

GRANITE CONSTRUCTION INC

Form 11-K

June 23, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 11-K
ANNUAL REPORT PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2007

Commission File Number 0-18350
GRANITE CONSTRUCTION PROFIT
SHARING AND 401(K) PLAN
GRANITE CONSTRUCTION INCORPORATED

585 West Beach Street
Watsonville, California 95076
Telephone: (831) 724-1011

This report contains 16 pages.

Item 4. FINANCIAL STATEMENTS AND SCHEDULE PREPARED IN ACCORDANCE WITH THE FINANCIAL REPORTING REQUIREMENTS OF ERISA

The following documents are filed as part of this report:

1. Financial Statements. The following financial statements are filed as part of this report:

| | Form 11-K |
|--|-----------|
| | Pages |
| Report of Independent Registered Public Accounting Firm | F-3 |
| Statements of Net Assets Available for Benefits at December 31, 2007 and 2006 | F-4 |
| Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2007 | F-5 |
| Notes to Financial Statements | F-6-F-10 |

2. Financial Statements Schedule. The following financial statement schedule of the Granite Construction Profit Sharing and 401(K) Plan (Plan) for the year ended December 31, 2007 is filed as part of this report and shall be read in conjunction with the financial statements of the Plan.

| | Form 11-K |
|---|-----------|
| | Pages |
| Schedule H, Line 4i Schedule of Assets (Held at End of Year) at December 31, 2007 | S-1 |

EXHIBITS

The following exhibit is attached hereto and filed herewith:

| Exhibit Number | |
|-------------------|--|
| 23 | Consent of Independent Registered Public Accounting Firm |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees have duly caused the annual report to be signed on its behalf by the undersigned hereunto duly authorized.

**GRANITE CONSTRUCTION
PROFIT SHARING AND 401(K) PLAN**

Date: June 23, 2008

By: /s/ Alan Movson
Alan Movson
Secretary

By: /s/ James H. Roberts
James H. Roberts
Committee Member

INDEX TO EXHIBITS

| Exhibit Number | Document |
|-------------------|--|
| 23 | Consent of Independent Registered Public Accounting Firm |

**Granite Construction
Profit Sharing and 401(k) Plan
Financial Statements
as of December 31, 2007 and 2006 and
for the year ended December 31, 2007**

**Granite Construction
Profit Sharing and 401(k) Plan
Index of Financial Statements and Schedule**

| | Pages |
|---|-------|
| <u>Report of Independent Registered Public Accounting Firm</u> | F-3 |
| Financial Statements: | |
| <u>Statements of Net Assets Available for Benefits at December 31, 2007 and 2006</u> | F-4 |
| <u>Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2007</u> | F-5 |
| <u>Notes to Financial Statements</u> | F-6 |
| Supplemental Schedule: | |
| <u>Schedule H, line 4i Schedule of Assets (Held At End of Year) at December 31, 2007</u> | S-1 |

Exhibit 23

Supplemental schedules other than the above are omitted because they are not applicable.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Participants and
Plan Administrator of the
Granite Construction
Profit Sharing and 401(k) Plan**

We have audited the financial statements of the Granite Construction Profit Sharing and 401(k) Plan (the Plan) as of December 31, 2007 and 2006, and for the year ended December 31, 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2007 and 2006, and the changes in net assets available for benefits for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule, as listed in the accompanying table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Mohler, Nixon & Williams
MOHLER, NIXON & WILLIAMS
Accountancy Corporation

Campbell, California
June 19, 2008

**Granite Construction
Profit Sharing and 401(k) Plan
Statements of Net Assets Available for Benefits**

| | December 31, | |
|---|---------------------|--------------------|
| | 2007 | 2006 |
| Assets | | |
| Investments, at fair value | \$ 194,196,378 | \$ 181,727,858 |
| Contributions receivable from employer | 104,333 | 2,606,603 |
| Contributions receivable from employees | 13,639 | 9,236 |
| Non-interest bearing cash | 44,977 | 56,344 |
| Net assets available for benefits | \$ 194,359,327 | \$ 184,400,041 |

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

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Granite Construction
Profit Sharing and 401(k) Plan
Statement of Changes in Net Assets Available for Benefits

| | Year ended December 31, 2007 |
|---|---|
| Changes to net assets available for benefits attributed to: | |
| Investment activities: | |
| Net depreciation in fair value of investments | \$ (8,985,970) |
| Interest and dividends | 11,723,921 |
| Net additions from investment activities | 2,737,951 |
| Contributions: | |
| Employee | 17,262,369 |
| Employer | 10,072,930 |
| Total contributions | 27,335,299 |
| Distributions to participants or beneficiaries | (23,460,643) |
| Diversification from employee stock ownership plan | 3,346,679 |
| Change in net assets available for benefits during the year | 9,959,286 |
| Net assets available for benefits, beginning of year | 184,400,041 |
| Net assets available for benefits, end of year | \$ 194,359,327 |

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

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**Granite Construction
Profit Sharing and 401(k) Plan
Notes to Financial Statements**

1. Description of Plan

The following description of Granite Construction Profit Sharing and 401(k) Plan (the Plan) provides only general information. The Plan document provides a more complete description of the Plan s provisions.

General

The Plan is a defined contribution Plan covering all eligible non-union employees of Granite Construction Incorporated and its participating subsidiaries (the Company). Employees generally become eligible to participate in the Plan as of December 31 of the year of hire if the employee is credited with at least 1,000 hours of work in that year and was an employee on December 31. The Company does not guarantee the benefits provided by the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

The Company has appointed an Administrative Committee (Committee) as the Plan administrator (Administrator). The Committee has exclusive authority and responsibility for all matters in connection with the operation and administration of the Plan (including the authority and responsibility to invest, manage, and control the assets of the Plan specifically allocated to the trustee and investment managers). The Company paid all necessary and proper expenses incurred in the administration of the Plan. Such expenses are primarily comprised of legal fees, auditing fees and expenses relating to the maintenance of the Plan s records.

Contributions

The Company makes profit sharing and 401(k) matching contributions. Profit sharing contributions from the Company may be contributed to the Plan in an amount (or under such formula) as may be determined by the Company s Board of Directors. Profit sharing contributions are payable solely out of the Company s current or accumulated earnings and profits. The profit sharing contribution shall not exceed the maximum amount deductible under the provisions of the Internal Revenue Code. The Company must pay the total profit sharing contribution to the Plan trustee before the date the Company is required to file its federal income tax return (including extensions). No profit sharing contributions were made to the Plan during 2007.

The Company s 401(k) matching contribution is based on a formula, as described in the Plan document. The Company s matching contribution is paid into the Plan at the same time as the employee contributions are paid into the Plan. Company matching contributions were \$10,072,930 for 2007.

All eligible Plan participants could make combined employee contributions to the Plan of up to \$15,500 during 2007. Plan participants who reach age 50 during the Plan year have the option to make an additional (Catch Up) pre-tax salary contribution of up to \$5,000 in 2007. Catch Up contributions are not provided a Company matching contribution.

**Granite Construction
Profit Sharing and 401(k) Plan
Notes to Financial Statements**

The Plan offers an option for deferring dividends from the Granite Construction Employee Stock Ownership Plan (ESOP). The Dividend Equivalent Deferral or 401(k) Switchback option allows participants in the ESOP to elect an additional pre-tax salary deferral to the 401(k) Plan equal to the amount of the ESOP dividend passed through to them.

Employee Stock Ownership Plan Diversification Account

The Plan permits certain participants under the ESOP to have a portion of their ESOP stock account transferred to the Plan. No portion of the participant s ESOP diversification account may be invested in the Granite Construction Inc. Common Stock Fund (Granite Common Stock).

Participant Accounts

Contributions from participants received by the Plan are deposited with the Plan trustee and custodian, Mercer Trust Company (Mercer). Each eligible participant s account is credited with an allocation of (a) the Company s 401(k) match and profit sharing contributions, (b) Plan earnings, (c) profit sharing forfeitures of terminated participant s non-vested accounts and (d) participant contributions. All allocations, except participant contributions and Company s match, are based on participants eligible earnings or account balances, as defined in the Plan document. The participant is entitled to the vested benefit available from the participant s account. At December 31, 2007 and 2006, forfeited non-vested accounts totaled \$358,924 and \$506,778, respectively, and are allocated to eligible participants accounts in the subsequent Plan year.

Benefits and Vesting

The full amount of the participant s profit sharing account becomes vested on his/her normal retirement date or when his/her employment with the Company terminates by reason of death or total disability, or when his/her years of vesting service is completed as defined in the Plan document. For participants that work one or more hours on or after January 1, 2007, the full amount of the profit sharing account becomes vested after three years of service. For participants that do not perform work after December 31 2006, the profit sharing account requires five years of service for full vested status. The full value of the participant s elective contribution and matching account are fully vested at the time of deferral. On termination of service for any reason, including death or disability, participants with less than \$1,000 in their accounts and who have not elected a rollover will receive one lump sum payout of the total value of their account balance as prescribed in the Plan document. If the participant has more than \$1,000 in their account upon termination, funds will not be distributed unless the participant elects to withdraw the funds as prescribed in the Plan document.

Hardship Withdrawals

The Plan provides for withdrawals in the event of financial hardship, as defined in the Plan document.

**Granite Construction
Profit Sharing and 401(k) Plan
Notes to Financial Statements
Plan Investments**

Participants may direct Company and participant contributions into any of the designated investment options approved by the Committee. Included in the designated investment options are various mutual funds, a common/collective trust, money market funds and Granite Common Stock.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investments

Investments are stated at fair value as determined by quoted market prices. The Plan presents, in the statement of changes in net assets available for benefits, the net appreciation (depreciation) in the fair value of its investments which consists of the realized gains or losses and unrealized appreciation (depreciation) on those investments.

Non-interest bearing cash

Non-interest bearing cash is made up of unsettled transactions relating to the Granite Common Stock.

Distributions

Distributions to participants are recorded when paid.

Risks and uncertainties

The Plan provides for various investment options in any combination of mutual funds, the Granite Common Stock and other investment securities, which the Administrator may, from time to time, make available. Investment securities are exposed to various risks, such as interest rate, market fluctuations and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits and the statement of changes in net assets available for benefits.

**Granite Construction
Profit Sharing and 401(k) Plan
Notes to Financial Statements
3. Investments**

The following schedule presents investments which are 5 percent or more of the Plan's net assets available for benefits at:

| | December 31, | |
|---|---------------------|--------------|
| | 2007 | 2006 |
| Granite Construction Incorporated | \$23,761,488 | \$26,614,155 |
| Harbor Capital International Fund | 22,361,871 | 18,998,424 |
| Franklin-Templeton Balance Sheet Investment Fund | 15,810,362 | 17,916,082 |
| Vanguard Capital Opportunities Admiral Share Fund | 15,410,302 | 14,963,369 |
| Putnam Money Market Fund | 14,993,297 | 15,430,050 |
| Putnam Asset Allocation Fund: Growth Portfolio | 13,052,137 | 12,422,259 |
| Loomis Sayles Bond Fund | 12,771,225 | 10,243,383 |
| Vanguard Morgan Growth Fund | 12,290,919 | 10,761,184 |
| The Clipper Fund | 11,103,307 | 12,130,337 |
| Putnam S&P 500 Index Fund | 9,785,636 | * |

* Balance at
December 31
was less than
5% of Plan's net
assets

During 2007, the Plan's investments appreciated/(depreciated) in value as follows:

| | |
|-------------------------|----------------|
| Mutual Funds | \$ (1,721,040) |
| Common/Collective Trust | 460,238 |
| Granite Common Stock | (7,725,168) |
| | \$ (8,985,970) |

4. Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated December 23, 2002, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. The Plan Administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

5. Related Party and Party in Interest Transactions

The Plan allows investment in the common stock of Granite Construction Incorporated. In addition, certain Plan investments are managed by Putnam Investments (Putnam). Putnam and Mercer are subsidiaries of Marsh & McLennan Companies, Inc.

**Granite Construction
Profit Sharing and 401(k) Plan
Notes to Financial Statements**

Any purchases and sales of such funds and common stock are performed in the open market at fair value. Transactions in these investments qualify as party-in-interest transactions, which are exempt from prohibited transaction rules.

Aggregate investment in Granite Common Stock at December 31 was as follows:

| Date | Number of shares | Fair Value |
|------|---------------------|--------------|
| 2007 | 656,758 | \$23,761,488 |
| 2006 | 528,898 | \$26,614,155 |

6. Plan Termination

Although it has not expressed any intent to do so, the Company may terminate the Plan at any time. In the event of termination of the Plan, all participants who are employed by the Company at the date of termination will become 100% vested in their account balances.

7. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2007 and 2006 to Form 5500:

| | December 31, | |
|--|---------------------|----------------|
| | 2007 | 2006 |
| Net assets available for benefits per the financial statements | \$ 194,359,327 | \$ 184,400,041 |
| Amounts allocated to withdrawing participants | (14,886,313) | (13,490,444) |
| Net assets available for benefits per the Form 5500 | \$ 179,473,014 | \$ 170,909,597 |

The following is a reconciliation of distributions to participants per the financial statements for the year ended December 31, 2007 to Form 5500:

| | |
|--|---------------|
| Distributions to participants per the financial statements | \$ 23,460,643 |
| Amounts allocated to withdrawing participants at December 31, 2007 | 14,886,313 |
| Amounts allocated to withdrawing participants at December 31, 2006 | (13,490,444) |
| Distributions to participants per Form 5500 | \$ 24,856,512 |

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims not yet paid for participants with termination dates equal to or prior to December 31.

8. Subsequent Event

Effective July 1, 2008 the Plan was amended to allow eligible participants to make contributions to the Plan of up to 50% of pre-tax wages effective the first of the month following 30 days of employment, not to exceed annual IRC limits. The Company will begin matching employee deferrals after attainment of 1,000 hours of service.

**Granite Construction
Profit Sharing and 401(k) Plan
Schedule H, line 4i Schedule of Assets (Held At End of Year)
December 31, 2007**

| (a) | (b) Identity of issuer, borrower, lessor or similar party | (c) | Description of investments including maturity date, rate of interest, collateral, par or maturity value | Cost (d) ⁽¹⁾ | (e) | Current Value |
|-----|---|-----|---|-------------------------|-----|---------------|
| * | Granite Construction Incorporated | | Common Stock | | | \$ 23,761,488 |
| | Harbor Capital International Fund | | Mutual Fund | | | 22,361,871 |
| | Franklin-Templeton Balance Sheet Investment Fund | | Mutual Fund | | | 15,810,362 |
| | Vanguard Capital Opportunities Admiral Share Fund | | Mutual Fund | | | 15,410,302 |
| * | Putnam | | Money Market Fund | | | 14,993,297 |
| * | Putnam Asset Allocation Fund: Growth Portfolio | | Mutual Fund | | | 13,052,137 |
| | Loomis Sayles Bond Fund | | Mutual Fund | | | 12,771,225 |
| | Vanguard Morgan Growth Fund | | Mutual Fund | | | 12,290,919 |
| | The Clipper Fund | | Mutual Fund | | | 11,103,307 |
| * | Putnam S&P 500 Index Fund | | Common/Collective Trust | | | 9,785,636 |
| | Lord Abbett Mid-Cap Value Fund | | Mutual Fund | | | 8,569,841 |
| * | Putnam Asset Allocation Fund: Balanced Portfolio | | Mutual Fund | | | 7,794,567 |
| | PIMCO Total Return Fund | | Mutual Fund | | | 6,344,063 |
| | Fremont U.S. Micro Cap Institutional Fund | | Mutual Fund | | | 4,818,621 |
| * | Putnam Asset Allocation Fund: Conservative Portfolio | | Mutual Fund | | | 3,479,746 |
| * | Putnam Diversified Income Trust Fund | | Mutual Fund | | | 3,356,529 |
| | T. Rowe Price Retirement 2030 Fund | | Mutual Fund | | | 1,356,629 |
| | T. Rowe Price Retirement 2015 Fund | | Mutual Fund | | | 1,165,608 |
| | T. Rowe Price Retirement 2025 Fund | | Mutual Fund | | | 951,367 |
| | Northern Small-Cap Value Fund | | Mutual Fund | | | 919,661 |
| | T. Rowe Price Retirement 2020 Fund | | Mutual Fund | | | 823,783 |
| | T. Rowe Price Retirement 2040 Fund | | Mutual Fund | | | 741,740 |
| | T. Rowe Price Retirement 2035 Fund | | Mutual Fund | | | 709,672 |
| | T. Rowe Price Retirement 2045 Fund | | Mutual Fund | | | 572,050 |
| | T. Rowe Price Retirement 2005 Fund | | Mutual Fund | | | 432,727 |
| | T. Rowe Price Retirement 2010 Fund | | Mutual Fund | | | 417,115 |
| | T. Rowe Price Retirement 2050 Fund | | Mutual Fund | | | 178,031 |
| | T. Rowe Price Retirement Income Fund | | Mutual Fund | | | 166,672 |
| | T. Rowe Price Retirement 2055 Fund | | Mutual Fund | | | 57,412 |

| | |
|----------------------|----------------|
| Total investments | \$ 194,196,378 |
|----------------------|----------------|

* known
party-in-interest
(exempt
transactions)

(1) Cost
information has
been omitted
with respect to
participant
directed
transactions

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