GRANITE CONSTRUCTION INC
Form DEF 14A
April 13, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

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

Filed by the Registrant x

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))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Under Rule 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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x No fee required
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11

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

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GRANITE CONSTRUCTION INCORPORATED
585 West Beach Street
Watsonville, California 95076

Notice of Annual Meeting of Shareholders

April 20, 2007

Date:	Monday, May 21, 2007
Time:	10:30 a.m., Pacific Daylight Time
Place:	Embassy Suites 1441 Canyon Del Rey Seaside, California 93955

Purposes of the Meeting:

To elect four (4) directors for the ensuing three-year term;

To vote on a proposal to amend the Bylaws of the Company to provide that in uncontested elections director nominees be elected by an affirmative vote of the majority of votes cast at the annual meeting of shareholders;

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, 2007; 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.

Record Date:

March 23, 2007 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.

Annual Report:

We have included a copy of the annual report for the fiscal year that ended December 31, 2006 to each shareholder of record as of March 23, 2007. 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.

Proxy Voting:

Your vote is important. Please vote and return your proxy card promptly so your shares can be represented at the meeting even if you plan to attend. We have enclosed a postage-paid envelope for your convenience. 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.

By Order of the Board of Directors,

Michael Futch
Vice President, General Counsel and Secretary

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Proxy Statement

This proxy statement and the accompanying proxy card are being mailed to Granite shareholders on or about April 20, 2007. Granite Construction Incorporated, a Delaware corporation, on behalf of its Board of Directors, is soliciting your proxy to vote your shares at the 2007 annual meeting of shareholders being held on May 21, 2007, 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 of Annual Meeting of Shareholders and or any other matters that may be presented at the annual meeting. In this proxy statement you will find information, which we are providing 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 the solicitation 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 receive notice of the annual meeting and you can vote if, as of the close of business on March 23, 2007, you were a shareholder of record of Granite s common stock. 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 23, 2007, there were 41,755,757 shares of common stock issued and outstanding.

Voting Procedures

If you vote by proxy, 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 indicate how you want your shares voted, they will be voted as your 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 your Board s recommendations. Below is a summary of your Board s recommendations:

- ***For*** election of all four nominated directors;
- ***For*** the proposal to amend Granite s Bylaws to provide that in uncontested elections, director nominees be elected by an affirmative vote of the majority of votes cast at the annual meeting of shareholders;
- ***For*** ratification of the appointment of PricewaterhouseCoopers LLP as Granite s independent registered public accounting firm for the fiscal year ending December 31, 2007.

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

If there is a quorum, the four nominees receiving the highest number of votes will be elected for the upcoming three-year term. Nominees to the Board who receive a plurality of the shares voted will be elected as members of your Board of Directors. The proposal to amend Granite s Bylaws requires the affirmative vote of 662/3 percent of the outstanding shares entitled to vote at the annual meeting. The other proposals included in this proxy statement require the affirmative vote of a majority of the votes cast. 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 has not received voting instructions from you. In tabulating the voting result for any particular proposal, shares that constitute broker non-votes are entitled to vote on that proposal and 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 card either 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 complete and return the enclosed proxy card 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.

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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.

The terms of William G. Dorey, Rebecca A. McDonald, William H. Powell and Claes G. Bjork will expire at the 2007 annual meeting. The Board has nominated these four individuals for new terms that will expire at the 2010 annual meeting and until his or her successor is elected and qualified unless he or she resigns or upon his or her death, removal, or other cause identified in Granite s Bylaws.

Ms. McDonald has served on the Board since 1994, and Messrs. Dorey and Powell have served on the Board since 2004. Mr. Bjork was recommended by the Nominating and Corporate Governance Committee to fill the unexpired term of a director who retired in 2006. The Board of Directors elected Mr. Bjork to fill the vacancy at a regularly scheduled Board meeting on July 20, 2006.

Management knows of no reason why any of these nominees should be unable or unwilling to serve. Each nominee has accepted the nomination and agreed to serve as a director if elected by shareholders. However, if any 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 four nominees.

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

Nominees for Election of Directors with Terms Expiring at the 2007 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 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, Manager, Branch Division from 1987 to 1998, and Vice President and Assistant Manager, Branch Division from 1983 to 1987. Mr. Dorey has been a director of Granite since January 2004 and between 1997 and 2002, he served as a director of TIC Holdings, Inc. Mr. Dorey holds a B.S. degree in Construction Engineering from Arizona State University. Age 62.

Rebecca A. McDonald **Director since 1994**

Ms. McDonald has served as President, Gas and Power, BHP Billiton since March 2004. She was formerly the President of the Houston Museum of Natural Science, a position she assumed in October 2001. Ms. McDonald holds a B.S. degree in Education from Stephen F. Austin State University. Age 54.

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. Mr. Powell holds a B.A. degree in Chemistry and 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 61.

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 1985 and held various project management and field positions within Skanska USA and Skanska Sweden from 1969 to 1977. From 1998 through 2000, Mr. Bjork served as Chairman of Scancem Cement Company and is currently on the board of Qlik Technologies, Inc., the Swedish American Chamber of Commerce, one small start-up company, and is a member of the Board of Trustees of the American Scandinavian Foundation. He studied Civil Engineering in Sweden. Age 61.

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Continuing Directors with Terms Expiring at the 2008 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. Mr. Watts 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 Infrasource, Inc. (NYSE: IFS), 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 68.

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 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 67.

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. 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 63.

Continuing Directors 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 56.

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Continuing Directors with Terms Expiring at the 2009 Annual Meeting   Continued

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 59.

Information about the Board of Directors and Corporate Governance

Committees of the Board(1)

The following are the standing committees of the Board of Directors. Membership and the number of meetings held in 2006 are shown in the following chart.

	Audit/ Compliance	Compensation	Nominating & Corporate Governance	Strategic Planning	Executive
Claes G. Bjork*		X			X
James W. Bradford, Jr.*	X		X	Chair	
Gary M. Cusumano*		X	X	X	
William G. Dorey					X
David H. Kelsey*	Chair				
Rebecca A. McDonald*(2)		X	Chair	X	X
J. Fernando Niebla*	X		X	X	
William H. Powell*	X	Chair		X	
David H. Watts				X	Chair
Number of Meetings in 2006	11	7	8	1(3)	

* Independent directors

(1) Linda Griego resigned from the Board effective March 22, 2007.

(2) Presiding Director

(3)

The Committee also worked with management independently on various strategic initiatives throughout the year.

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Audit/Compliance Committee

A description of the functions and activities of the Audit/Compliance Committee is in the Report of the Audit/Compliance Committee on Page 28 of this proxy statement and in the Audit/Compliance Committee Charter. All members of the Committee are non-employee directors who are 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 s charter on Granite s website (*see* Granite Website on Page 11).

Compensation Committee

All members of the Committee meet the independence requirements under the listing standards of the New York Stock Exchange. The Committee reviews and recommends compensation for our directors, the Chief Executive Officer and other named executive officers, and overall compensation plans and strategies to the Board for their consideration and approval. In addition, the Compensation Committee 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 will be 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 11) and the Compensation Committee Report on Page 17 of this proxy statement.

Nominating and Corporate Governance Committee

All members of the Committee meet the independence requirements 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 of Directors. 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 Nominations to the Board and is available on Granite s website (*see* Granite Website on Page 11).

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 Committee reviews and approves decisions determined in the current Limits of Authority schedule in the Minute Book of the Company. Members of the Executive Committee do not receive any meeting fees or other compensation for their service on the Committee.

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 2006 the Board elected Rebecca A. McDonald, Chairman of the Nominating and Corporate Governance Committee, as our 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.

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 the Granite s Corporate Governance Guidelines, Board members are not re-nominated after they reach their 72nd 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.

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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 the 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 the 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 2008 annual meeting must be received at Granite s principal office, addressed to the Corporate Secretary, on or before December 13, 2007.

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 or CEO 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 $100,000 in direct compensation from

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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 or CEO 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 (but is no longer) a partner or employee of such a firm and personally worked on Granite s audit within that time.

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 2006, 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, Linda Griego, David H. Kelsey, Rebecca A. McDonald, Raymond E. Miles, J. Fernando Niebla, William H. Powell and George B. Searle.

Board and Annual Shareholder Meeting Attendance

During 2006, the Board of Directors held seven meetings. All directors as a group attended an average of 97% 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 on Page 11). All directors attended Granite s 2006 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 post any amendments to its 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 the named executive officers (the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Branch Division Manager, and Heavy Construction Division Manager, or executive officers) is aligned with the Company s performance on both a short-term and long-term basis. We believe that the most effective way to enhance Company performance is to have the executive officers compensation at risk and dependent on business performance. Consequently, base salaries for executive officers are set below the median point of base salaries for executive officers in peer group construction companies. Additional compensation and equity awards can be earned by achievement of stretch financial targets established by the Compensation Committee.

Objective of the Compensation Program

The objective of the Company s compensation program is to attract and retain talented, creative, experienced executives who possess the skills and leadership qualities necessary to compete in the marketplace and ensure the delivery of consistent financial performance and growth of shareholder value.

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The Company has developed a three-tier program consisting of the following elements:

- Base salaries set below the median point of base salaries for executive officers in peer group construction companies;
- Cash incentives, which are earned if minimum financial performance thresholds are achieved; and
- Stock incentives in the form of restricted stock, which are earned if financial performance exceeds higher financial thresholds.

What is the Compensation Program Designed to Reward?

The compensation program is designed to reward executive officers for achieving financial returns in excess of the cost of capital.

Compensation Elements and Reasons for Payment

Base Salary

The base salaries of executive officers, including the CEO, are generally set at not more than the 25th percentile range of salaries for comparable executive officers in the industry peer companies.

The CEO recommends base salary adjustments for executive officers other than himself, which are then reviewed and approved by the Compensation Committee.

Setting base salaries at a relatively low level and providing additional performance based incentives motivates the executives to attain the Company s financial performance goals.

Cash Incentive and Stock Incentive

The CEO, COO and CFO earn 100% of their cash and stock incentive compensation from a program known as the Corporate Program, which uses two financial metrics, Return on Net Assets (RONA) and Weighted Average Cost of Capital (WACC). The RONA is a percentage calculated by dividing the return the Company earns by its weighted average Net Operating Assets (total assets less current liabilities, long-term debt, an estimated value for quarry property held for future use, and deferred income taxes). The WACC is a percentage determined by the Compensation Committee based on the Company s blended cost of debt and equity as calculated for the prior fiscal year. For 2006, the WACC was 8.4%. The Corporate Program allows incentive compensation to begin to be earned when the RONA reaches 40% of the WACC. The CEO, COO and CFO can earn their maximum cash incentive if the RONA reaches the WACC. The CEO, COO and CFO will achieve their maximum total incentive compensation (cash and stock) if the Company s RONA reaches a level which the Compensation Committee determines is representative of superior performance (the RONA Target). For 2006, the RONA Target was 5.5% above the WACC, or 13.9%. In determining the RONA Target, the Compensation Committee considers the Company s RONA history, industry comparisons, growth rate, new investment in the business, cost of capital, and the market conditions the Company is experiencing. The RONA Target for fiscal year 2006 equates to an estimated adjusted net income of approximately $101 million. The RONA Target is reviewed annually by the Compensation Committee, as is the amount of incentive compensation that can be earned by each of the executive officers if the RONA Target is reached.

In the event of an operating loss either at the corporate or division level, a negative incentive compensation amount of no more than 25% of the executive s Annual Allowable Incentive Compensation (the executive s total compensation limit less salary) will be calculated and carried forward to offset future positive incentive compensation. Under unusual circumstances, the Compensation Committee may approve adjustment to the negative commission if deemed truly equitable and in the Company s interest.

The Branch Division Manager and the Heavy Construction Division Manager (Division Managers) earn a large portion of their cash and stock incentive compensation from a program based on their respective Division s Adjusted Operating Income (actual Operating Income adjusted for pre-defined profit or loss items such as interest earned or charged on operating cash flow, equipment transfers between business units, and/or materials sales between business units). This program, known as the Division Incentive Program, allows incentive compensation to begin to be earned when the Division Adjusted Operating Income exceeds an initial threshold of allocated corporate overhead and a charge for the cost of the assets employed by the Division. The maximum cash and stock incentive for the Division Incentive Program is paid when a Division s Adjusted Operating Income Target is achieved. Division Adjusted Operating Income 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 CEO and reviewed and approved by the Compensation Committee. In determining the Division s Adjusted Operating Income 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 Adjusted Operating Income Target is not achieved, the actual cash and stock incentive paid is based on a straight line pro-ration of the Division s Adjusted Operating Income compared to the Division Adjusted Operating Income Target.

Both the Branch Division Manager and the Heavy Construction Division Manager can earn up to 30% of their maximum incentive compensation from the Corporate Program and up to 70% of their maximum incentive compensation from their respective Division Incentive Program. This weighting towards the performance of the Division ensures that the most significant portion of the Division Manager s potential incentive compensation is directly tied to their performance. If there is an operating loss at either the Corporate or Division level, a negative incentive will be calculated for the Corporate Program or Division Incentive Program, respectively. Negative incentive compensation calculated on the Division Incentive Program offsets a positive amount earned under the Corporate Program or vice versa, unless the CEO requests an adjustment of the offset and the adjustment is approved by the Compensation Committee. There were no adjustments approved for executive officers in 2006.

When establishing the maximum incentive that any of the executive officers can earn if stretch performance targets are reached, the Compensation Committee reviews available industry compensation survey data. Each year the Compensation Committee defines stretch performance targets for the executive officers which, if achieved, allow for maximum compensation levels. These compensation levels are targeted at approximately the 80th percentile of the market in the industry for each executive officer.

The Corporate Program incorporates RONA and WACC as the primary metrics because of the significant capital needs of the business. The Company s operations require sizable investment in capital equipment and aggregate reserves, which require periodic replacement. Both the Division Incentive Program and the Corporate 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 executive officers is aligned with the metrics that directly affect the financial health of the Company and the interests of the shareholders.

The Company s Decisions Regarding Each Element of the Compensation Program and How the Decisions Reflect the Company s Overall Compensation Objectives

In keeping with the philosophy that a significant amount of the executive officers compensation should be at risk and dependent on business performance, base salaries paid to the executive officers are low compared to their construction industry peers. Executive officers can earn additional cash once the Company s RONA equals 40% of the WACC and can earn their maximum cash incentive (100% of their maximum cash incentive compensation in the case of the CEO, COO and CFO and 30% of their maximum cash incentive compensation in the case of the Division Managers) once RONA reaches 100% of the WACC.

Use of Restricted Stock

The only long-term compensation, restricted stock, is not granted, but must be earned. Under the executive compensation program, an executive officer begins to earn restricted stock once RONA exceeds 100% of the WACC and continues until RONA reaches the RONA Target. The number of shares earned is determined by dividing the dollar amount of stock incentive calculated under the Incentive Program by the closing stock price on the last trading day in December of the plan year. Restricted stock serves as a retention tool and provides the executive officers with a longer term incentive to grow shareholder value as vesting occurs over a 5 year period unless the executive is 62 years or older. Executive officers 62 years or older receive this incentive in fully vested stock or, at the discretion of the Compensation Committee, may be granted cash in lieu of restricted stock.

Under the Company s Insider Trading Program, executive officers and other insiders are strongly discouraged from engaging in hedging or monetization transactions, such as zero-cost collars or forward sale contracts, involving the Company s securities. Further, they are strongly discouraged from holding Company securities in a margin account or pledging Company securities as collateral for a loan.

Policies for Allocating Between Long-Term and Currently Paid Out Compensation

If financial performance reaches the performance targets and maximum cash and stock incentive is earned, executive officers will earn no more than 60% of their total allowed compensation in cash and the remaining 40% will be in restricted Granite stock (prior to age 62, and fully vested stock after age 62).

Discretionary Deviations from Structured Plan and Policy Regarding Recovery of Award if Basis Changes Because of Restatement

The executive compensation programs, as currently structured and documented, provide that executive officers may be awarded up to 25% of their annual allowable incentive or have total calculated incentive compensation reduced by as much as 25% depending upon how successful they have been in achieving certain subjective leadership goals or expectations which management, the Compensation Committee or the Board designates as being important to the long-term growth and welfare of the Company. The leadership expectation adjustment will not allow compensation to exceed the executive officer s annual compensation limit, but could result in the payment of incentive compensation when none was earned based on the program formula.

If the basis upon which a previous compensation award is made changes because of a restatement of prior year financial results, and the previous award is determined to be an overpayment, it is the Company s policy to either recover the amount overpaid or to hold the overpayment as a debit against future incentive compensation earned.

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Factors Considered in Decisions to Materially Increase or Decrease Compensation
Benchmarking

We review compensation for all of the executives annually and utilize survey data to help set proper compensation levels. We match those levels of compensation with reasonable expectations for business performance which would justify those levels of compensation. We regularly use the Analytical Consulting Companies to analyze and compare all aspects of the executive officers compensation with the compensation paid to their peers in public and private construction companies. This analysis includes survey data for salary levels, cash incentive, stock incentive and total compensation. The benchmarks against other companies include revenue size, span of control of the executive position, and level of authority. The following is a list of the peer group construction companies included in the analysis:

Austin Industries, Inc.	Pepper Construction Company
Barton Malow Company	Perini Corporation
Beck Group	Peter Kiewit Sons , Inc.
Bovis Lend Lease, Inc.	Sundt Construction
Centex Construction Group	Turner Construction
Gilbane Building Company	Walbridge Aldinger
JE Dunn	Washington Group International
Mortenson	Zachry Construction Corporation

During 2006, the Company also enlisted Shareholder Value Advisors, Inc. to advise the Company on the design and structure of the Company s primary compensation programs and, specifically, all matters related to CEO and other executive compensation.

Role of Executive Officers in Determining Executive Compensation

All elements of the CEO s compensation are determined by the Compensation Committee. The CEO recommends salary levels and incentive compensation for other executive officers to the Compensation Committee for approval.

Key Management Deferred Compensation Program

Executive officers may defer receipt of part or all of their cash incentive compensation under the Company s non-qualified deferred compensation plan. The plan allows executives to save for retirement in a tax-effective way at minimal cost to the Company. Under this unfunded program, cash incentive amounts deferred by the executive are credited quarterly with hypothetical earnings equal to one-quarter of the sum of the 30-day average of the Lehman Brothers long-term bond index determined as of December 1 of the prior plan year, plus 100 basis points, or as determined by the Compensation Committee. In addition, executive officers aged 62 or older who have been granted cash in lieu of restricted stock are required to defer all of their cash incentive compensation into the Company s non-qualified deferred compensation plan, which will be credited quarterly with hypothetical earnings (or losses) equal to an amount determined by the Committee as though the cash incentive amount had been invested in shares of Company stock for such period. Partial deferral of cash incentive is not allowed.

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 123-R). The Plan provides for the grant of restricted common stock, incentive and nonqualified stock options, performance units and performance shares to employees and awards to members of our Board of Directors in the form of stock units or stock options (Director Options). A total of 4,250,000 shares of our common stock have been reserved for issuance under the Plan, of which approximately 2,333,100 remained available as of December 31, 2006. 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 ratably 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 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 the Company in the year the stock vests. Deferred compensation is considered to be paid to the executive officer when it is no longer being deferred. The Company expenses salary and cash incentive payments in the year they are earned.

Section 162(m) of the Code disallows a federal income tax deduction to publicly held companies for certain compensation paid to certain of their executive officers, 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. The Company s executive 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.

Employment Agreements and Change-in-Control Arrangements

We have entered into change-in-control employment agreements with each of the executive officers. The change-in-control agreements provide an additional tool for attracting and retaining talented executives who possess the skills needed by the Company. These agreements provide that if the executive officer s employment with the Company is terminated within two and one-half years after a change-in-control of the Company, the executive officer will be entitled to receive the following benefits unless his or her employment is terminated for cause:

A lump sum payment, less applicable withholding, equal to three (3) times the executive officer s average gross annual compensation, including salary and incentive bonuses, during the three (3) fiscal years ending before the date of termination;

A lump sum payment, less applicable withholding, equal to the cost to the Company of the executive officer s group insurance benefits, such as life, health, and long-term disability, for the three (3) fiscal years ending before the date of termination;

A lump sum payment, less applicable withholding, equal to the cash equivalent of the contributions which would have been made on behalf of the executive officer for the three (3) fiscal years ending before the date of termination to the ESOP, profit sharing plan, or other retirement plan provided by the Company and in effect as of the date of termination;

Benefits under long-term incentive plans in existence at the date of termination in accordance with the provisions contained in such plans; and

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Reasonable professional outplacement services for the executive officer until the earlier of one (1) year following the date of termination or the date on which the executive officer obtains other employment.

The amount of payment made pursuant to the above are each reduced, if the executive officer is at least 62 years of age at the date of termination, by multiplying the amount of the payments which would otherwise be made by a fraction, the numerator of which is the time in years, or fraction thereof, from the date of termination to the date upon which the executive officer would reach 65 years of age and the denominator of which is three (3).

A change-in-control is defined as (i) a merger, consolidation or acquisition of the Company where the shareholders of the Company do not retain a majority interest in the surviving or acquiring corporation; (ii) the transfer of substantially all of our assets to a corporation not controlled by the Company or its shareholders; or (iii) the transfer to affiliated persons of more than 30% of the voting stock of the Company, which leads to a change of a majority of the members of the Board of Directors.

A change-in-control will also affect restricted stock earned under the Amended and Restated 1999 Equity Incentive Plan. This plan provides that if the surviving successor or acquiring corporation does not either assume outstanding restricted stock awards or substitute new restricted stock awards having an equivalent value, the Board of Directors shall provide that any restricted stock awards otherwise unvested shall be immediately vested in full.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis contained in this proxy statement. Based on such review and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and in Granite s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Members of the Compensation Committee:

William H. Powell, Chair	Gary M. Cusumano
Claes G. Bjork	Rebecca A. McDonald

Summary Compensation Table

The following table summarizes the compensation for our Chief Executive Officer, Chief Financial Officer and our three other most highly compensated executive officers (our Named Executive Officers NEOs) for the fiscal year ended December 31, 2006.

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Stock Awards[1] ($) (d)	Non-Equity Incentive Plan Compensation[2] ($) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings[3] ($) (f)	All Other Compensation[4] ($) (g)	Total ($) (h)
William G. Dorey President and Chief Executive Officer	2006	360,000	1,382,034	480,000	2,057	42,674	2,266,765
Mark E. Boitano Executive Vice President and Chief Operating Officer	2006	300,000	319,116	390,000	276	43,378	1,052,770
William E. Barton Senior Vice President and Chief Financial Officer	2006	260,000	718,459	190,000	255	42,564	1,211,278
James H. Roberts Senior Vice President and Branch Division Manager	2006	240,000	263,507	300,000	155	37,811	841,473
Michael F. Donnino Senior Vice President and Manager, Heavy Construction Division	2006	240,000	76,674	35,478	418	39,122	391,692

(1) The amounts in column (d) reflect the dollar amount recognized for financial statement reporting purposes in accordance with FAS 123R for the fiscal year ended December 31, 2006 (see Note 12 of the Notes to the Consolidated Financial Statements in Granite s Annual Report on Form 10-K for the fiscal year ended

December 31, 2006). This includes Incentive Compensation Plan awards granted prior to 2006. In 2006 both Messrs. Dorey and Barton turned 62, with 10 years service, and became 100% vested in all outstanding shares in accordance with Granite s standard vesting schedule under the Equity Incentive Plan. Accordingly column (d) for both Messrs. Dorey and Barton include the 2006 and prior year performance awards expensed in 2006 in the amounts $438,034, $640,814, $101,798, $110,058, $91,330 and $235,027, $336,443, $42,759, $57,777, $46,453, respectively. The fair value for all other stock awards is calculated using the closing price of Granite stock on the date of grant.

(2) Amounts in column (e) reflect the cash awards earned for performance in 2006 but awarded and paid on March 15, 2007.

(3) The amounts in column (f) reflect the above-market earnings on deferred compensation. Above market is any interest above the applicable federal long-term rate (AFR) that corresponds most closely to the rate used by the plan at the time the interest rate or formula is set.

(4) The amounts reflected in column (g) represent Granite s contributions to the Employee Stock Ownership Plan, the Nonqualified Deferred Compensation Plan, the Profit Sharing and 401(k) Plan that were earned during the current year, vehicle use and the cost of insurance premiums. The aggregate value of vehicle use and cost of insurance premiums for each named executive officer does not exceed $10,000.

Grants of Plan-Based Awards

The following table provides additional information about stock and option awards and equity and non-equity incentive plan awards granted to our NEOs during the year ended December 31, 2006.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[(1)(2)(4)]			Estimated Future Payouts Under Equity Incentive Plan Awards[(1)(3)(4)]			Grant Date Fair Value of Stock Awards[(5)]
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
William G. Dorey	3/15/07	0	N/A	480,000	0	N/A	13,593	501,147
Mark E. Boitano	3/15/07	0	N/A	390,000	0	N/A	11,169	411,759
William E. Barton	3/15/07	0	N/A	190,000	0	N/A	7,293	268,909
James H. Roberts	3/15/07	0	N/A	300,000	0	N/A	13,116	79,128
Michael F. Donnino	3/15/07	0	N/A	240,000	0	N/A	11,129	

(1) Estimated future payouts reflect potential awards for the period from January 1 to December 31, 2006.

(2) The amounts shown in column (c) reflect the threshold under the Company s Executive Incentive Compensation Plan. This is zero when the Return on Net Assets (RONA) is less than 40% of the Weighted Average Cost of Capital (WACC). Column (e) is achieved when the RONA equals the WACC.

(3) The amounts shown in column (f) reflect the threshold level under the Equity Component of the Executive Incentive Compensation Plan. This is zero when the RONA is less than 100% of the WACC. Column (h) is based on the RONA exceeding the WACC by a pre-set percentage to reach the maximum RONA target.

(4) Targets for both the Non-Equity and Equity Incentive Awards are marked as N/A because there are no targets. Actual Award amounts are calculated based on a straight line pro-ration of the Company s RONA compared to the WACC.

(5) The amounts shown in column (i) show the full grant date fair value of restricted stock determined in accordance with FAS 123R. The full grant date fair value is the amount that the Company would expense in its financial statements over the award s vesting schedule. These awards were earned for performance in 2006, but granted March 15, 2007. The number of shares is based on the equity award divided by the stock price of the last trading of the performance year. The fair value is based on the stock price on the grant date. Messrs. Dorey and Barton s equity incentive plan awards earned in 2006 became 100% vested under the Granite stock program in 2006 upon reaching age 62 with 10 years of service, and therefore were expensed in 2006. In the year ended December 31, 2000, Mr. Boitano and Mr. Roberts participated in a bonus banking system. Calculated commissions on the Branch Division operating results that were in excess of the maximum approved annual commission were banked for future distribution when the calculated commissions fell below the approved maximum, or upon retirement if earlier. This provision of the incentive plan was discontinued beginning with the 2003 plan year. Mr. Boitano s bonus bank balance of $31,139 was applied towards his 2006 incentive

commission restricted stock award. No amount from Mr. Roberts bonus bank balance was applied in 2006. On December 31, 2006, Mr. Roberts balance was $45,160.

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Outstanding Equity Awards at Fiscal Year End

The following table summarizes the equity awards we made to our NEOs that are outstanding as of December 31, 2006.

	Stock Awards	
Name (a)	Number of Shares or Units of Stock that Have Not Vested (#) (b)	Market Value of Shares or Units of Stock that Have Not Vested[(1)] ($) (c)
William G. Dorey	[(2)]	
Mark E. Boitano	32,091	1,614,819
William E. Barton	[(2)]	
James H. Roberts	51,448	2,588,863
Michael F. Donnino	13,938	701,360

(1) The amounts shown in column (c) reflect the December 29, 2006 stock price of $50.32.

(2) In 2006, Messrs. Dorey and Barton became fully vested in all stock awards under Granite s vesting program, whereby stock is 100% vested when the holder reaches age 62 with 10 years of service. The amounts that vested in 2006 are reflected in the Stock Vested table in columns (b) and (c).

Stock Vested

The following table reflects the number of shares our NEOs acquired upon the vesting of stock awards during 2006 and the value realized before payment of applicable withholding tax and broker commissions.

	Stock Awards	
Name (a)	Number of Shares Acquired on Vesting[(1)] (#) (b)	Value Realized upon Vesting[(2)] ($) (c)
William G. Dorey	63,085	3,238,677
Mark E. Boitano	13,110	618,201
William E. Barton	32,185	1,439,225
James H. Roberts	10,989	526,813
Michael F. Donnino	10,302	493,878