GRANITE CONSTRUCTION INC
Form DEF 14A
April 03, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

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

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

GRANITE CONSTRUCTION INCORPORATED

(Name of Registrant as Specified In Its Charter)

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

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þ No fee required.
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(8) Filing Party:

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GRANITE CONSTRUCTION INCORPORATED
585 West Beach Street
Watsonville, California 95076

Notice of Annual Meeting of Shareholders

April 3, 2009

Date:	Friday, May 15, 2009
Time:	10:30 a.m., Pacific Daylight Time
Place:	Embassy Suites 1441 Canyon Del Rey Seaside, California 93955

Purposes of the Meeting:

To elect two (2) directors for the ensuing three-year term;

To act upon a proposal to amend the Granite Construction Incorporated Amended and Restated 1999 Equity Incentive Plan;

To ratify the appointment by the Audit/Compliance Committee of PricewaterhouseCoopers LLP as Granite s independent registered public accounting firm for the fiscal year ending December 31, 2009; and

To consider any other matters properly brought before the meeting.

Who May Attend the Meeting?

Only shareholders, persons holding proxies from shareholders and invited representatives of the media and financial community may attend the meeting.

What to Bring:

If you received a Notice of Internet Availability of Proxy Materials, please bring that Notice with you. If your shares are held in the name of a broker, trust, bank, or other nominee, you will need to bring a proxy or letter from that broker, trust bank, or nominee that confirms you are the beneficial owner of those shares.

Record Date:

March 20, 2009 is the record date for the meeting. This means that if you own Granite stock at the close of business on that date, you are entitled to receive notice of the meeting and vote at the meeting and any adjournments or postponements of the meeting.

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Annual Report:

We have included a copy of the Annual Report on Form 10-K for the fiscal year that ended December 31, 2008 with the proxy solicitation materials on Granite s website. The annual report is not part of the proxy solicitation materials.

Shareholder List:

For ten days prior to the meeting, a complete list of shareholders entitled to vote at the meeting will be available for examination by any shareholder for any purpose relative to the meeting during regular business hours at Granite s headquarters located at 585 West Beach Street, Watsonville, CA 95076. The shareholder list will also be available at the annual meeting.

Information about the Notice of Internet Availability of Proxy:

This year, except for persons who have shares in Granite s Profit Sharing and 401(k) Plan (401(k) Participants), instead of mailing a printed copy of our proxy materials, including our Annual Report, to each shareholder of record, we will provide access to these materials in a fast and efficient manner via the internet. This reduces the amount of paper necessary to produce these materials, as well as the costs associated with mailing these materials to all shareholders. Accordingly, on April 3, 2009, we will begin mailing a Notice of Internet Availability of Proxy Materials to those shareholders of record as of March 20, 2009, other than 401(k) Participants, and we will post our proxy materials on the website referenced in the notice (**http://www.cfpproxy.com/5195**). On or about April 13, 2009 we will mail a second notice to shareholders, other than 401(k) Participants, which will also include a proxy card. All shareholders may choose to access our proxy materials on the website or may request to receive a printed set of our proxy materials. In addition, the notices and website provide information regarding how you may request to receive proxy materials in printed form by mail on an ongoing basis.

Proxy Voting:

Your vote is important. Please vote your proxy promptly so your shares can be represented at the annual meeting even if you plan to attend the meeting. Shareholders, with the exception of 401(k) Participants, can vote by internet, telephone or by using the proxy card that is enclosed with the second notice. Granite s 401(k) Participants, as in the past, will receive a package in the mail that includes all proxy materials and the proxy card. You may revoke your proxy without affecting your right to vote in person if you decide to attend the meeting. Your proxy card has specific instructions on how to vote.

To get directions to the 2009 Annual Meeting of Shareholders, call our Investor Relations Department at 831.761.4714.

By Order of the Board of Directors,

Michael Futch
Vice President, General Counsel and Secretary

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Proxy Statement

As more fully described in the notice, Granite Construction Incorporated, a Delaware corporation, on behalf of its Board of Directors, has made these materials available to you on the internet or has mailed you printed versions of these materials in connection with Granite s 2009 Annual Meeting of Shareholders, which will take place on May 15, 2009. The notice was mailed to Granite shareholders beginning April 3, 2009, and our proxy materials were posted on the website referenced in the notice on April 3, 2009. Granite, on behalf of its Board of Directors, is soliciting your proxy to vote your shares at the 2009 Annual Meeting of Shareholders or any subsequent adjournment or postponement. We solicit proxies to give all shareholders of record an opportunity to vote on matters listed in the accompanying notice and/or any other matters that may be presented at the annual meeting. In this proxy statement you will find information on these matters, which is provided to assist you in voting your shares.

Granite Construction Incorporated was incorporated in Delaware in January 1990 as the holding company for Granite Construction Company, which was incorporated in California in 1922. All dates in this proxy statement referring to service with Granite also include periods of service with Granite Construction Company.

Voting Information

Who Pays for this Solicitation?

Granite pays for the cost of this proxy solicitation. We will request banks and brokers, and other custodians, nominees and fiduciaries to solicit their customers who own our stock. We will reimburse their reasonable, out-of-pocket expenses for doing this. Our directors, officers and employees may also solicit proxies by mail, telephone, personal contact, telegraph, or through online methods without additional compensation.

Who Can Vote?

You will have received notice of the annual meeting and can vote if you were a shareholder of record of Granite s common stock as of the close of business on March 20, 2009. Each share of Granite stock you own is entitled to one vote. You may vote all shares owned by you as of the record date, including shares held directly in your name as the shareholder of record, and shares held for you as the beneficial owner through a broker, trustee or other nominee such as a bank. As of the close of business on March 20, 2009, there were 38,677,755 shares of common stock issued and outstanding.

Voting Procedures

This year, shareholders, with the exception of 401(k) Participants, have the option to vote by proxy three ways:

¨ ***By internet:*** You can vote by internet following the instructions in the second notice or by accessing the internet at https://www.proxyvotenow.com/gva and following the instructions at that website.

¨ ***By telephone:*** In the United States and Canada you can vote by telephone using a touch-tone phone by following the instructions in the second notice or by calling 1.888.216.1289 (toll free) and following the instructions; or

¨ ***By mail:*** You will receive a notice detailing your options (to be mailed on or about April 3, 2009), then ten days later, a second notice that includes a proxy card will be mailed. Follow the instructions on the card.

Granite s 401(k) Participants can only vote by mail this year. If you are a 401(k) Participant, you will have received a full set of proxy materials in the mail (mailed on or about April 3, 2009) including the proxy statement, the annual report and a proxy card.

Please refer to the notice or the information your bank, broker or other holder of record provided you for more information on the above options. If you have the option to authorize a proxy to vote your shares over the internet or by telephone, you should not return a proxy card by mail (unless you are revoking your previous proxy). If you vote by proxy card, your shares will be voted at the annual meeting in the manner you indicate on your proxy card. If you sign your proxy card but do not specify how you want your shares to be voted, they will be voted as the Board of Directors recommends by the persons named on your proxy card. This proxy statement contains a description of each item that you are to vote on along with our Board s recommendations. Below is a summary of our Board s recommendations:

¨ ***For*** election of both nominated directors;

¨ ***For*** the proposal to amend the Granite Construction Incorporated Amended and Restated 1999 Equity Incentive Plan; and

¨ ***For*** ratification of the appointment of PricewaterhouseCoopers LLP as Granite s independent registered public accounting firm for the fiscal year ending December 31, 2009.

As to any other item that may be properly proposed at the annual meeting, including a motion to adjourn the annual meeting to another time or place, the shares will be voted in the discretion of the persons named on your proxy card.

If there is a quorum, nominees for election to the Board who receive a majority of the shares voted will be elected as members of our Board of Directors for the upcoming three-year term. This means that a majority of votes cast for the election of a director must exceed the number of votes cast against the director s election, excluding abstentions. The other proposal included in this proxy statement requires the affirmative vote of the votes cast for passage. Any other matters properly proposed at the meeting will also be determined by a majority of the votes cast except as otherwise required by law or by Granite s Certificate of Incorporation or bylaws. This includes a motion to adjourn the annual meeting to another time or place (which includes by reason of soliciting additional proxies).

If you hold shares in a brokerage account and do not provide your broker with voting instructions, your shares may constitute broker non-votes. Generally, a broker non-vote occurs when a broker submits a proxy card with respect to shares held in a fiduciary capacity (typically referred to as being held in street name), but declines to vote on a particular matter because the broker does not have discretionary voting power with respect to that proposal and has not received voting instructions from you. In tabulating the voting result for any particular proposal, shares that constitute broker non-votes on that proposal will not be counted in determining the number of shares necessary for approval, except with respect to proposals requiring the affirmative vote of the issued and outstanding shares at the record date.

After I Return my Proxy Card Can I Change or Revoke my Proxy?

You can revoke your proxy at any time before the annual meeting. You may revoke your proxy by internet, by telephone or by filing with our Secretary a written revocation or a properly signed proxy card bearing a later date, or by attending the meeting and voting in person if you are a shareholder of record. Your proxy card gives specific instructions on how to vote.

Can I Vote at the Annual Meeting instead of Voting by Proxy?

You may attend the annual meeting and vote in person instead of voting by proxy; however, we strongly encourage you to vote by internet, telephone or mail prior to the meeting to ensure that your shares are voted.

What Constitutes a Quorum?

Granite s bylaws require a quorum to be present in order to transact business at the meeting. A quorum consists of a majority of the shares entitled to vote, either in person or represented by proxy. In determining a quorum we count votes for and against, abstentions and broker non-votes as present.

Who Supervises the Voting at the Meeting?

Granite s bylaws and policies also specify that prior to the annual meeting management will appoint an independent Inspector of Elections to supervise the voting at the meeting. The Inspector decides all questions as to the qualification of voters, the validity of proxy cards and the acceptance or rejection of votes. Before assuming his or her duties, the Inspector will take and sign an oath that he or she will faithfully perform his or her duties both impartially and to the best of his or her ability.

The Board of Directors

Election of Directors

The Board of Directors is divided into three classes. We keep the classes as equal in number as possible, however, the number of directors in a class depends on the total number of directors at any given time. Each director serves for a term of three years. The classes are arranged so that the terms of the directors in each class expire at successive annual meetings. This means that shareholders annually elect approximately one-third of the members of the Board. Granite currently has nine directors on the Board.

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The terms of David H. Kelsey and James W. Bradford, Jr. will expire at the 2009 annual meeting. The Board has nominated these two individuals for new terms. If elected, each of the nominees will serve as directors until the 2012 annual meeting and until his successor is elected and qualified or he resigns or until his death, removal, or other cause identified in Granite s bylaws.

Management knows of no reason why either of these nominees should be unable or unwilling to serve. Both nominees have accepted the nomination and agreed to serve as a director if elected by the shareholders. However, if either nominee should for any reason become unable or unwilling to serve between the date of the proxy statement and the annual meeting, the Board may designate a new nominee and the persons named as proxies will vote for that substitute nominee. You cannot vote for more than two nominees.

The Board of Directors recommends a vote FOR each of the above-named nominees.

Nominees for Director with Terms Expiring at the 2009 Annual Meeting

David H. Kelsey **Director since 2003**

Mr. Kelsey has served as Senior Vice President and Chief Financial Officer of Sealed Air Corporation, an S&P 500 manufacturer of specialty packaging for food and other protective applications, since December 2003 and served as Vice President and Chief Financial Officer between January 2002 and December 2003. Mr. Kelsey holds a B.S.E. degree in Civil and Geological Engineering from Princeton University and an M.B.A. degree from Harvard University Graduate School of Business. Age 58.

James W. Bradford, Jr. **Director since 2006**

Mr. Bradford has served in various capacities at Vanderbilt University, Owen School of Management. From March 2005 to present, he has served as Dean and Ralph Owen Professor for the Practice of Management. Between 2002 and March 2005, he served as Acting Dean, Associate Dean Corporate Relations, Clinical Professor of Management and Adjunct Professor. Between 1999 and September 2001, he served as President and Chief Executive Officer of United Glass Corporation, and from 1992 to 1999, he served as President and Chief Executive Officer of AFG Industries. Mr. Bradford is currently a director of Genesco, Inc. and Clarcor, Inc. He holds a B.A. degree in History and Political Science from the University of Florida and a J.D. degree from Vanderbilt University. Age 62.

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Continuing Directors with Terms Expiring at the 2010 Annual Meeting

William G. Dorey **Director since 2004**

Mr. Dorey has been an employee of Granite since 1968 and has served in various capacities, including his current positions as Chief Executive Officer since January 2004 and President since February 2003. He also served as Chief Operating Officer between May 1998 and January 2004, Executive Vice President between November 1998 and February 2003, Senior Vice President between 1990 and 1998, Branch Division Manager from 1987 to 1998, and Vice President and Branch Division Assistant Manager from 1983 to 1987. Mr. Dorey has been a director of Granite since January 2004. Mr. Dorey holds a B.S. degree in Construction Engineering from Arizona State University. Age 64.

Rebecca A. McDonald **Director since 1994**

Ms. McDonald has served as Chief Executive Officer of Laurus Energy Inc. since December 2008. She previously served as President, Gas and Power, BHP Billiton from March 2004 to September 2007, and, from October 2001 to January 2004, she served as President of the Houston Museum of Natural Science. Ms. McDonald holds a B.S. degree in Education from Stephen F. Austin State University. Age 56.

William H. Powell **Director since 2004**

Mr. Powell served as Chairman and Chief Executive Officer of National Starch and Chemical Company from 1999 until he retired in 2006. He is currently the Chairman, Board of Trustees of State Theatre Performing Arts Center in New Brunswick, New Jersey and serves as a director of Arch Chemical Company, Inc., and PolyOne Inc. Mr. Powell holds a B.A. degree in Chemistry, an M.S. in Chemical Engineering from Case Western Reserve University and an M.A. in Business Administration from the University of North Dakota. Age 63.

Claes G. Bjork **Director since 2006**

Mr. Bjork served as Chief Executive Officer of Skanska AB, Sweden, one of the world s largest construction companies, from 1997 to 2002. He also served as President of Skanska USA from 1984 to 1996, Vice President from 1978 to 1984 and held various project management and field positions within Skanska USA from 1969 to 1977. From 1998 through 2000, Mr. Bjork served as Chairman of Scancem Cement Company. He currently serves on the board of Consolidated Management Group, Qlik Technologies, Inc., and the Swedish American Chamber of Commerce. He studied Civil Engineering in Sweden. Age 63.

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Continuing Directors with Terms Expiring at the 2011 Annual Meeting

David H. Watts **Director since 1988**

Mr. Watts has served as our Chairman of the Board since May 1999. He also served as our Chief Executive Officer from October 1987 to December 2003 and as our President from October 1987 to January 2003. He was formerly President and Chief Executive Officer and a director of Ford, Bacon & Davis, Inc., an industrial engineering and construction firm. Mr. Watts currently serves as a director of Elgin National Industries, Inc. (a private company), the California Chamber of Commerce, of which he is a past Chair, Transportation California, the Monterey Bay Area Council of the Boy Scouts of America, and the California Business Roundtable. He holds a B.A. degree in Economics from Cornell University. Age 70.

J. Fernando Niebla **Director since 1999**

Mr. Niebla has served as President of International Technology Partners L.L.C., an information technology consulting company based in Orange County, California since August 1998. Mr. Niebla is a director of Life Modeler Inc., Union Bank of California, Pacific Life Corp and Integrated Healthcare Holdings, Inc. He holds a B.S. degree in Electrical Engineering from the University of Arizona and an M.S. QBA from the University of Southern California. Age 69.

Gary M. Cusumano **Director since 2005**

Mr. Cusumano retired in 2006 as Chairman of The Newhall Land and Farming Company, a developer of new towns and master-planned communities in north Los Angeles County, in which capacity he served since Lennar and LNR Properties acquired Newhall Land in 2004. Prior to the acquisition, he served as Chief Executive Officer from 2001 to 2004, and director since 1995. He is currently a director of Forest Lawn Memorial Parks and Mortuaries and Simpson Manufacturing Co. Mr. Cusumano holds a B.S. degree in Economics from the University of California, Davis and is a graduate of the Sloan Program at the Stanford University Business School. Age 65.

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Information about the Board of Directors and Corporate Governance

Committees of the Board

The following chart shows the standing committees of the Board of Director, membership and the number of meetings held in 2008.

	Audit/ Compliance	Compensation	Nominating & Corporate Governance	Strategic Planning	Executive
Claes G. Bjork*		X			X
James W. Bradford, Jr.*	X			Chair	
Gary M. Cusumano*		Chair	X	X	
William G. Dorey					X
David H. Kelsey*	Chair				
Rebecca A. McDonald*	X	X	Chair		X
J. Fernando Niebla*	X		X	X	
William H. Powell*[(1)]		X		X	X
David H. Watts				X	Chair
Number of Meetings in 2008	**9**	**7**	**6**	**2[(2)]**	**0**

* Independent directors
(1) Presiding Director
(2) The Committee also worked with management independently on various strategic initiatives throughout the year.

Audit/Compliance Committee
A description of the functions and activities of the Audit/Compliance Committee can be found in the Report of the Audit/Compliance Committee on Page 43 of this proxy statement and in the Audit/Compliance Committee charter. All members of the Committee are non-employee directors who are, and at all times during 2008 were, qualified as independent under the listing standards of the New York Stock Exchange. Each member also satisfies the Securities and Exchange Commission s (the SEC) requirement of independence. The Board has determined that Mr. Kelsey meets the criteria as an audit committee financial expert as defined by SEC rules. The Board of Directors has also determined that all members of the Committee are financially literate as required by the listing standards of the New York Stock Exchange. You can view and print the Audit/Compliance Committee charter on Granite s website *(see* Granite Website on Page 13).

Compensation Committee
All members of the Committee are non-employee directors who are, and at all times during 2008 were, qualified as independent under the listing standards of the New York Stock Exchange. The Committee reviews all aspects of compensation for our directors, the Chief Executive Officer and other executive officers, and overall compensation plans and strategies and then makes recommendations to the Board for their consideration and approval. The Chief Executive Officer attends Committee meetings and recommends

annual salary levels, incentive compensation and payouts for other executive officers for the Committee s approval. The Compensation Committee also administers the Amended and Restated 1999 Equity Incentive Plan (the Plan) with respect to persons subject to Section 16 of the Securities Exchange Act of 1934. In the case of awards intended to qualify for the performance-based compensation exemption under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), the Plan is administered only by the Compensation Committee, which includes at least two non-employee directors within the meaning of Section 162(m). If you desire additional information concerning the Compensation Committee, you can read the Compensation Committee charter on Granite s website *(see* Granite Website on Page 13).

Nominating and Corporate Governance Committee

All members of the Committee are non-employee directors who are, and at all times during 2008 were, qualified as independent under the listing standards of the New York Stock Exchange. The Nominating and Corporate Governance Committee recommends and nominates persons to serve on the Board. The Committee also develops and recommends corporate governance principles and practices to the Board and annually reviews the Board s performance. The Committee s policy for considering director candidates, including shareholder recommendations, is discussed in more detail below under the heading Board of Directors Nomination Policy. This policy and the Nominating and Corporate Governance Committee charter are available on Granite s website *(see* Granite Website on Page 13).

Strategic Planning Committee

The Strategic Planning Committee reviews and recommends for approval the Strategic Plan developed by management and provides overall strategic planning direction. The Committee also works with management independently on various strategic initiatives throughout the year.

Executive Committee

The Executive Committee s responsibility is to carry out the powers and authority of the Board in the management of Granite s business within limits set by the Board. The scope of the Committee s authority is determined in accordance with the Delegation of Authority and Policy as adopted and revised from time to time by the Board. Non-employee members of the Executive Committee do not receive any meeting fees or other compensation for their service on the Committee.

Role of the Compensation Consultant

Granite has retained Mercer (US) Inc. (Mercer) to provide information, analyses, and advice regarding executive compensation, as described below. The Mercer consultant who performs these services reports to the Vice President of Human Resources and the Director of Compensation and Benefits. At the direction of the Vice President of Human Resources, Mercer provided the following services to Granite during fiscal 2008:

- Evaluated the competitive positioning of our named executive officers base salaries, annual incentive and long-term incentive compensation relative to our primary peer companies and the broader industry;

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- Advised on 2009 target award levels within the annual and long-term incentive program and, as needed, on actual compensation actions;
- Assessed the alignment of company compensation levels relative to our performance against our primary peer companies and relative to the Compensation Committee s articulated compensation philosophy;
- Provided advice on the design of Granite s 2009 annual and long-term incentive plans;
- Advised on the 2009 performance measures and performance targets for the annual and long-term incentive programs; and
- Assisted with the preparation of the Compensation Discussion and Analysis for this proxy statement.

In the course of conducting its activities, Mercer attended three meetings of the Compensation Committee and presented its findings and recommendations for discussion.

All of the decisions with respect to determining the amount or form of executive and director compensation under our executive and director compensation programs are made by the Compensation Committee alone and may reflect factors and considerations other than the information and advice provided by Mercer.

Executive Sessions and the Presiding Director

At each regular Board of Directors meeting, the Board schedules an executive session that consists entirely of non-employee directors. In 2008, the Board elected William H. Powell as the Presiding Director. The Presiding Director presides over executive sessions of the independent members of the Board and over all meetings at which the Chairman of the Board is not present. In addition, he or she acts as a liaison between the Chairman and the Board, and assists in setting the Board meeting agenda. A new Presiding Director is elected every two years.

Board of Directors Nomination Policy

Evaluation Criteria and Procedures
Members of the Board of Directors of Granite are divided into three classes and are nominated for election for staggered three-year terms. The Board, its members, its committee structure and performance and its overall governance performance are continuously reviewed. Included in this review is a careful evaluation of the mix of skills and experience of Board members weighed against Granite s current and emerging operating and strategic challenges and opportunities. These evaluations are made on the basis of observations and interviews with management and with Board members conducted annually by the Nominating and Corporate Governance Committee, with the assistance of an independent executive search firm. The activities of the executive search firm are coordinated by the Director of Human Resources.

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Current Board members whose performance, capabilities, and experience meet Granite s expectations and needs are nominated for reelection in the year of their term s completion. In accordance with Granite s Corporate Governance Guidelines, Board members are not re-nominated after they reach their 72^{nd} birthday.

Each member of the Board of Directors must meet a set of core criteria, referred to as the three C s : Character, Capability, and Commitment. Granite was founded by persons of outstanding character, and it is Granite s intention to ensure that it continues to be governed by persons of high integrity and worthy of the trust of its shareholders. Further, Granite intends to recruit and select persons whose capabilities, including their educational background, their work and life experiences, and their demonstrated records of performance will ensure that Granite s Board will have the balance of expertise and judgment required for its long-term performance and growth. Finally, Granite will recruit and select only those persons who demonstrate that they have the commitment to devote the time, energy, and effort required to guarantee that Granite will have the highest possible level of leadership and governance.

In addition to the three C s, the Board recruitment and selection process assures that the Board composition meets all of the relevant standards for independence and specific expertise. For each new recruitment process, a set of specific criteria is determined by the Nominating and Corporate Governance Committee with the assistance of the executive search firm and the Chairman of the Board, utilizing the interview process noted above. These criteria may specify, for example, the type of industry or geographic experience that would be useful to maintain and improve the balance of skills and knowledge on the Board. After the search criteria are established, the executive search firm utilizes its professional skills and its data sources and contacts, including current Granite Board members and officers, to seek appropriate candidates. The credentials of a set of qualified candidates provided by the search process are submitted for review by the Nominating and Corporate Governance Committee, the Chairman of the Board and senior officers. Based on this review, the Nominating and Corporate Governance Committee invites the top candidates for personal interviews with the Committee and Granite s executive management team.

Normally, the search, review, and interview process results in a single nominee to fill a specific vacancy. However, a given search may be aimed at producing more than one nominee and the search for a single nominee may result in two candidates of such capability and character that both might be nominated, with term classes restructured following additional vacancies.

It is Granite s intention that this search and nomination process consider qualified candidates referred by a wide variety of sources, including all of Granite s constituents its customers, employees, shareholders, and members of the communities in which it operates. The search firm will include all referrals in its screening process and bring qualified candidates to the attention of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for assuring that all relevant sources of potential candidates have been canvassed.

Shareholder Recommendation and Direct Nomination of Board Candidates

Consistent with our bylaws and the Nominating and Corporate Governance Committee Charter, Granite will review and consider for nomination any candidate for membership to the Board recommended by a shareholder, in accordance with the evaluation criteria and selection process described above. Shareholders wishing to recommend a candidate for consideration in connection with an election at a specific annual meeting should notify Granite well in advance of the meeting date to allow adequate time for the review process and preparation of the proxy statement, and in no event later than the date specified below with respect to direct nominations.

In addition, Granite s bylaws provide that any shareholder entitled to vote in the election of directors may directly nominate a candidate or candidates for election at a meeting provided that timely notice of his or her intention to make such nomination is given. To be timely, a shareholder nomination for a director to be elected at an annual meeting must be received by Granite not less than 120 days prior to the first anniversary of the date the proxy statement for the preceding year s annual meeting of shareholders was released to shareholders and must contain the information specified in our bylaws. The Committee will consider nominees to the Board recommended by shareholders as long as the shareholder gives timely notice in writing of his or her intent to nominate a director. To be timely, a shareholder nomination for a director to be elected at the 2010 annual meeting must be received at Granite s principal office, addressed to the Corporate Secretary, on or before December 2, 2009.

Director Independence

Under the listing standards of the New York Stock Exchange, a director is considered independent if the Board determines that the director has no material relationship with Granite. In determining independence, the Board considers pertinent facts and circumstances including commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. The Board follows these guidelines when assessing the independence of a director:

A director who, within the last three years is, or has been, an employee of Granite or whose immediate family member is, or has been within the last three years, an executive officer of Granite, may not be deemed independent until three years after the end of such employment relationship. Employment as an interim Chairman, Chief Executive Officer or other executive officer shall not disqualify a director from being considered independent following that employment.

A director who has received, or has an immediate family member who has received, during any twelve-month period within the last three years more than $120,000 in direct compensation from Granite, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), may not be deemed independent. Compensation received by a director for former service as an interim Chairman, Chief Executive Officer or other executive officer and compensation received by an immediate family member for service as an employee of Granite (other than an executive officer) will not be considered in determining independence under this test.

The following directors may not be deemed independent: (A) a director who is affiliated with or employed by or whose immediate family member is a current partner of a firm that is Granite s internal or external auditor; (B) a director who is a current employee of such a firm; (C) a director who has an immediate family member who is a current employee of such a firm and who participates in the firm s audit, assurance or tax compliance practice; or (D) a director or immediate family member who was within the last three years a partner or employee of such a firm and personally worked on Granite s audit within that time.

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A director who or whose immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of Granite s present executive officers at the same time serves or served on that company s compensation committee may not be deemed independent.

A director who is a current employee or whose immediate family member is a current executive officer of a company that has made payments to, or received payments from, Granite for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million, or 2% of such other company s consolidated gross revenues for that fiscal year may not be deemed independent.

The Board reviews the independence of all non-employee directors every year. For the review, the Board relies on information from responses to questionnaires completed by directors and other sources. Directors are required to immediately inform the Nominating and Corporate Governance Committee of any material changes in their or their immediate family members relationships or circumstances that could impact or change their independence status.

During 2008, all non-employee directors who served on the Board for all or a part of the year, were identified as independent under the listing standards of the New York Stock Exchange; namely, Claes G. Bjork, James W. Bradford, Jr., Gary M. Cusumano, David H. Kelsey, Rebecca A. McDonald, J. Fernando Niebla and William H. Powell.

Board and Annual Shareholder Meeting Attendance

During 2008, the Board of Directors held nine meetings. All directors as a group attended an average of 99% of the total number of meetings of the Board and any committee on which they served. Except for irreconcilable conflicts, directors are expected to attend the annual shareholder meeting. The Annual Meeting Attendance Policy is a part of Granite s Board of Directors Corporate Governance Guidelines and Policies and is posted on Granite s website *(see* Granite Website below). All directors attended Granite s 2008 annual shareholder meeting.

Communications with the Board

Any shareholder or other interested party wishing to communicate with the Board of Directors, or any particular director, including the Presiding Director, can do so by following the process described in the Communications with the Board of Directors Policy. The policy is posted on Granite s website (*see* Granite Website below).

Code of Conduct

Granite s Code of Conduct applies to all Granite employees, including the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer and all directors. The Code of Conduct is available on Granite s website at www.graniteconstruction.com at the About Us site under Core Values . We will also

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post any amendments to the Code of Conduct at this location on our website. You can obtain a copy of the Code of Conduct, without charge, by contacting Granite s Human Resources Department at 831.724.1011.

Granite Website

The following charters and policies are available on Granite s website at the Corporate Governance site under Investor Relations at www.graniteconstruction.com: the Audit/Compliance Committee Charter, the Nominating and Corporate Governance Committee Charter, the Compensation Committee Charter, the Corporate Governance Guidelines and Policies, the Board of Directors Nomination Policy, the Shareholder Communication to the Board Policy and Granite s Code of Conduct. You can also request copies of these charters and policies in print without charge by contacting Granite s Investor Relations Department at 831.761.4714.

Executive and Director Compensation and Other Matters

Compensation Discussion and Analysis

Compensation Philosophy

Compensation paid to Granite s named executive officers (the Chief Executive Officer, ex-Chief Financial Officer, current Chief Financial Officer, Chief Operating Officer and Granite West and Granite East Managers, or NEOs) is structured to align with our short-term and long-term performance objectives. The Compensation Committee believes that the most effective way to enhance company performance is to emphasize variable compensation. Both financial metrics such as return on net assets (RONA), weighted average cost of capital (WACC), and adjusted operating income (AOI) and non-financial metrics such as safety are utilized as performance measures.

Until 2007, NEO base salaries were positioned around the market 25th percentile emphasizing the opportunity to earn market competitive total compensation through short- and long-term incentives. The market for executive talent is highly competitive, and it is important that Granite be well-positioned to attract, retain and reward key management. In order to align Granite s executive compensation program with market best practices, the Compensation Committee revised its philosophy to target market median-base salaries. For 2008, the Compensation Committee considered the following factors in setting executive compensation levels:

- Market median compensation levels for all elements of compensation, i.e., base salary, short- and long-term incentives and total direct compensation as the first point of reference;
- Individual performance and potential to impact business performance; and
- Talent attraction and retention needs.

Adjustments were made to NEO compensation levels, compensation mix and performance objectives in 2008 as a step towards aligning NEO compensation with the above-stated philosophy. These changes are discussed in greater detail in the following pages. As stated above, the Committee believes that

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the changes made to the NEO program in 2008 enhance the market competitiveness of the program and better align executive efforts with Company performance and shareholder value creation.

Objective of the Compensation Program

The objective of the compensation program is to attract and retain talented, creative, experienced executives who possess the skills and leadership qualities necessary to compete in the marketplace, encourage the delivery of consistent financial performance and growth of shareholder value. Key elements of the program are as follows:

- Base salaries are at or near the 50th percentile of base salaries for comparable positions in the market;

- Cash and stock-based incentives are earned upon the attainment of pre-established financial and safety goals; and

- A comprehensive benefits program available to all salaried employees. The benefits provided include medical, dental, vision, life and accidental death and disability insurance, short- and long-term disability, paid vacation and holiday pay. NEOs are eligible along with other key management employees, to participate in the Nonqualified Deferred Compensation Program and a program offering periodic medical examinations.

Market Data Considered in Determining Executive Compensation

Each year the Compensation Committee reviews available industry compensation data to establish the compensation that the NEOs can earn if performance targets are reached. Data is reviewed from benchmark companies with comparable annual revenue and assets. Threshold and maximum levels of compensation are linked to expectations for business performance that would justify payment of compensation. The Compensation Committee defines and approves the threshold and maximum performance goals for the NEOs.

In 2008 the Compensation Committee reviewed market compensation data from the following two sources:

1. A peer group of six public companies - These companies represent the construction and engineering and construction materials industry that compete for executive talent in the same market as Granite. The table below lists the names of the companies and their annual revenues and total assets for

their most recent fiscal years. At the time the Committee reviewed the market data, Granite s fiscal 2008 revenues and total assets were $2,737,914 and $1,786,418, respectively.

Company Name	Revenue (FY07) ($) *(in thousands)*	Total Assets (FY07) ($) *(in thousands)*
Perini Corp.	4,628	1,654
Washington Group Intl Inc.	3,398	1,732
Quanta Services Inc.	2,656	3,388
Martin Marietta Materials	2,207	2,684
Texas Industries Inc.	1,029	1,515
Vulcan Materials Co.	3,328	8,936

2. Private company market data was provided by Analytical/FMI, a compensation consulting company that gathers extensive compensation data for companies in the engineering and construction industries. The companies participating in the survey are composed of companies competing with Granite for key engineering and construction talent. The Compensation Committee selected private companies with employee headcount and revenue similar to Granite s.

3. An equally weighted blend of public company data and private company data was used to develop market composites for base salary and target total cash compensation. However, as almost all private companies do not report long-term incentive data, only peer group public company compensation data derived from proxy statements was used as a reference for long-term incentive and total direct compensation.

Compensation Elements and Reasons for Payment

Base Salary

Consistent with Granite s historical compensation philosophy, NEO base salaries were generally positioned around the 25th percentile of their respective market composites. Given the shift from a 25th percentile to a 50th percentile pay philosophy, the Committee approved the following salary increases for NEOs in 2008. With an exception to the Chief Executive Officer, these increases positioned the other four NEOs closer to the market 50th percentile. The Chief Executive Officer s base salary was increased by 11%, the Chief Operating Officer s by 14%, the Chief Financial Officer s by 31%, the Granite West Manager s by 15%, and the Granite East Manager s by 25%. LeAnne M. Stewart, the current Chief Financial Officer was hired in February 2008 with a base salary close to the 50^{th} percentile.

Granite s former Chief Financial Officer, William E. Barton, assumed the interim position of Senior Vice President and Assistant Secretary effective March 1, 2008 to ensure a smooth transition to the new Chief Financial Officer. As part of the strategy to ensure a successful transition, Mr. Barton s last pay levels were maintained through the transition period. He retired from Granite in August 2008.

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Incentive Compensation

The Chief Executive Officer, Chief Financial Officer and Chief Operating Officer participate in the Corporate Incentive Plan, and the Granite West and Granite East Managers participate in the Corporate and Division Incentive Plan. The Corporate Incentive Plan uses RONA measured against a WACC hurdle and safety as performance measures, whereas the Division Incentive Plan uses division AOI and division safety as performance measures. Both plans are discussed in detail on the following pages. Table 1 provides a breakdown of maximum incentive opportunity, corporate vs. division weights for all NEOs. The plan provides for cash and stock-based (restricted stock) awards of final annual incentive earned by the NEOs. Specifically:

Payout is in cash for RONA performance under the Corporate Incentive Plan from threshold to the point where RONA equals WACC, for AOI performance under the Division Incentive Plan from threshold to target division AOI performance and for safety performance from threshold to maximum safety performance.

Payout is in service-based restricted stock for RONA performance above WACC to the maximum payout and for AOI performance to the maximum payout. Restricted stock is subject to a three year ratable vesting schedule, except as described below. The vesting schedule is designed to encourage and reward decision-making which ensures sustained financial performance over the long term. The number of shares earned by each NEO is determined by dividing the dollar amount of the applicable portion of the executive s incentive by the average daily closing stock price in the first 30 days of January of the performance year. Once granted, restricted stock serves as a retention tool and provides the NEOs with a longer term incentive to grow shareholder value as vesting occurs ratably over five years from the grant date. Prior to 2008, restricted stock grants vested at the end of five years. Executives age 55 with 10 years of service are eligible for an accelerated vesting schedule, i.e., ratable vesting in equal percentages over five years. Grants made prior to 2008 will be grandfathered in line with the provisions explained above. NEOs 62 years of age or older, with 10 years of service, receive the stock portion of their incentive in fully-vested stock or, at the discretion of the Compensation Committee, they may be awarded cash in lieu of restricted stock.

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Table 1 - Incentive Weighting (Corporate and Division Programs) and Opportunity - 2008

Name	Corporate Incentive Program Weighting (%)	Division Incentive Program Weighting (%)	Total Maximum Opportunity ($)	Settlement of Incentive: Maximum Cash ($)	Settlement of Incentive: Maximum Value Delivered in Restricted Stock ($)
William G. Dorey[1] President & Chief Executive Officer	100	-	2,000,000	700,000	1,300,000
LeAnne M. Stewart[2] Senior Vice President & Chief Financial Officer	100	-	770,000	220,000	550,000
Mark E. Boitano Executive Vice President & Chief Operating Officer	100	-	1,400,000	500,000	900,000
James H. Roberts Senior Vice President & Granite West Manager	30	70	1,000,000	350,000	650,000
Michael F. Donnino Senior Vice President & Granite East Manager	30	70	900,000	300,000	600,000
William E. Barton[1] Senior Vice President & Chief Financial Officer *(Retired)*	100	-	420,000	120,000	300,000

(1) Mr. Dorey and Mr. Barton are 62 years of age and satisfy the service criterion of 10 years. The restricted stock portion of their incentive payout would be fully vested.

(2) Ms. Stewart s incentive is prorated on 11 months of performance since her start date with Granite was February 4, 2008.

Corporate Incentive Program: Performance Measures and Mechanics

The Chief Executive Officer, Chief Financial Officer and Chief Operating Officer earn 100%, and the Granite West and Granite East Managers earn 30% of their incentive compensation under the Corporate Incentive Program. Ten percent of the cash incentive opportunity under the Corporate Incentive Plan is based on the Total Safety Incident Rate (TSIR) performance. The remainder is based on RONA.

Return on Net Assets

RONA is calculated by dividing the net income Granite earned in the year ended December 31, 2008 by its weighted average net assets, adjusted for the purpose of calculating incentive compensation

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(total weighted average of assets less current liabilities, long-term debt, an estimated value of quarry property which will not be mined within the next five years, and deferred income taxes).

RONA performance objectives for a given plan year are set based on Granite s WACC. WACC is defined as Granite s blended cost of debt and equity. The WACC calculation was approved by the Compensation Committee and was set at 9% for 2008 for the purpose of calculating incentive compensation. The Corporate Incentive Program incorporates RONA and WACC as the primary metrics because of the significant capital needs of the business. Granite s operations require sizable investment in capital equipment and aggregate reserves, which require periodic replacement. Both the Division Incentive Program and the Corporate Incentive Program are designed to reward high returns on the net assets employed. Reaching targeted returns on net assets and high returns on revenue will generate the cash necessary to replace assets as needed and provide the cash necessary for growth and fair dividend returns to the shareholders. In this way, the incentive compensation paid to the NEOs is aligned with the metrics that directly affect the financial health of Granite and the long-term interests of the shareholders.

The maximum RONA objective is established at a level that the Compensation Committee considers indicative of superior performance. In determining the maximum RONA objective, the Compensation Committee considers Granite s RONA history, industry comparisons, growth rate, new investment in the business, cost of capital, and the current market conditions Granite is experiencing. The maximum RONA objective is reviewed annually by the Compensation Committee, as is the amount of incentive compensation that can be earned by each of the NEOs if the maximum compensation RONA target is reached.

In 2008, the WACC was set at 9%. Threshold RONA was set at 4.5% which was 50% of WACC, and maximum RONA was set at 15%. Actual RONA achieved in 2008 was 16.30%.

Safety
In keeping with our policy of honoring our employees by providing the safest work environment in the industry, the Total Safety Incident Rate (TSIR) targets were established in early 2006 as part of Granite s strategic plan of reducing the TSIR to 6.0 by 2010. The safety measure objectives are determined based on management expectations and historical performance. In 2008, to ensure progress towards the 2010 objective and focus executive efforts on minimizing accidents and fatalities, safety was made a part of the executive incentive plan. In relation to this strategy, the 2008 TSIR target was set at 7.3. Ten percent of each NEO s cash incentive opportunity was tied to this target. No safety-related incentive was payable under the Corporate Incentive Plan if Granite experienced an employee work-related fatality during the plan year.

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The safety goal uses the TSIR to determine whether there has been an overall increase or decrease in safety incidents. Three separate injury rate measures are added to determine the overall TSIR:

A. Total Injury Incident Rate (TIIR) tracks all injuries requiring an employee to be treated by a health care professional, even if the treatment provided is minor.

B. OSHA Recordable Injury Rate (ORIR) tracks all injuries serious enough to require OSHA documentation (i.e., medical treatment, restricted duty, lost time).

C. Lost Time Injury Rate (LTIR) tracks all injuries serious enough to cause an injured employee to be away from work for any days beyond the day of the injury.

Incident Rate Calculation

Incident rates, which represent the number of events per 100 full-time employees, are calculated by multiplying the number of events by category (total injuries, OSHA recordable injuries or lost time Injuries) by 200,000 (2,000 hours per employee, per year x 100 employees) and divided by the total number of hours of employee exposure.

For example, in 2008 there were 12,144,655 hours of employee exposure, and the injuries reported were as follows:

Total Injuries	= 225
OSHA Recordable Injuries	= 172
Lost Time Injuries	= 58

The Total Safety Incident Rate for 2008 was calculated as follows:

Total Injury Incident Rate	= 225 X 200,000/12,144,655 = 3.7
OSHA Recordable Injury Rate	= 172 X 200,000/12,144,655 = 2.8
Lost Time Injury Rate	= 58 X 200,000/12,144,655 = 1.0
Total Safety Incident Rate	= (TIIR + ORIR + LTIR) = 7.5

For 2008, the threshold, target and maximum safety objectives for 2008 were set at 9.5 (130% of TSIR target), 7.3 (100% of TSIR target) and 5.1 (70% of TSIR target), respectively. The target objective reflects Granite s plan (as illustrated above) to achieve a 6.0 TSIR by 2010. In 2008, the Corporate Safety Incentive was not achieved due to an employee fatality, and the portion of cash payout tied to the safety component was not paid.

Table 2 Actual Payouts in March 2009 for 2008 Performance

Name	Total Incentive Earned ($)	Cash Incentives ($)	Paid in Restricted Stock (# of Shares)
William G. Dorey President & Chief Executive Officer	1,930,000	630,000	$1,300,000 (37,281)
LeAnne M. Stewart Senior Vice President & Chief Financial Officer	748,000	198,000	$550,000 (15,773)
Mark E. Boitano Executive Vice President & Chief Operating Officer	1,350,000	450,000	$900,000 (25,810)
William E. Barton Senior Vice President	408,000	108,000	$300,000 (8,603)

Equity awards earned in 2008 were granted on March 13, 2009. The number of shares earned was determined by dividing the dollar amount of the executive s share-based incentive by $34.87, the average of the daily closing stock price in the first 30 days of January of the performance year. LeAnne M. Stewart s incentive earned was prorated based on 11 months of performance since her start date with Granite on February 4, 2008. William E. Barton s incentive earned was prorated based on six months of performance and his retirement mid-year from Granite.

Division Incentive Program Performance: Performance Measures and Mechanics

The Granite West and Granite East Managers earn 70% of their incentive compensation from a program based on the performance of their respective divisions known as the Division Incentive Program. This weighting is designed to ensure that the most significant portion of their potential incentive compensation is directly tied to the AOI and safety performance of their division, while a smaller percentage is based on Granite s overall performance.

AOI is defined as actual operating income adjusted for pre-defined profit or loss items such as interest earned or charged on operating cash flow and accounting eliminations for such items as equipment transfers and materials sales between business units.

Under the Division Incentive Program, executives begin to earn incentive compensation when Division AOI exceeds an initial threshold consisting of allocated corporate overhead and a charge for the cost of the assets employed by the applicable division. The maximum cash and stock incentive for the Division Incentive Program is paid when a division s AOI target is achieved. The Division AOI targets, as well as the maximum incentive that can be earned by each Division Manager if this target is achieved, are set annually by the Chief Executive Officer and reviewed and approved by the Compensation Committee. In determining Division AOI targets, consideration is given to the size of the division, the value of the net assets employed, recent division performance history, and current market conditions. If the Division AOI target is not achieved, the actual cash and stock incentive paid is based on a straight line pro-ration of actual

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Division AOI compared to the Division AOI target. Restricted stock awarded under the Division Incentive Program is subject to a three-year ratable vesting schedule.

In the past five years, including 2008, the Granite West Division AOI threshold has been reached in four of those years. During the same period the maximum Division AOI has been achieved for four years by the Granite West Division.

In the past five years, including 2008, the Granite East Division AOI threshold has been reached in one of those years. During the same period the maximum Division AOI has not been attained by the Granite East Division.

In 2008, the Granite West Division Manager earned incentive compensation of $934,728 of which $645,228 was for attainment of division goals, and $289,500 was for achievement of corporate goals. Division financial results accounted for $627,410 in incentive compensation of which $220,500 was paid in cash and $406,910 was paid in restricted stock. A cash payment of $17,818 was paid for performance between the threshold and target safety goal.

In 2008, the Granite East Division Manager earned incentive compensation of $760,075 of which $499,075 was for attainment of division financial results and $261,000 was for achievement of corporate goals. The cash component earned based on the division s financial results was $189,000 and the remaining $310,075 was paid as restricted stock. The safety goal was not earned due to a work fatality within the division.

Table 3 - Incentive Compensation (Cash and Restricted Stock) Earned under the Corporate and Division Incentive Programs in 2008

Name	Total Incentive Earned ($)	Cash Incentives ($)	Paid in Restricted Stock (# of Shares)
James H. Roberts Senior Vice President and Granite West Manager	934,728	332,818	$601,910 (17,262)
Michael F. Donnino Senior Vice President and Granite East Manager	760,075	270,000	$490,075 (14,054)

Equity awards earned in 2008 were granted on March 13, 2009. The number of shares earned was determined by dividing the dollar amount of the executive s incentive by $34.87, the average of the daily closing stock price in the first 30 days of January of the performance year.

Profit Sharing Bonus

Granite maintains a Profit Sharing Bonus Plan that provides a discretionary cash bonus to all salaried employees hired prior to August 1 of the performance (calendar) year. The purpose of the plan is to focus employee effort on Granite s profitability. In 2008, the Compensation Committee approved a bonus amount of $12 million. This amount was determined after taking into consideration anticipated 2008 profitability, liquidity needs and near-term planned uses of excess cash. The bonus allocated to salaried employees is based on earned compensation and translated to 7.846% on the first $230,000 of NEO base compensation which is listed under the Profit Sharing Bonus Plan in the All Other Compensation table on Page 30.

Policy Regarding Recovery of Award if Basis Changes Because of Restatement

If the basis upon which a previous compensation award is made changes because of a restatement of a prior year s financial results, and the previous award is determined to be an overpayment, it is Granite s policy to either recover the amount overpaid or to hold the overpayment as a debit against future incentive compensation earned. There were no adjustments to calculations that affected incentive compensation calculated or paid in 2008.

Nonqualified Deferred Compensation

Effective January 1, 2008, Granite replaced its 2005 Key Management Deferred Compensation Plan and 2005 Key Management Deferred Incentive Compensation Plan. The Granite Construction Key Management Deferred Compensation Plan II became the successor plan which:

Allows key executives to defer incentive compensation and Employee Stock Ownership (ESOP) dividends. Executives can defer up to 100% of their annual cash bonus, ESOP dividends and Profit Sharing Cash Bonus;

Provides a company matching contribution of 6% on the first $100,000 that the employee defers and is credited at the time of deferral. Prior to January 1, 2008, Granite credited participants with a matching contribution, equal to the percentage elected under the Profit Sharing and 401(k) Plan, not to exceed $6,000;

Allows NEOs, who are at least 62 years of age and have 10 years of service on the last day of the performance period, to defer receipt of 100% of the restricted stock payable under the performance unit agreement. A quarterly dividend equivalent is credited to NEOs who make this deferral election. Deferred performance units will be distributed as shares of Granite common stock; and

Allows for interest to be credited monthly based on the 30-day average of the Lehman Brothers long-term bond index determined as of December 1 of the year prior to the plan year, plus 100 basis points. In 2008, the rate was 5.63%.

In August 2008, the Compensation Committee approved a number of amendments to the Key Management Deferred Compensation Plan II. The amendments were designed to reduce costs associated with the Key Management Deferred Compensation Plan II and at the same time offer participant s greater investment choices and financial protection. The amendments were as follows:

A Rabbi Trust was established to be funded with historical deferrals over a four-year period. All new deferrals will be held in the Trust. By holding the assets within a Trust, participants have added security that future benefit obligations will be satisfied;

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Corporate-owned life insurance was added providing an opportunity for Granite to save money by reducing the corporate tax expense on the Key Management Deferred Compensation Plan II assets. Participants can voluntarily consent for Granite to purchase life insurance on their behalf and are eligible for a survivor benefit equal to one year s base salary payable in the event of death. The survivor benefit is payable only while employed with Granite;

A menu of investment options for deferral into non-qualified deferred compensation plan accounts was provided to participants. Granite will determine the investment options for the Plan menu and will be permitted to add or remove investment options from the plan based on a review of the performance of the particular investment; and

Participants will no longer receive from Granite interest payments based on the Lehman Brothers long-term bond index. All gains and losses to participant s accounts will be incurred based on the participant s investment choices and market performance.

The Rabbi Trust and corporate-owned life insurance were implemented on October 1, 2008. The menu of investment options with gains or losses to participant s accounts determined by market fluctuations was implemented January 1, 2009.

All Other Compensation

The NEOs are eligible to participate in the Granite Construction Profit Sharing and 401(k) Plan. Granite provides matching contributions on compensation deferred as 401(k) contributions not to exceed 6% of IRS qualified compensation up to $230,000. NEOs are provided insurance for personal and auto liability, as well as auto physical damage and umbrella liability.

Impact of Accounting and Tax Treatments of a Particular Form of Compensation

We provide certain stock-based compensation under our Amended and Restated 1999 Equity Incentive Plan (the Plan), which is accounted for under FASB Statement No 123 (revised 2004), Share-Based Payment (SFAS 123R). Restricted stock compensation cost is measured as the stock s fair value based on the market price at the date of grant. Restricted stock compensation cost is recognized on a pro-rated basis over the vesting period or the period from the grant date to the first maturity date after the holder reaches age 62 and has completed certain specified years of service, when all restricted shares become fully vested.

Salary and cash incentive payments and deferred compensation are taxable to the executive officer in the year they are paid. Restricted stock incentives are taxable income to the executive officer and provide an income tax deduction for Granite in the year the stock vests. Granite expenses salary and cash incentive payments in the year they are earned.

Section 162(m) of the Internal Revenue Code (the Code) disallows a federal income tax deduction to publicly held companies for certain compensation paid to certain of their NEOs, to the extent that compensation exceeds $1 million per executive officer in any fiscal year. This limitation applies only to compensation that is not considered performance-based under the Section 162(m) rules. Our executive

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compensation programs have been structured so that any compensation deemed paid in connection with the program is intended to qualify as performance-based compensation which will not be subject to the $1 million limitation.

2009 Executive Compensation Program

The 2009 NEO compensation program is materially different from 2008 and reflects Granite s and the Compensation Committee s ongoing efforts to better align pay levels and program design with market best practices and long-term shareholder value creation. As the next step to enhance market competitiveness of the Company s NEO compensation program, the Compensation Committee approved the following principal components of the 2009 NEO compensation program:

- No adjustments to base salary compensation;
- Incentive adjustments to align total direct compensation with market median levels;
- Individual total direct compensation opportunity defined at three levels - threshold, target and maximum. In 2008, total direct compensation was defined at maximum levels;
- A stand-alone annual incentive plan based on RONA, operating cash flow margin, safety and strategic measures, AOI and safety measures, as applicable; and
- A separate stand-alone long-term incentive plan based on 3-year average economic profit and total shareholder return (TSR) performance relative to a comparator group of companies.

The 2009 NEO compensation program design further strengthens the relationship between pay and shareholder value creation by introducing additional performance measures and increasing the difficulty level of performance hurdles. The specifics of the compensation opportunity, plan design and performance objectives will be discussed in greater detail in our 2010 proxy statement.

Severance Arrangement

Our Chief Financial Officer, LeAnne M. Stewart, is eligible to receive severance benefits if her employment is terminated without cause. Termination with cause would include some of the following reasons: unauthorized disclosure of confidential information; conviction of a felony; misappropriation of Granite assets; and violation of Granite s code of conduct. In the event of her termination without cause, Ms. Stewart would receive the following:

- Continued vesting of unvested equity grants for a period of 12 months; and
- Lump sum cash benefits equal to (1) the then current year s annual incentive plan target bonus prorated for the number of days in service for the given year, and (2) one year s base salary at the rate in effect at the time of termination.

These cash benefits will be paid in 30 days from the date of termination. Granite provided this benefit to incentivize Ms. Stewart to join Granite with the understanding that in the event she was terminated without cause she would not be adversely impacted financially. A similar benefi