete more effectively by ensuring availability of the equipment at a favorable cost.

Profit-based Incentives - Profit center managers are incentivized with cash compensation and restricted stock, payable upon the attainment of pre-established annual financial and non-financial metrics.

Selective Bidding - We focus our resources on bidding jobs that meet our selective bidding criteria, which include analyzing the risk of a potential job relative to: (i) available personnel to estimate and prepare the proposal, (ii) available personnel to effectively manage and build the project, (iii) the competitive environment, (iv) our experience with the type of work, (v) our experience with the owner, (vi) local resources and partnerships, (vii) equipment resources, (viii) the size and complexity of the job and (ix) profitability.

Our operating principles include:

Accident Prevention - We believe accident prevention is a moral obligation as well as good business. By identifying and concentrating resources to address jobsite hazards, we continually strive to reduce our incident rates and the costs associated with accidents.

Environmental Responsibility - We believe in environmentally responsible operations. We are committed to protecting the environment, maintaining good community relations and ensuring compliance with government agency requirements.

Quality and High Ethical Standards - We believe in the importance of performing high quality work and maintaining high ethical standards through an established code of conduct and an effective corporate compliance program.

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Raw Materials

We purchase raw materials consisting of aggregate products, cement, diesel fuel, liquid asphalt, natural gas, propane and steel from numerous sources. Our aggregate reserves supply a portion of the raw materials needed in our construction projects. The price and availability of raw materials may vary from year to year due to market conditions and production capacities. We do not foresee the lack of availability of any raw materials.

Seasonality

The first and fourth quarter of our fiscal year are typically affected by weather conditions, primarily in the West, which may alter our construction schedules and can create variability in our revenues, profitability and the required number of employees.

Customers

We have customers in both the public and private sectors. Our largest volume customer is the California Department of Transportation ("Caltrans"). Contracts with Caltrans represented 11.9% and 9.6% of our total revenue and 16.6% and 13.1% of our Granite West revenue in 2009 and 2008, respectively. Public sector revenue in California represented 28.1% and 27.7% of our total revenue in 2009 and 2008, respectively. Other Granite West customers include certain federal agencies, departments of transportation of other states, county and city public works departments, school districts and developers and owners of industrial, commercial and residential sites. Granite East's customers are predominantly in the public sector and currently include various state departments of transportation, local transit authorities, and federal agencies.

Contract Backlog

Our contract backlog is comprised of the unearned portion of revenue on awarded contracts that have not been completed, including 100% of the unearned revenue of our consolidated joint ventures and our proportionate share of unconsolidated joint venture contracts. We include a construction project in our contract backlog at the time a contract is awarded and funding is in place, with the exception of certain federal government contracts for which funding is appropriated on a periodic basis. Substantially all of the contracts in our contract backlog may be canceled or modified at the election of the customer; however, we have not been materially adversely affected by contract cancellations or modifications in the past (see "Contract Provisions and Subcontracting"). Most Granite West projects are added and completed within each year and therefore are not reflected in our year-end contract backlog. Contract backlog by segment is presented in "Contract Backlog" under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Our contract backlog was approximately $1.4 billion and $1.7 billion at December 31, 2009 and 2008, respectively. Approximately $931.2 million of the December 31, 2009 contract backlog is expected to be completed during 2010.

Equipment

At December 31, 2009 and 2008, we owned the following construction equipment and vehicles:

December 31,	2009	2008
Heavy construction equipment	2,362	2,775
Trucks, truck-tractors, trailers and vehicles	5,254	5,812

Our portfolio of equipment includes loaders, bulldozers, excavators, rollers, motor graders, pavers, scrapers, cranes, trucks, backhoes and barges. We believe that ownership of equipment is generally preferable to leasing because it ensures the equipment is available as needed and normally results in lower costs. We pool certain equipment for use by both Granite West and Granite East to maximize utilization. On a short-term basis, we lease or rent equipment to supplement existing equipment in response to construction activity peaks. In 2009 and 2008, we spent approximately $17.6 million and $36.5 million, respectively, on purchases of construction equipment and vehicles.

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Employees

On December 31, 2009, we employed approximately 1,800 salaried employees, who work in management, estimating and clerical capacities, plus approximately 600 hourly employees. The total number of hourly personnel we employ is subject to the volume of construction in progress and is seasonal. During 2009, the number of hourly employees ranged from approximately 600 to 3,600 and averaged approximately 2,700. Two of our wholly owned subsidiaries - Granite Construction Company and Granite Construction Northeast, Inc. - are parties to craft collective bargaining agreements in many areas in which they work.

We believe our employees are our most valuable resource and that our workforce possesses a strong dedication to and pride in our company. Among salaried and non-union hourly employees, this dedication is reinforced by a 14.6% equity ownership at December 31, 2009 through our Employee Stock Ownership Plan, our Profit Sharing and 401(k) Plan and performance-based incentive compensation arrangements. Our managerial and supervisory personnel have an average of approximately 11 years of service with us.

Competition

Granite West competitors range from small local construction companies to large regional, national and global construction companies. While the market areas of these competitors overlap with several of the markets served by our branches, few compete in all of our market areas. Many of our Granite West competitors have the ability to perform work in either the private or public sectors. When opportunities for work in one sector are reduced, competitors tend to look for opportunities in the other sector. This migration has the potential to reduce revenue growth and/or increase pressure on gross profit margins. In addition, we own and/or have long-term leases on aggregate resources that provide an extra measure of competitive advantage in certain markets. Granite East normally competes with large regional, national and global construction companies.

Factors influencing our competitiveness include price, estimating abilities, knowledge of local markets and conditions, project management, financial strength, reputation for quality, the availability of aggregate materials, and machinery and equipment. Although some of our competitors are larger than us and may possess greater resources, we believe that we compete favorably on the basis of the foregoing factors. Historically, the construction business has not required large amounts of capital, particularly for the smaller size construction work pursued by Granite West, which can result in relative ease of market entry for companies possessing acceptable qualifications. Although the construction business is highly competitive, we believe we are well positioned to compete effectively in the markets in which we operate.

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Contract Provisions and Subcontracting

Our contracts with our customers are primarily “fixed unit price” or “fixed price.” Under fixed unit price contracts, we are committed to providing materials or services at fixed unit prices (for example, dollars per cubic yard of concrete poured or cubic yard of earth excavated). While the fixed unit price contract shifts the risk of estimating the quantity of units required for a particular project to the customer, any increase in our unit cost over the expected unit cost in the bid, whether due to inflation, inefficiency, errors in our estimates or other factors, is borne by us unless otherwise provided in the contract. Fixed price contracts are priced on a lump-sum basis under which we bear the risk of performing all the work for the specified amount. The percentage of fixed price contracts in our contract backlog increased to approximately 75.1% at December 31, 2009 compared with approximately 68.7% at December 31, 2008.

Our contracts are generally obtained through competitive bidding in re