

GRANITE CONSTRUCTION INC

Form DEF 14A

April 19, 2004

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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)

Payment of Filing Fee (Check the appropriate box):

- x No fee required
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(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 STOCKHOLDERS
May 24, 2004**

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of GRANITE CONSTRUCTION INCORPORATED, a Delaware corporation, will be held on May 24, 2004 at 10:30 a.m. local time, at the Embassy Suites, 1441 Canyon Del Rey, Seaside, California 93955 for the following purposes:

1. To elect three directors for the ensuing three-year term;
2. To approve Granite's 1999 Equity Incentive Plan, as amended and restated, in order to (1) extend the term of the Plan for an additional ten years ending May 24, 2014; (2) increase by 500,000 the number of shares of Common Stock authorized for issuance under the Plan; (3) authorize the issuance of restricted stock units and (4) modify the material terms of performance goals in order to preserve our ability to deduct in full certain performance-based awards under Section 162(m) of the Internal Revenue Code.
3. To vote on a stockholder proposal, if properly presented at the meeting, requiring an independent director who has not served as Chief Executive Officer of Granite to serve as Granite's Chairman of the Board;
4. To ratify the appointment by the Audit/ Compliance Committee of PricewaterhouseCoopers LLP as our independent auditor for the fiscal year ending December 31, 2004; and
5. To transact such other business as may properly come before the meeting.

Stockholders of record at the close of business on March 26, 2004 are entitled to notice of, and to vote at, this meeting and any continuations or adjournments thereof. For ten days prior to the meeting, a complete list of stockholders entitled to vote at the meeting will be available for examination by any stockholder for any purpose relative to the meeting during ordinary business hours at the Granite's headquarters located at 585 West Beach Street, Watsonville, CA 95076.

Whether or not you plan to attend the meeting, we urge you to sign, date and return the enclosed proxy card in the enclosed postage-paid envelope so that as many shares as possible may be represented at the meeting.

The vote of every stockholder is important, and your cooperation in promptly returning your executed proxy card will be appreciated. Each proxy card is revocable and will not affect your right to vote in person in the event that you decide to attend the meeting.

By Order of the Board of Directors,

Michael Futch
Vice President, General Counsel and Secretary

Watsonville, California
April 19, 2004

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GRANITE CONSTRUCTION INCORPORATED

585 West Beach Street
Watsonville, California 95076

PROXY STATEMENT

2004 ANNUAL MEETING OF STOCKHOLDERS

This proxy statement is furnished in connection with the solicitation by the management of GRANITE CONSTRUCTION INCORPORATED, a Delaware corporation, of proxies for use at the annual meeting of stockholders to be held on May 24, 2004, or any postponement or adjournment thereof, for the purposes set forth in the accompanying Notice of Annual Meeting. This proxy statement and accompanying proxy cards are first being sent to stockholders on approximately April 19, 2004.

SOLICITATION OF PROXIES

The cost of the solicitation of proxies will be borne by Granite. In addition to soliciting stockholders by mail through our employees, we will request banks and brokers, and other custodians, nominees and fiduciaries, to solicit their customers who hold our stock registered in the name of such persons and will reimburse them for their reasonable, out-of-pocket costs. We may use the services of our officers, directors and others to solicit proxies personally or by telephone, without additional compensation. In addition, Granite has retained the Altman Group, Inc., a proxy solicitation firm, to assist in the solicitation of proxies. Pursuant to the agreement with Altman, Altman will provide various proxy advisory and solicitation services for Granite at the cost of \$7,000 plus out of pocket expenses.

VOTING RIGHTS

All shares represented by valid proxy cards received prior to the meeting will be voted and, where a stockholder specifies a choice on the proxy card with respect to any matter to be acted upon, the shares will be voted in accordance with the specifications made. If no instructions are given on an executed proxy card, the shares will be voted in accordance with the recommendations of the Board. The Board's recommendations are set forth along with the description of each item in this proxy statement. In summary, the Board recommends a vote:

For election of all directors;

For amending the Granite Construction Incorporated 1999 Equity Incentive Plan;

For ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditor for the fiscal year ending December 31, 2004; and

Against approval of the stockholder proposal requiring an independent director who has not served as Chief Executive Officer of Granite to serve as Granite's Chairman of the Board.

With respect to any other proposal that may properly come before the annual meeting, including a motion to adjourn the annual meeting to another time or place (including for the purpose of soliciting additional proxies), the shares will be voted in the discretion of the proxies. A stockholder who signs and returns a proxy card in proper form will have the power to revoke it at any time before it is voted. A proxy may be revoked by filing with our Secretary a written revocation or a duly executed proxy card bearing a later date, or by appearing at the meeting and voting in person. Our Bylaws provide that a majority of the shares entitled to vote, whether present in person or represented by proxy, shall constitute a quorum for the transaction of business at the meeting. Votes for and against, abstentions and shares held by brokers that are present but not voted because the brokers are prohibited from exercising discretionary voting authority, i.e., broker non-votes, will each be counted as present for purposes of determining the presence of a quorum.

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The voting securities entitled to vote at the meeting consist of shares of our common stock. Only stockholders of record at the close of business on March 26, 2004 are entitled to notice of, and to vote at, the annual meeting. On March 26, 2004, there were 41,428,280 shares of common stock issued and outstanding. Each stockholder shall have one vote for every share of common stock registered in his or her name on the record date for the meeting.

Pursuant to our Bylaws and policies, in advance of the annual meeting of stockholders, management will appoint an independent Inspector of Elections to supervise the voting of shares at the annual meeting. The Inspector will decide all questions respecting the qualification of voters, the validity of proxy cards and the acceptance or rejection of votes. The Inspector, before entering upon the discharge of his or her duties, shall take and sign an oath to faithfully execute the duties of Inspector with strict impartiality and according to the best of his or her ability.

The election of directors shall be determined by a plurality of votes cast, and except as otherwise provided by law or our Certificate of Incorporation or Bylaws, all other matters shall be determined by a majority of the votes cast affirmatively or negatively.

ELECTION OF DIRECTORS

Our Board of Directors currently consists of eleven directors. Directors are elected for three-year terms and are divided into three classes, with one class elected at each annual meeting of stockholders.

At the meeting three directors are to be elected for the ensuing three-year term and until their successors are elected and qualified. The nominees are Rebecca A. McDonald, George B. Searle and William G. Dorey. Ms. McDonald and Mr. Searle have served on the Board since 1995 and 1998, respectively. Mr. Dorey was elected to the Board at the January 22, 2004 Board Meeting and is seeking election by the stockholders for the first time.

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

If elected, each nominee will hold office until his/her term expires or until his/her successor is elected and qualified unless he/she resigns or his/her office becomes vacant by death, removal, or other cause in accordance with our Bylaws.

It is intended that votes pursuant to the proxy cards will be cast for the named nominees. The persons named in the accompanying forms of proxy card will vote the shares represented thereby for the nominees. Management knows of no reason why any of these nominees should be unable or unwilling to serve. However, if any nominee(s) should for any reason be unable or unwilling to serve, the proxy cards will be voted for the election of such other person(s) recommended by the Board for director in the place of such nominee(s).

If a quorum is present, the three nominees receiving the highest number of votes will be elected for the ensuing three-year term. Abstentions and broker non-votes, will be counted as present in determining if a quorum is present, but will have no effect on the outcome of the vote.

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Certain information with respect to the age and background of the nominees and the other current directors is set forth below:

Director Nominees	Position	Age	Director Since
William G. Dorey	President, Chief Executive Officer & Director	59	Director since 2004; term ends 2004
Rebecca A. McDonald	Director	51	Director since 1994; term ends 2004.
George B. Searle	Director	71	Director since 1998; term ends 2004.
Directors Whose Terms End in 2005			
David H. Watts	Chairman of the Board	65	Director since 1988; term ends 2005.
Joseph J. Barclay	Director	71	Director since 1988; term ends 2005.
J. Fernando Niebla	Director	64	Director since 1999; term ends 2005.
Directors Whose Terms End in 2006			
Linda Griego	Director	56	Director since 1999; term ends 2006.
Raymond E. Miles	Director	71	Director since 1988; term ends 2006.
David H. Kelsey	Director	53	Director since 2003; term ends 2006.

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 include periods of service with Granite Construction Company.

Nominees

Mr. Dorey has been an employee of Granite since 1968 and has served in various capacities, including director since January 22, 2004, President and Chief Executive Officer since January 1, 2004, President and Chief Operating Officer from February 2003 to January 21, 2004, Executive Vice President and Chief Operating Officer from 1998 to February 2003, Senior Vice President and Manager, Branch Division from 1987 to 1998, and Vice President and Assistant Manager, Branch Division from 1983 to 1987. Mr. Dorey is also a director of Wilder Construction Company and served as a director of TIC Holdings, Inc. from 1997 to 2002. He received a B.S. degree in Construction Engineering from Arizona State University in 1967.

Ms. McDonald has served as President, Gas and Power, BHP Billiton since March 29, 2004. She was formerly the President of the Houston Museum of Natural Science, a position she assumed in October 2001. Prior to joining the museum, she was the Chairman and Chief Executive Officer of Enron Global Assets between February 1999 and May 2001. She currently serves as a director of Eagle Global Logistics, Trammell Crow Corporation and Noble Energy, Inc. Ms. McDonald holds a B.S. degree in Education from Stephen F. Austin State University.

Mr. Searle has served as President of Searle Associates, Inc., consultants to the construction industry, since May 1996. He was formerly President and Chief Executive Officer of IA Construction Co. of Concordville, Pennsylvania, a leading construction company in the Northeast. Mr. Searle serves as a director of Barriere Construction Co., L.L.C. and Elwyn Inc. He holds a B.A. degree in Mathematics from Harvard University.

Continuing Directors

Mr. Watts has served as our Chairman of the Board since May 24, 1999. He also served as our Chief Executive Officer from 1987 to December 31, 2003 and as our President from 1987 to January 31, 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 TIC Holdings, Inc.,

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the California Chamber of Commerce, of which he is a past Chair, the Monterey County Symphony, the Monterey Bay Area Council of the Boy Scouts of America, the Community Hospital of Monterey Peninsula, the California Business Roundtable, and the President's Council, California State University, Monterey Bay. He holds a B.A. degree in Economics from Cornell University.

Mr. Barclay formerly held positions as Chairman, President, and Chief Executive Officer and was a director of Cascade Corporation, a manufacturer of materials handling equipment, between 1972 and 1998. He is currently a director of Columbia Machine, Inc. and Precision Hydraulic Cylinders, Inc. Mr. Barclay holds a B.S. degree in Industrial Engineering from Illinois Institute of Technology.

Ms. Griego has served as President and Chief Executive Officer of Griego Enterprises, Inc. since 1985 and is also Managing General Partner of Engine Co. No. 28, a restaurant that she founded in 1988. From July 1999 until January 2000, Ms. Griego served as interim President and Chief Executive Officer of the Los Angeles Community Development Bank, a \$430 million federally funded community bank. From 1994 until 1997, she served as President and Chief Executive Officer of Rebuild LA, Inc., an economic development corporation. Ms. Griego is currently a director of Blockbuster, Inc. and Southwest Water Company. She also serves as a Los Angeles branch director of the Federal Reserve Bank of San Francisco. She holds a B.A. degree in History from the University of California, Los Angeles.

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. From 1998 to 2001, he served as Vice President and Chief Financial Officer of Oglebay Norton Company, a Russell 3000 company in the industrial mineral and aggregates industry, and from 1994 through 1998, Mr. Kelsey served as Executive Vice President and Chief Financial Officer of Host Communications, Inc., a sports marketing and media syndication company. 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.

Dr. Miles is Professor Emeritus at the Walter A. Haas School of Business at the University of California, Berkeley, where he served as Dean from 1983 to 1990 and has been a member of the faculty since 1963. Dr. Miles is a former director of the Union Bank of California. He holds B.A. and M.B.A. degrees from the University of North Texas and a Ph.D. in Organizational Behavior and Industrial Relations from Stanford University.

Mr. Niebla has served as President of International Technology Partners L.L.C., an information technology services company based in Orange County, California since August 1998. Mr. Niebla is a director of Union Bank of California and Pacific Life Corp. 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.

Other than Mr. Dorey, our President and Chief Executive Officer, and Mr. Watts, our former President and Chief Executive Officer, all members of our Board of Directors are independent, as determined in accordance with the listing standards of the New York Stock Exchange.

Retiring Directors

Brian C. Kelly was elected to his present term in 2001. His term will expire at this year's annual meeting. The Board of Directors' retirement policy provides that a director may continue to serve as a director until the end of the term of office in which the director reaches his or her 72nd birthday. Accordingly, Mr. Kelly will retire from the Board at this year's annual meeting.

Although, pursuant to Granite's retirement policy, Richard M. Brooks' service on the Board would have concluded in 2003, the Board approved an amendment to its retirement policy that allowed Mr. Brooks to stand for election for an additional term with the expectation that Mr. Brooks would resign from the Board no later than May 2004. Mr. Brooks' extensive financial and accounting experience provided continuity of financial expertise and leadership on the Board while David H. Kelsey transitioned into the role of Audit/

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Compliance Committee member and financial expert over the past year. Mr. Brooks has tendered his resignation from the Board, effective as of the conclusion of this year's annual meeting.

Code of Conduct

Granite has a Code of Conduct that is applicable 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 attached as Exhibit 1 and is also available on Granite's website at www.graniteconstruction.com at the About Us site under Core Values. Granite intends to post amendments to its Code of Conduct at this location on its website. Upon request, a copy of the Code of Conduct may also be obtained, without charge, by contacting Granite's Human Resources Department at (831) 724-1011.

COMMITTEES OF THE BOARD

The standing committees of the Board of Directors are the Audit/ Compliance Committee, the Compensation Committee, the Nominating and Corporate Governance Committee, the Strategic Planning Committee, and the Executive Committee.

Audit/ Compliance Committee

Richard M. Brooks, Chairman
Joseph J. Barclay
David H. Kelsey
Rebecca A. McDonald
George B. Searle

For a description of the functions and activities of the Audit/ Compliance Committee, see Report of the Audit/ Compliance Committee and the Audit/ Compliance Committee Charter. The Audit/ Compliance Committee consists entirely of directors who meet the independence requirements of the rules and regulations of the SEC and the listing standards of the New York Stock Exchange as applicable to audit committee members. Mr. Kelsey and Mr. Brooks are qualified as the Audit/ Compliance Committee's financial experts within the meaning of the rules and regulations of the SEC, and the Board has determined that all members of the Committee are financially literate as required by the listing standards of the New York Stock Exchange. The Board has adopted the revised written charter for the Audit/ Compliance Committee, which is attached hereto as Appendix A and is available on Granite's website (*see* Granite Website below). The Audit/ Compliance Committee held 17 meetings in 2003.

Compensation Committee

Joseph J. Barclay, Chairman
Richard M. Brooks
Brian C. Kelly
George B. Searle

The Compensation Committee reviews and recommends compensation for our directors, corporate officers and key employees. In addition, the Compensation Committee administers the 1999 Equity Incentive 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 Code, the Plan will be administered only by the Compensation Committee, which consists of at least two outside directors within the meaning of Section 162(m). The Compensation Committee consists entirely of directors who meet the independence requirements of the listing standards of the New York Stock Exchange. For additional information concerning the Compensation Committee, see the Compensation Committee Charter on Granite's website (*see* Granite Website below) and the Report of the Compensation Committee contained within this proxy statement. The Compensation Committee held three (3) meetings in 2003.

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Nominating and Corporate Governance Committee

Raymond E. Miles, Chairman
Linda Griego
Brian C. Kelly
J. Fernando Niebla

The Nominating and Corporate Governance Committee recommends and nominates persons to serve on the Board of Directors. The Committee will consider nominees to the Board recommended by stockholders as long as the stockholder gives timely notice in writing of his or her intent to nominate a director. To be timely, a stockholder nomination for a director to be elected at the 2005 annual meeting must be received at Granite's principal office on or before December 20, 2004. The Committee's policy with regard to the consideration of any director candidates, including candidates recommended by stockholders, is discussed in more detail below under the heading "Nominations to the Board" and is available on Granite's website (*see* Granite Website below). The Committee also develops and recommends to the Board corporate governance principles and practices and is responsible for leading an annual review of the Board's performance. The Nominating and Corporate Governance Committee consists entirely of directors who meet the independence requirements of the listing standards of the New York Stock Exchange. The Nominating and Corporate Governance Committee held five (5) meetings in 2003.

Strategic Planning Committee

Brian C. Kelly, Chairman
Rebecca A. McDonald
George B. Searle
David H. Watts

The function of the Strategic Planning Committee is to develop, in conjunction with management, our Strategic Plan and to provide overall strategic planning direction. The Strategic Planning Committee held one (1) meeting in 2003.

Executive Committee

David H. Watts, Chairman
Joseph J. Barclay
Brian C. Kelly

The Executive Committee's responsibility is to exercise all powers and authority of the Board of Directors in the management of Granite's business affairs within limits specified by the Board. The Committee reviews and approves specific decisions as established by the current Limits of Authority schedule. It may exercise the power and authority of the Board of Directors to declare a dividend, authorize the issuance of stock or adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation Law. Members of the Executive Committee do not receive any meeting fees or other compensation for their service on the Committee.

DIRECTOR ATTENDANCE

During 2003, the Board of Directors held six (6) meetings. All directors attended at least 75% of the total number of meetings of the Board or any committee on which they served. Directors are expected to attend the annual meeting of stockholders absent irreconcilable conflicts. The Annual Meeting Attendance Policy can be found as part of Granite's Board of Directors Corporate Governance Guidelines and Policies on Granite's website (*see* Granite Website below). All directors attended Granite's 2003 annual meeting of stockholders.

PRESIDING DIRECTOR

At each regularly scheduled meeting, the Board holds an executive session, without the presence of management. In March 2004, the Board created a new position of Presiding Director and elected Dr. Raymond E. Miles, Chairman of the Nominating and Corporate Governance Committee, to the position.

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The Presiding Director presides over executive sessions of the Board and over all meetings at which the Chairman of the Board is not present. In addition, the Presiding Director serves as a liaison between the Chairman and the Board and discusses and approves the structure and content of the Board agenda. The position rotates on an annual basis among the various independent Board members.

BOARD OF DIRECTORS NOMINATION POLICY

Evaluation Criteria And Procedures

Members of the Board of Directors of Granite Construction Incorporated are divided into three classes and are nominated for election for 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 the Company'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 outside 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 the Company's expectations and needs are nominated for reelection in the year of their term's completion. In accordance with the Company'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 the intention of the Company to ensure that it continues to be governed by persons of high integrity and worthy of the trust of its stockholders. Further, the Company 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, the Company 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 the Company 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 Company 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 the Company'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 the Company's intention that this search and nomination process consider qualified candidates referred by a wide variety of sources, including all of the Company's constituents—its customers, employees, stockholders, 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

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Governance Committee. The Nominating and Corporate Governance Committee is responsible for assuring that all relevant sources of potential candidates have been canvassed.

Stockholder Recommendation and Direct Nomination of Board Candidates

Consistent with the bylaws, and the Nominating and Corporate Governance Committee Charter, the Company will review and consider for nomination any candidate for membership to the Board recommended by a stockholder of the Company, in accordance with the evaluation criteria and selection process described above. Stockholders wishing to recommend a candidate for consideration in connection with an election at a specific annual meeting should notify the Company 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, the Company's bylaws provide that any stockholder 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 stockholder nomination for a Director to be elected at an annual meeting must be received by the Company not less than 120 days in advance of the date that the proxy statement for the previous year's annual meeting was released to stockholders and must contain the information specified in the bylaws.

STOCKHOLDER COMMUNICATION TO THE BOARD

Any stockholder may communicate directly to the Presiding Director and the Board of Directors. The process for communicating to the Board of Directors is described in the Stockholder Communication to the Board of Directors Policy and can be found on Granite's website (*see Granite Website* below).

GRANITE WEBSITE

The following charters and policies can be found 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 and the Stockholder Communication to the Board Policy. Copies are also available in print upon request by any stockholder.

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The following table sets forth a summary of compensation of our Chief Executive Officer and our four other most highly compensated executive officers for the years ended December 31, 2001, 2002 and 2003:

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation ⁽¹⁾		Long Term Compensation Awards	All Other Compensation ⁽⁴⁾ (\$)
		Salary (\$)	Bonus ⁽²⁾ (\$)	Restricted Stock Awards ⁽³⁾ (\$)	
David H. Watts ⁽⁵⁾ Chairman of the Board and Chief Executive Officer	2003	360,000	855,264	-	51,209
	2002	360,000	927,038	-	46,104
	2001	360,000	1,080,000	-	123,208
William G. Dorey ⁽⁵⁾ President and Chief Operating Officer	2003	240,000	240,000	330,176	43,429
	2002	240,000	240,000	365,316	44,852
	2001	240,000	240,000	480,011	46,623
Mark E. Boitano ⁽⁶⁾ Executive Vice President and Manager, Branch Division	2003	200,000	280,000	250,058	50,745
	2002	200,000	280,000	296,362	47,383
	2001	200,000	280,000	319,999	46,623
Patrick M. Costanzo Senior Vice President and Manager, Heavy Construction Division	2003	200,000	433,675	-	44,919
	2002	200,000	515,615	-	43,061
	2001	200,000	528,373	-	80,448
William E. Barton Senior Vice President and Chief Financial Officer	2003	210,000	168,000	173,342	50,745
	2002	210,000	168,000	185,815	47,344
	2001	210,000	168,000	251,997	46,623

(1) For the year ended December 31, 2003, compensation deferred at the election of the officer under the Key Management Deferred Compensation Plan for Messrs. Watts, Dorey, Boitano, Costanzo and Barton was \$824,312; \$150,000; \$7,000; \$411,159 and \$7,000, respectively. For the year ended December 31, 2002, such deferred compensation amounted to \$900,897; \$225,669; \$7,000; \$492,214 and \$7,000, respectively, while for the year ended December 31, 2001, such deferred compensation was \$1,049,644; \$226,599; \$6,000; \$506,180 and \$7,000, respectively.

(2) Amounts include cash bonuses earned in the current year but paid in the following year. Amounts do not include cash bonuses paid in the current year but earned in the previous year.

(3) The amount of awards for each year is based on the closing price of our common stock on the grant date multiplied by the number of shares awarded for the year. Such awards are earned in the current year but issued as stock in the following year. The aggregate number of restricted shares outstanding at December 31, 2003 for Messrs. Watts, Dorey, Boitano, Costanzo and Barton were: none; 70,094; 82,608; none; and 35,977, respectively, with an aggregate market value for those same officers of none; \$1,646,508; \$1,940,462; none; and \$845,100, respectively, based on a closing price of \$23.49 at December 31, 2003. The number of shares and values for each officer at December 31, 2003 exclude the shares issued in March 2004 for services performed in 2003, which appear in the table as 2003 compensation. Dividends are paid on restricted shares on the same basis as all other outstanding shares.

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In 1999, restricted stock agreements were amended to change the vesting for all participants who had attained retirement age as defined by the Plan to conform to the requirements under the Internal Revenue Code Section 83. As a result of these amendments, Messrs. Watts and Costanzo's shares were 100% vested in 2000, and they did not earn restricted stock for the years ended December 31, 2003, 2002

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Footnotes continued from previous page

or 2001. The following tables show the total number of shares awarded Messrs. Dorey, Boitano and Barton in grant years 2003, 2002 and 2001 and the vesting schedules for those shares.

WILLIAM G. DOREY

Grant Date	Total Shares Awarded	2002 Vesting	2003 Vesting	2004 Vesting	2005 Vesting	2006 Vesting	2007 Vesting
2003	23,569	-	-	4,714	4,714	14,141	-
2002	19,934	-	3,987	3,987	3,987	7,973	-
2001	24,880	4,976	4,975	4,975	9,954	-	-
Totals	68,383	4,976	8,962	13,676	18,655	22,114	-

MARK E. BOITANO

Grant Date	Total Shares Awarded	2002 Vesting	2003 Vesting	2004 Vesting	2005 Vesting	2006 Vesting	2007 Vesting
2003	19,120	-	-	4,398	3,250	3,824	7,648
2002	13,289	-	-	5,714	2,259	5,316	-
2001	16,587	-	-	9,786	6,801	-	-
Totals	48,996	-	-	19,898	12,310	9,140	7,648

WILLIAM E. BARTON

Grant Date	Total Shares Awarded	2002 Vesting	2003 Vesting	2004 Vesting	2005 Vesting	2006 Vesting	2007 Vesting
2003	11,988	-	-	2,398	2,398	7,192	-
2002	10,465	-	2,093	2,093	2,093	4,186	-
2001	13,062	2,613	2,613	2,613	5,223	-	-
Totals	35,515	2,613	4,706	7,104	9,714	11,378	-

- (4) Amounts represent Granite's contributions to the Employee Stock Ownership Plan and to the Profit Sharing and 401(K) Plan that were earned during the current year, of which a portion was allocated in the following year. For the year ended December 31, 2003, contributions deferred at the election of the officer under the Key Management Deferred Compensation Plan for Messrs. Watts, Dorey, Boitano, Costanzo and Barton were: \$14,586; \$11,451; \$14,586; \$12,069 and \$14,586, respectively. For the year ended December 31, 2002 such deferred contributions amounted to \$12,023; \$10,021; \$12,023; \$10,286 and \$12,023, respectively, while for the year ended December 31, 2001 such deferred contributions were \$12,291; \$12,291; \$12,291; \$12,291 and \$12,291, respectively.
- (5) In January 2004, Mr. Dorey became Chief Executive Officer upon Mr. Watts' retirement, retaining the title of President. Mr. Watts is currently Chairman of the Board of Directors, in a non-executive capacity.
- (6) Mr. Boitano was promoted to the additional position of Chief Operating Officer in January 2004. Beginning with the year ended December 31, 2000, Mr. Boitano participated in a bonus banking system whereby the calculated commission, based on the Branch Division operating results, that was in excess of his allowed annual commission would be banked for future distribution either in a year when the calculated commission falls below his allowed maximum or upon retirement. This provision of the Branch Division Plan was

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discontinued beginning for the 2003 Plan year. At December 31, 2003, Mr. Boitano's remaining bonus bank balance to distribute was \$62,277.

(7) Certain historical amounts have been restated to conform to the current year presentation.

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Report of the Compensation Committee

Messrs. Barclay, Brooks, Kelly and Searle served as members of the Compensation Committee during 2003. All Committee members are directors who meet the independence requirements of the listing standards of the New York Stock Exchange. Mr. Barclay served as the Chair of the Committee.

The Compensation Committee is responsible for formulating our Board and executive compensation policy. The Committee reviews, adopts and administers incentive compensation plans applicable to executive officers and other senior management personnel, with the objective of providing both competitive and appropriate levels of compensation.

The Committee believes that a substantial portion of the annual compensation of each executive should be directly related to Granite's performance. In addition, compensation should link the long-term interests of executives and shareholders and should encourage career service by including stock ownership as an integral part of the compensation package.

Granite's compensation package includes salary and annual incentive compensation consisting of bonuses payable in cash and/or restricted stock. Following a review of officer salaries, the Compensation Committee recommended no changes in executive officer salaries in 2003, leaving the salary of our Chief Executive Officer, David H. Watts, at \$360,000.

The Committee continued the Return on Net Assets (RONA)-based compensation plan in 2003 for corporate officers and middle managers. The Committee believes that using RONA as the key performance factor ties earnings performance to our asset growth and asset utilization, compared with the cost of capital, and that RONA is a superior measure of performance in an asset-heavy business. For the Branch and Heavy Construction Division officers, the Committee assigned performance measures both at the Corporate and Division levels. Thirty percent of their incentive compensation was determined in 2003 by Corporate RONA, while 70% of their incentive compensation was based on the profitability of their respective Divisions.

The 1999 Equity Incentive Plan is designed so that when bonuses exceed a predetermined cap on total annual cash compensation, the amount in excess of the cap is converted into long-term compensation in the form of restricted stock. Restricted stock limits have also been established by the Committee to fix total compensation limits at appropriate levels. The Committee determined the appropriate participation of officers as well as the performance threshold, cash caps, and restricted stock limits for all officers in 2003. Mr. Watts' cash limit was set in 2000, and continued in 2003, at \$720,000 with a total compensation limit at \$1,440,000.

Due to provisions in Granite's 1999 Equity Incentive Plan, which fully vests participants at age 62, Mr. Watts elected to receive cash in lieu of common stock as part of his 2003 performance incentive, which will be held in Mr. Watts' Non-Qualified Deferred Compensation account for five years and will pay a return equal to the stock value. The Compensation Committee endorsed this handling of the stock portion of the incentive plan as it was consistent with IRS regulations and continues to place the amount awarded at risk based on changes in shareholder value.

The Committee commissioned the services of an independent compensation consultant to analyze the compensation levels of senior executives with similar responsibilities in comparable companies. Using three-factor regression analysis based on revenue autonomy and levels from the parent CEO, the consultants developed a predicted base and a predicted total compensation for Granite's CEO and its general managers. The analysis was drawn from comparison with six similar heavy civil construction companies as well as 25 privately held related construction companies and 14 publicly-held related construction companies.

Based on this analysis, the Committee believes Mr. Watts' compensation for the year ended December 31, 2003 appropriately reflects Granite's RONA performance objectives and was in the general range of compensation for chief executive officers with like responsibilities in comparable companies achieving similar financial results.

Section 162(m) of the Internal Revenue Code restricts deductibility of executive compensation paid to Granite's chief executive officer and each of the four other most highly compensated executive officers holding office at the end of any year to the extent such compensation exceeds \$1,000,000 for any of such officers in any

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year and does not qualify for an exception under Section 162(m) or related regulations. The Committee's policy is to qualify its executive compensation for deductibility under applicable tax laws to the extent practicable.

Members of the Compensation Committee:

Joseph J. Barclay
Richard M. Brooks

Brian C. Kelly
George B. Searle

Compensation of Directors

In 2003, non-employee directors were generally entitled to an annual retainer of \$50,000, payable quarterly, for serving on the Board and were entitled to a fee of \$1,000 for each Board of Directors meeting they attended in person or \$750 for each Board meeting attended by telephone. In addition, for committee meetings not held in conjunction with a regular Board meeting (except that no fees are paid for attendance of Executive Committee meetings), non-employee directors were entitled to a fee of \$750 for each meeting of a committee of the Board of Directors they attended in person or \$500 for each committee meeting attended by telephone. For each meeting of a committee of the Board of Directors held in conjunction with a regular Board meeting, non-employee directors were entitled to a fee of \$600 if they attended in person and \$500 if they attended by telephone (excluding Executive Committee meetings, for which no fee is paid). The Chairman of each committee of the Board of Directors received an additional \$3,000 annual retainer (payable quarterly) (excluding Executive Committee meetings). Audit committee members received an additional \$1,000, payable quarterly.

The 1999 Equity Incentive Plan provides that each non-employee director must elect to receive all or a portion equal to at least 50% of the value of all compensation for services as a director in the form of a stock-based director fee award in lieu of receipt of cash. Each non-employee director must elect, generally prior to the start of the applicable calendar year, to receive director fee awards during such year in the form of either an Option Payment or a Stock Units Payment. Option Payments and Stock Unit Payments are granted automatically on the last day of each calendar quarter during the year to which the election pertains.

A director electing to receive an Option Payment will be granted a non-statutory stock option for a number of shares of common stock determined by dividing the Elected Quarterly Compensation by an amount equal to 50% of the average closing price of a share of our common stock on the New York Stock Exchange on the ten trading days preceding the date of grant and having an exercise price per share equal to 50% of such average closing price.

A director electing to receive a Stock Units Payment will be granted an award for a number of stock units determined by dividing the Elected Quarterly Compensation by an amount equal to the average closing price of a share of our common stock on the New York Stock Exchange on the ten trading days preceding the date of grant. A stock unit is an unfunded bookkeeping entry representing a right to receive one share of our common stock in accordance with the terms and conditions of the Stock Units Award. Non-employee directors are not required to pay any additional cash consideration in connection with the settlement of the Stock Units Award.

Retired directors must exchange their options within three (3) years following their retirement, not to exceed the 10-year life of the options.

Employment Agreements and Change of Control Arrangements

Granite is a party to employment agreements with William E. Barton, Mark E. Boitano, Patrick M. Costanzo, William G. Dorey, and David H. Watts. These agreements provide that if the individual's employment with Granite Construction Incorporated is terminated for certain reasons within two and one-half years after a change in control of Granite Construction Incorporated, the individual will be entitled to receive payments of up to three times the average gross annual compensation paid to the individual over the

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five years prior to the change in control. A change in control is defined as (i) a merger, consolidation or acquisition of Granite Construction Incorporated where the stockholders of Granite Construction Incorporated 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 Granite Construction Incorporated or its stockholders; or (iii) the transfer to affiliated persons of more than 30% of the voting stock of Granite Construction Incorporated, leading to a change of a majority of the members of the Board of Directors.

Also in the event of a change in control, options and grants of restricted stock awarded under the 1990 Omnibus Stock and Incentive Plan and the 1999 Equity Incentive Plan are affected. These plans provide that the surviving successor, or acquiring corporation shall either assume outstanding options and restricted stock awards or substitute new options and restricted stock awards having an equivalent value. In the event that does not occur, our Board of Directors shall provide that any option and/or restricted stock awards otherwise unexercisable and/or unvested shall be immediately exercisable and vested in full. The plans further provide that if such newly exercisable options have not been exercised as of the date of the change in control, they shall terminate effective as of the date of the change in control.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee as of the date of this proxy statement is or has been an officer of Granite, nor is any member currently an employee of Granite. Director Kelly's son, Patrick Kelly, is an operations manager for Granite. He received \$105,833 in salary, \$53,741 in commissions and other compensation totaling \$81,020 (including Profit Sharing cash bonus, vested restricted stock, vehicle benefit and restricted stock dividend) during fiscal year 2003. Director Searle's son, George G. Searle, is an area manager with Granite's subsidiary, Granite Halmar Construction Company, Inc. During fiscal year 2003, he received \$139,999 in salary and a Profit Sharing cash bonus of \$7,125.

Table of Contents**Performance Graph**

Set forth below is a line graph comparing the annual percentage change in the cumulative total return on our common stock with the cumulative total return of the S&P 500 and the Dow Jones Heavy Construction Industry Index (Dycom Industries Inc., EMCOR Group Inc., Fluor Corp., Granite Construction Incorporated, Insituform Technologies Inc., Jacobs Engineering Group Inc.) for the period commencing on December 31, 1998, and ending on December 31, 2003.

The graph assumes \$100 invested on December 31, 1998 in our common stock at \$33.56⁽¹⁾ per share, and in the S&P 500 Index, and Dow Jones Construction Industry Index. The Total Return also assumes reinvestment of dividends.

Comparison of 5-Year Cumulative Total Return⁽²⁾**among Granite Construction Incorporated, the S&P Index
and the Dow Jones US Heavy Construction Index**

	Dec. 1998	Dec. 1999	Dec. 2000	Dec. 2001	Dec. 2002	Dec. 2003
Granite Construction Incorporated	100.00	55.87	89.25	112.97	73.91	114.41
S&P 500	100.00	121.04	110.02	96.95	75.52	97.18
DJ Heavy Construction	100.00	107.24	125.59	131.90	110.63	150.91

(1) Performance graph closing prices and dividends are adjusted for stock splits and stock dividends.

(2) \$100 invested on December 31, 1998 in stock or index including reinvestment of dividends. Year ended December 31.

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**STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
AND EQUITY COMPENSATION PLAN INFORMATION**

The following table contains information as of February 27, 2004 regarding the ownership of our common stock by: (i) all persons known to us to be the beneficial owners of 5% or more of our outstanding common stock, (ii) each of our directors and director nominees, (iii) our Chief Executive Officer and our four other most highly compensated executive officers, and (iv) all executive officers and directors of Granite as a group:

Name	Amount and Nature of Beneficial Ownership ⁽¹⁾	Percent of Common Stock Outstanding ⁽²⁾
Emben & Co. (ESOP Trust) c/o BNY Western Trust Company One Wall Street New York, NY 10286	8,289,243	19.95%
FMR Corp. ⁽³⁾ 82 Devonshire Street Boston, MA 02109	4,299,725	10.35%
Vanguard Chester Funds Vanguard Primecap Fund ⁽⁴⁾ 100 Vanguard Blvd Malvern, PA 19355	3,150,000	7.58%
Wachovia Corporation ⁽⁵⁾ One Wachovia Center Charlotte, NC 28288-0137	3,002,789	7.23%
David H. Watts ⁽⁶⁾	75,009	*
Joseph J. Barclay ⁽⁷⁾	26,215**	*
Richard M. Brooks ⁽⁸⁾	25,850**	*
Linda Griego ⁽⁹⁾	2,069**	*
Brian C. Kelly ⁽¹⁰⁾	24,019**	*
David H. Kelsey ⁽¹¹⁾	2,722**	*
Rebecca A. McDonald ⁽¹²⁾	8,640**	*
Raymond E. Miles ⁽¹³⁾	10,740**	*
J. Fernando Niebla ⁽¹⁴⁾	8,636**	*
George B. Searle ⁽¹⁵⁾	19,872**	*
William G. Dorey ⁽¹⁶⁾	327,714	*
Mark E. Boitano ⁽¹⁷⁾	226,739	*
Patrick M. Costanzo ⁽¹⁸⁾	212,406	*
William E. Barton ⁽¹⁹⁾	132,182	*
All Executive Officers and Directors as a Group (14 Persons) ⁽⁶⁻¹⁹⁾	1,112,709	2.68%

* Less than 1%.

** Each non-employee director must receive at least 50% of the value of all compensation for services as a director in the form of a stock-based director fee award in lieu of receipt of cash. Refer to Page 13 for further description.

- (1) Except as indicated in the footnotes to this table, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to community property laws where applicable.
- (2) Calculated on the basis of 41,464,282 shares of Common Stock outstanding as of February 27, 2004, except that shares of Common Stock underlying options exercisable within 60 days of February 27, 2004 are deemed outstanding for purposes of calculating the

beneficial ownership of Common Stock of the holders of such options.

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- (3) Share ownership is as of December 31, 2003. Based upon a Schedule 13G filed by FMR Corp. (FMR) with the Securities and Exchange Commission. FMR has sole voting power with respect to 633,835 shares and sole dispositive power with respect to all 4,299,725 shares.
- (4) Share ownership is as of December 31, 2003. Based upon a Schedule 13G filed by Vanguard Chester Funds Vanguard/ PRIMECAP Fund (Vanguard) with the Securities and Exchange Commission. Vanguard has sole voting power with respect to all 3,150,000 shares.
- (5) Share ownership is as of December 31, 2003. Based upon a Schedule 13G filed by Wachovia Corporation (Wachovia) with the Securities and Exchange Commission. Wachovia has sole voting power with respect to 2,175,532 shares, shared voting power with respect to 8,700 shares, and sole dispositive power with respect to 2,986,489 shares.
- (6) Includes approximately 71,105 shares of Common Stock owned by the Employee Stock Ownership Plan (ESOP) but allocated to Mr. Watts account as of February 27, 2004, over which Mr. Watts has voting but not dispositive power. These shares cannot be distributed until the plan year following the plan year in which Mr. Watts retires, becomes disabled or dies.
- (7) Includes 18,715 shares of Common Stock which Mr. Barclay has the right to acquire as of February 27, 2004 as a result of options vested and exercisable on the day of grant under the 1999 Equity Incentive Plan.
- (8) Includes 19,100 shares of Common Stock which Mr. Brooks has the right to acquire as of February 27, 2004 as a result of options vested and exercisable on the day of grant under the 1999 Equity Incentive Plan.
- (9) All 2,069 shares are Common Stock which Ms. Griego has the right to acquire as of February 27, 2004 as a result of options vested and exercisable on the day of grant under the 1999 Equity Incentive Plan.
- (10) Includes 16,466 shares of Common Stock which Mr. Kelly has the right to acquire as of February 27, 2004 as a result of options vested and exercisable on the day of grant under the 1999 Equity Incentive Plan and 1,346 Common Stock units granted under the 1999 Equity Incentive Plan. Also includes 2,278 shares beneficially owned by his wife.
- (11) All 2,722 shares are Common Stock which Mr. Kelsey has the right to acquire as of February 27, 2004 as a result of options vested and exercisable on the day of grant under the 1999 Equity Incentive Plan.
- (12) Includes 5,853 shares of Common Stock which Ms. McDonald has the right to acquire as of February 27, 2004 as a result of options vested and exercisable on the day of grant under the 1999 Equity Incentive Plan and 1,558 Common Stock units granted under the 1999 Equity Incentive Plan. Also includes 1,229 shares that Ms. McDonald holds jointly with her husband.
- (13) Includes 8,490 shares of Common Stock which Mr. Miles has the right to acquire as of February 27, 2004 as a result of options vested and exercisable on the day of grant under the 1999 Equity Incentive Plan. Also includes 2,250 shares held in trust for the benefit of family members, as to which Mr. Miles and his wife share voting and investment power.
- (14) Consists of 8,636 shares of Common Stock which Mr. Niebla has the right to acquire as of February 27, 2004 as a result of options vested and exercisable on the day of grant under the 1999 Equity Incentive Plan.
- (15) Includes 3,180 shares of Common Stock units granted under the 1999 Equity Incentive Plan.
- (16) Includes approximately 225,885 shares of Common Stock owned by the ESOP but allocated to Mr. Dorey s account as of February 27, 2004, and 50,400 shares of restricted stock over which Mr. Dorey has voting, but not dispositive power. These shares cannot be distributed until the plan year following the plan year in which Mr. Dorey retires, becomes disabled or dies. Also includes 51,429 shares held in trust for the benefit of his family as to which shares Mr. Dorey and his wife share voting and investment power.
- (17) Includes approximately 157,093 shares of Common Stock owned by the ESOP but allocated to Mr. Boitano s account, and 46,663 shares of restricted stock over which Mr. Boitano has voting, but not dispositive power, as of February 27, 2004. Mr. Boitano s ESOP shares cannot be distributed until the plan year following the plan year in which he retires, becomes disabled or dies.

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- (18) Includes approximately 128,559 shares of Common Stock owned by the ESOP but allocated to Mr. Costanzo's account as of February 27, 2004, over which Mr. Costanzo has voting, but not dispositive power. These shares cannot be distributed until the plan year following the plan year in which Mr. Costanzo retires, becomes disabled or dies. Also includes 69,725 shares held in trust for the benefit of members of his family. Mr. Costanzo and his wife have voting and investment power.
- (19) Includes approximately 68,659 shares of Common Stock owned by the ESOP but allocated to Mr. Barton's account as of February 27, 2004, and 26,077 shares of restricted stock over which Mr. Barton has voting, but not dispositive power, as of February 27, 2004. Mr. Barton's ESOP shares cannot be distributed until the plan year following the plan year in which Mr. Costanzo retires, becomes disabled or dies. Mr. Barton also holds 37,446 shares jointly with his wife.

The following table contains information as of December 31, 2003 regarding stock authorized for issuance under Granite's 1999 Equity Incentive Plan.

Equity Compensation Plan Information

Plan Category	Stock to be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Stock Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Stock Reflected in Column (a)) (c)
Equity compensation plans approved by stockholders	82,051	\$ 11.22	2,120,838
Total	82,051	\$ 11.22	2,120,838

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors and persons who beneficially own more than 10% of our common stock to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. Such persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms filed by such persons.

Based solely on our review of such forms furnished to us and written representations from certain reporting persons, we believe that all filing requirements applicable to our executive officers, directors and more than 10% stockholders were complied with except that, due to an in-house administrative error, Linda Griego, Brian C. Kelly, and Raymond E. Miles each filed a late report with respect to one transaction.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Dorey, our President and Chief Executive Officer, is a non-managing member of a limited liability company, or LLC, in which he holds an 11.32% interest. During 2003, our wholly-owned subsidiary, Granite Construction Company, performed certain road and utility construction services under a contract with the LLC, which provides for the LLC to pay Granite Construction Company a total of \$360,877. The work was substantially completed during 2003.

David V. Watts, a son of David H. Watts, Chairman of the Board, is Granite's Director of Information Technology. For fiscal year 2003, Mr. Watts was paid a salary of \$116,400, a \$31,607 bonus and other compensation totaling \$20,847 (including Profit Sharing cash bonus, restricted stock dividend and moving reimbursement). He also has a home loan from Granite as part of a relocation package. During fiscal year 2003, the largest amount outstanding on the loan was \$75,000. At December 31, 2003, the outstanding amount was \$62,500.

Director Kelly's son, Patrick Kelly, is an operations manager for Granite. He received \$105,833 in salary, \$53,741 in commissions and other compensation totaling \$81,020 (including Profit Sharing cash bonus, vested restricted stock, vehicle benefit and restricted stock dividend) during fiscal year 2003.

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Director Searle's son, George G. Searle, is an area manager with Granite's subsidiary, Granite Halmar Construction Company, Inc. During fiscal year 2003, he received \$139,999 in salary and a Profit Sharing cash bonus of \$7,125.

REPORT OF THE AUDIT/ COMPLIANCE COMMITTEE

The Audit/ Compliance Committee is appointed by the Board of Directors, and its purpose is to assist the Board in (A) its oversight of (1) Granite's accounting and financial reporting principles and policies and internal controls and procedures, including the internal audit function, (2) the integrity of Granite's financial statements, (3) the qualifications and independence of Granite's independent auditor, (4) Granite's compliance with legal and regulatory requirements, and (5) Granite's Corporate Compliance Program and Code of Conduct; and (B) shall serve as the Qualified Legal Compliance Committee of the Board of Directors as required. The Committee is solely responsible for selecting, evaluating, setting the compensation of, and, where deemed appropriate, replacing our independent auditor (or nominating an independent auditor to be proposed for stockholder approval in any proxy statement). The Committee consists of five outside directors who have been determined to be independent under the rules of the New York Stock Exchange and the SEC. The Board of Directors has determined that at least one member is a financial expert as defined Item 401 of Regulation S-K.

Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Annual Report on Form 10-K with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. In addition, the Director of Internal Audit has direct access and meets regularly with the Committee to discuss the results of internal audits and the quality of internal controls. The Internal Audit Program is augmented by consulting services provided by a large international independent accounting firm, as required. In addition, the Corporate Compliance Officer reports directly to the Committee and the Committee reports to the Board of Directors at each meeting.

The Committee reviewed with our independent auditor, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of our accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards, including Statement on Auditing Standards No. 61. In addition, the Committee has discussed with the independent auditor the auditor's independence from Granite and its management, including the matters in the written disclosures and the letter from the independent auditor required by the Independence Standards Board, Standard No. 1.

The Committee discussed with our independent auditor the overall scope and plans for their audit. The Committee meets with the independent auditor, with and without management present, to discuss the results of their examination, their evaluation of Granite's internal controls, and the overall quality of our financial reporting. In addition, the Committee reviewed with management and the independent auditor drafts of our quarterly financial statements and press releases prior to the public release of the quarterly earnings. In addition to the quarterly review, the Committee met with the Chief Executive Officer and the Chief Financial Officer to discuss the process adopted by management to enable them to sign the certifications that are required to accompany reports filed with the SEC.

Table of Contents**Principal Accountant Fees and Services**

Aggregate fees for professional services rendered for us by PricewaterhouseCoopers LLP as of or for the years ended December 31, 2003 and December 2002, were:

	2003	2002
Audit Fees	\$404,000	\$389,000
Audit Related Fees	43,691	268,200
Tax Fees	16,777	61,000
All Other Fees	96,929	115,290
	<hr/>	<hr/>
Total	\$561,397	\$833,490

Audit Fees were for professional services rendered for the audits of our consolidated financial statements, audits of subsidiary financial statements, and quarterly financial reviews.

Audit Related Fees were for assurance and related services pertaining to employee benefit plan audits, due diligence and other procedures related to mergers and acquisitions, and accounting consultations.

Tax Fees were for services related to tax compliance, tax advice and tax planning.

All Other Fees were for services rendered for support of litigation.

Audit Committee Pre-Approval Policies and Procedures

The Committee's policy adopted during 2003 is to pre-approve all audit and permissible non-audit services provided by the independent auditor. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditor and management periodically report to the Committee regarding the extent of services provided by the independent auditor in accordance with this pre-approval, and the fees for the services performed to date. The Committee may also pre-approve particular services on a case-by-case basis. During fiscal year 2003, no services were provided to us by PricewaterhouseCoopers LLP or any other accounting firm other than in accordance with the pre-approval policies and procedures described above.

Based on its review of the non-audit services provided by PricewaterhouseCoopers LLP, the committee believes that PricewaterhouseCoopers LLP's provision of such non-audit services is compatible with maintaining their independence.

The Committee also oversees our Ethics and Compliance Program, participates in the annual evaluation of our Compliance Officer and provides a detailed annual report to the Board on the progress of the Program and plans for future activities. A revised Committee Charter has been included as Appendix A.

Members of the Audit/ Compliance Committee:

Richard M. Brooks, Chairman
Joseph J. Barclay
David H. Kelsey

Rebecca A. McDonald
George B. Searle

PROPOSAL TO AMEND AND RESTATE THE

**GRANITE CONSTRUCTION INCORPORATED
1999 EQUITY INCENTIVE PLAN**

Our 1999 Equity Incentive Plan (the Plan) was originally adopted by the Board of Directors in March 1999 and approved by our stockholders at our annual meeting held on May 24, 1999. The Plan currently authorizes Granite to issue up to 3,750,000 shares of common stock to employees and directors, of which 2,291,165 shares remained available as of March 5, 2004 for the grant of new incentive awards. Without your

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approval of this proposal, Granite will be unable to grant any additional awards under the Plan following the expiration of its current term on May 24, 2004.

So that we may continue to offer a competitive equity incentive program, the stockholders are being asked to approve the Plan, as amended and restated, in order to:

extend the term of the Plan for an additional ten years ending May 24, 2014;

increase by 500,000 the number of shares of common stock authorized for issuance under the Plan, which will result in a total of 2,791,165 shares being available for the grant of future awards; and

authorize us to issue restricted stock units, each of which gives a participant the right to receive a share of common stock on a specified future date.

In addition, to preserve our ability to deduct in full for federal income tax purposes compensation certain of our executive officers may recognize in connection with performance-based awards that may be granted in the future under the Plan, the stockholders are being asked to approve certain material terms of the Plan related to such awards. Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), generally denies a corporate tax deduction for annual compensation exceeding \$1 million paid to the chief executive officer or to any of the four other most highly compensated officers of a publicly held company. However, certain types of compensation, including performance-based compensation, are generally excluded from this limit. To enable compensation in connection with awards granted under the Plan that are settled only if one or more performance goals are attained to qualify as performance-based within the meaning of Section 162(m), the stockholders are being asked to approve the material terms of the performance goals. By approving the Plan, the stockholders will be approving, among other things:

the eligibility requirements for participation in the Plan;

the performance criteria upon which awards of performance shares, performance units and certain awards of restricted stock and restricted stock units may be based;

the maximum numbers of shares for which stock options, performance shares and awards of restricted stock or restricted stock units based on attainment of performance goals may be granted to an employee in any fiscal year; and

the maximum dollar amount that a participant may receive upon settlement of performance units.

While we believe that compensation in connection with such awards under the Plan generally will be deductible by Granite for federal income tax purposes, under certain circumstances, such as a change in control of Granite, compensation paid in settlement of certain such awards may not qualify as performance-based.

The Board of Directors believes that Granite must offer a competitive equity incentive program if we are to continue to successfully attract and retain the best possible candidates for positions of responsibility with Granite. The Board expects that the continued operation of the Plan will be an important factor in attracting and retaining the high caliber employees and directors essential to our success and in motivating these individuals to strive to enhance Granite's growth and profitability. The amended and restated Plan is intended to ensure that we will continue to have available a reasonable number of shares under a Plan providing us with flexibility to meet future compensation challenges.

Summary of the Plan

The following summary of the Plan, as amended and restated, is qualified in its entirety by the specific language of the Plan, a copy of which is available to any stockholder upon request.

General. The purpose of the Plan is to advance Granite's interests by encouraging and providing for the acquisition of an equity interest in our success, by providing additional incentives and motivation toward superior performance, and by enabling us to attract and retain the services of employees and directors upon whose judgment, interest, and special effort the successful conduct of our operations is largely dependent.

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These incentives are provided through the grant of stock options, restricted stock, restricted stock units, performance shares, performance units and stock-based director fee awards.

Authorized Shares. The maximum aggregate number of authorized but unissued or reacquired shares of Granite common stock that may be issued under the Plan is 4,250,000, representing an increase of 500,000 over the number of shares previously authorized by our stockholders. Appropriate adjustments will be made to this limit, to the other numerical limits on awards described in this proposal and to outstanding awards upon any stock dividend, stock split, reverse stock split, recapitalization, merger, combination, exchange of shares or similar change in Granite's capital structure. If any award expires, lapses or otherwise terminates for any reason without having been exercised or settled in full, or if shares subject to forfeiture or repurchase are forfeited or repurchased by Granite at the participant's purchase price, any such shares reacquired or subject to a terminated award will again become available for issuance under the Plan. Shares will not be treated as having been issued under the Plan and will therefore not reduce the number of shares available for grant to the extent an award is settled in cash or such shares are withheld in satisfaction of a tax withholding obligation. If shares are tendered in payment of the exercise price of an option, the number of shares available for grant under the Plan will be reduced by the net number of shares issued.

Certain Award Limits. In addition to the limitation described above in the total number of shares of our common stock that will be authorized for issuance under the Plan, the Plan limits the numbers of shares that may be issued under certain types of awards. No more than 4,250,000 shares may be issued upon the exercise of incentive stock options granted under the Plan. No more than five percent of the maximum aggregate number of shares authorized under the Plan may be issued pursuant to Restricted Stock, Restricted Stock Unit, Performance Share or Performance Unit Awards granted following the May 24, 2004 annual meeting of stockholders that provide for vesting more rapid than annual pro rata vesting over a period of three years if vesting is based upon continued service alone or that have a performance period of less than 12 months if vesting is based on the attainment of performance goals. To enable compensation in connection with certain types of awards to qualify as performance-based within the meaning of Section 162(m) of the Code, the Plan establishes a limit on the maximum aggregate number of shares or dollar limit for which any such award may be granted to an employee in any fiscal year, as follows:

Stock options: No more than 100,000 shares, provided that an additional grant of an option for up to 250,000 shares may be made to a newly-hired employee.

Restricted stock and restricted stock unit awards having vesting based upon the attainment of performance goals: No more than 100,000 shares.

Performance share awards: No more than 100,000 shares for each full fiscal year contained in the performance period of the award.

Performance unit awards: No more than \$1,500,000 for each full fiscal year contained in the performance period of the award.

A participant may receive only one performance share or performance unit award with respect to any performance period.

Administration. The Plan is administered by the Compensation Committee of the Board of Directors, but may also be administered by the Board. In the case of awards intended to qualify for the performance-based compensation exemption under Section 162(m) of the Code, the Plan will be administered only by the Compensation Committee, which consists of at least two outside directors within the meaning of Section 162(m). (For purposes of this summary, the term Committee will refer to either the Compensation Committee or the Board of Directors.) Subject to the provisions of the Plan, the Committee determines in its discretion the persons to whom and the times at which awards are granted, the types and sizes of such awards, and all of their terms and conditions. The Committee may, subject to certain limitations on the exercise of its discretion required by Section 162(m), amend, cancel or renew any award, waive any restrictions or conditions applicable to any award, and accelerate, continue, extend or defer the vesting of any award. The Plan provides, subject to certain limitations, for indemnification by Granite of any director, officer or employee against all reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such

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person's action or failure to act in administering the Plan. All awards granted under the Plan will be evidenced by a written agreement between the company and the participant specifying the terms and conditions of the award, consistent with the requirements of the Plan. The Committee will interpret the Plan and awards granted thereunder, and all determinations of the Committee will be final and binding on all persons having an interest in the Plan or any award.

Prohibition of Option Repricing. The Plan expressly provides that, without the approval of a majority of the votes cast in person or by proxy at a meeting of our stockholders, the Committee may not provide for either the cancellation of outstanding options in exchange for the grant of new options at a lower exercise price or the amendment of outstanding options to reduce the exercise price.

Eligibility. Awards may be granted to employees and directors of Granite or of any present or future parent or subsidiary corporations of Granite. In addition, awards may be granted to prospective service providers in connection with written employment offers, provided that no shares subject to any such award may vest, become exercisable or be issued prior to such person's commencement of service. Incentive stock options may be granted only to employees, and director fee awards may be granted only to members of the Board of Directors who, as of the time of grant, are not employees of Granite or any parent or subsidiary corporation of Granite (non-employee directors). As of March 26, 2004, we had approximately 2,757 employees, including four executive officers, and nine non-employee directors who were eligible under the Plan.

Stock Options. The Committee may grant nonstatutory stock options, incentive stock options within the meaning of Section 422 of the Code, or any combination of these. The exercise price of each option shall not be less than the fair market value of a share of our common stock on the date of grant. However, any incentive stock option granted to a person who at the time of grant owns stock possessing more than 10% of the total combined voting power of all classes of stock of Granite or any parent or subsidiary corporation of Granite (a Ten Percent Stockholder) must have an exercise price equal to at least 110% of the fair market value of a share of Granite common stock on the date of grant. On March 26, 2004, the closing price of the common stock on the New York Stock Exchange was \$23.67 per share.

The Plan provides that the option exercise price may be paid in cash, by check, or in cash equivalent, by means of a broker-assisted cashless exercise, to the extent legally permitted, by tender to Granite of shares of common stock owned by the participant having a fair market value not less than the exercise price, or by any combination of these. Nevertheless, the Committee may restrict the forms of payment permitted in connection with any option grant. No option may be exercised unless the participant has made adequate provision for federal, state, local and foreign taxes, if any, relating to the exercise of the option, including, if permitted by Granite, through the participant's surrender of a portion of the option shares to Granite.

Options become vested and exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by the Committee. The maximum term of any option granted under the Plan is ten years, provided that an incentive stock option granted to a Ten Percent Stockholder must have a term not exceeding five years. Subject to the term of the option, an option generally will remain exercisable for 30 days following the participant's termination of service, provided that if service terminates as a result of the participant's death or disability, the option generally will remain exercisable for six months, or if service is terminated for cause, the option will terminate immediately. If a participant retires, the option will remain exercisable over a period determined by the Committee. The Committee, in its discretion, may provide longer post-termination exercise periods, but in any event the option must be exercised no later than its expiration date.

Incentive stock options are nontransferable by the participant other than by will or by the laws of descent and distribution, and are exercisable during the participant's lifetime only by the participant. Non-statutory stock options granted under the Plan may be assigned or transferred to the extent permitted by the Committee and set forth in the option agreement.

Restricted Stock. Awards of restricted stock may be granted by the Committee subject to such restrictions for such periods as determined by the Committee and set forth in a written agreement between

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Granite and the participant. Restricted stock may not be sold or otherwise transferred or pledged until the restrictions lapse or are terminated. Restrictions may lapse in full or in installments on the basis of the participant's continued service or other factors, such as performance criteria (see discussion under "Performance Awards" below) established by the Committee. Unless otherwise provided by the Committee, a participant will forfeit any shares of restricted stock as to which the restrictions have not lapsed prior to the participant's termination of service, provided that if termination of service is due to the participant's death or disability, all restrictions will lapse automatically. Participants holding restricted stock will have the right to vote the shares and to receive all dividends and other distributions, except that any dividends or other distributions in shares will be subject to the same restrictions on transferability as the original award.

Restricted Stock Units. As amended, the Plan authorizes the Committee to grant awards of restricted stock units, which represent rights to receive shares of Granite common stock at a future date determined in accordance with the participant's award agreement. No monetary payment is required for receipt of restricted stock units or the shares issued in settlement of the award, the consideration for which is furnished in the form of the participant's services to Granite. The Committee may grant restricted stock unit awards subject to vesting conditions similar to those applicable to restricted stock awards, including on the basis of the attainment of performance goals (see discussion under "Performance Awards" below). Restricted stock units may not be sold or otherwise transferred or pledged. Unless otherwise provided by the Committee, a participant will forfeit any restricted stock units which have not vested prior to the participant's termination of service. Participants have no voting rights or rights to receive cash dividends with respect to restricted stock unit awards until shares of common stock are issued in settlement of such awards. However, the Committee may grant restricted stock units that entitle their holders to receive dividend equivalents with respect to cash dividends paid on our common stock.

Performance Awards. The Committee may grant performance awards subject to such conditions and the attainment of such performance goals over such periods as the Committee determines in writing and sets forth in a written agreement between Granite and the participant. These awards may be designated as performance shares or performance units. Performance shares and performance units are unfunded bookkeeping entries generally having initial values, respectively, equal to the fair market value determined on the grant date of a share of common stock and \$100 per unit. Performance awards will specify a predetermined amount of performance shares or performance units that may be earned by the participant to the extent that one or more predetermined performance goals are attained within a predetermined performance period. To the extent earned, we may settle performance awards in cash, shares of common stock (including shares of restricted stock) or any combination thereof.

Prior to the beginning of the applicable performance period or such later date as permitted under Section 162(m) of the Code, the Committee will establish one or more performance goals applicable to the award. Performance goals will be based on the attainment of specified target levels with respect to one or more measures of business or financial performance of Granite and each parent and subsidiary corporation consolidated with Granite for financial reporting purposes, or such division or business unit of Granite as may be selected by the Committee. The Committee, in its discretion, may base performance goals on one or more of the following such measures: revenue, operating income, pre-tax profit, net income, gross margin, operating margin, earnings per share, return on stockholder equity, return on capital, return on net assets, economic value added and cash flow. The target levels with respect to these performance measures may be expressed on an absolute basis or relative to a standard specified by the Committee. The degree of attainment of performance measures will, according to criteria established by the Committee, be computed before the effect of changes in accounting standards, restructuring charges and similar extraordinary items occurring after the establishment of the performance goals applicable to a performance award.

Following completion of the applicable performance period, the Committee will certify in writing the extent to which the applicable performance goals have been attained and the resulting value to be paid to the participant. The Committee retains the discretion to eliminate or reduce, but not increase, the amount that would otherwise be payable to the participant on the basis of the performance goals attained. However, no such reduction may increase the amount paid to any other participant. In its discretion, the Committee may provide for the payment to a participant awarded performance shares of dividend equivalents with respect to

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cash dividends paid on our common stock. Performance award payments may be made in lump sum or in installments. If any payment is to be made on a deferred basis, the Committee may provide for the payment of dividend equivalents or interest during the deferral period.

Unless otherwise provided by the Committee, if a participant's service terminates due to the participant's death, disability or retirement prior to completion of the applicable performance period, the final award value will be determined at the end of the performance period on the basis of the performance goals attained during the entire performance period but will be prorated for the number of months of the participant's service during the performance period. If a participant's service terminates prior to completion of the applicable performance period for any other reason, the Plan provides that, unless otherwise determined by the Committee, the performance award will be forfeited. No performance award may be sold or transferred other than by will or the laws of descent and distribution prior to the end of the applicable performance period.

Director Fee Awards. The Plan provides that each non-employee director must receive at least 50% of the value of all compensation for services as a director in the form of a stock-based director fee award in lieu of cash compensation. However, a non-employee director may elect to receive up to 100% of his or her director compensation in the form of a director fee award. Any such election must generally be made prior to the first day of the calendar year to which it applies. Director fee awards are granted automatically on the last day of each calendar quarter for the elected portion (not less than 50%) of a non-employee director's compensation earned during the quarter (the Elected Quarterly Compensation). Director compensation not paid in the form of a director fee award is paid in cash in accordance with our normal payment procedures.

Each non-employee director must elect, generally prior to the start of the applicable calendar year, to receive director fee awards during such year in the form of either an Option Payment or a Stock Units Payment. A non-employee director electing to receive an Option Payment is granted automatically on the last day of each calendar quarter during the year a non-statutory stock option (a Non-Employee Director Option) for a number of shares of Common Stock determined by dividing the Elected Quarterly Compensation by an amount equal to 50% of the average closing price of a share of our Common Stock on the New York Stock Exchange on the ten trading days preceding the date of grant and having an exercise price per share equal to 50% of such average closing price.

Each Non-Employee Director Option must be evidenced by a written agreement between Granite and the non-employee director specifying the number of shares subject to the option and the other terms and conditions of the option, consistent with the requirements of the Plan. The exercise price may be paid in cash, by check, or in cash equivalent, by means of a broker-assisted cashless exercise, and, to the extent legally permitted, by tender of shares of common stock owned by the director having a fair market value not less than the exercise price. Non-Employee Director Options will be fully vested and will have a term of ten years. Subject to such term, a Non-Employee Director Option will remain exercisable for 36 months following the director's termination of service. A Non-Employee Director Option may be assigned or transferred to the extent permitted by the Committee and set forth in the option agreement.

A non-employee director electing to receive a Stock Units Payment will be granted automatically on the last day of each calendar quarter during the year an award (a Stock Units Award) for a number of stock units determined by dividing the Elected Quarterly Compensation by an amount equal to the average closing price of a share of our common stock on the New York Stock Exchange on the ten trading days preceding the date of grant. A stock unit is an unfunded bookkeeping entry representing a right to receive one share of our common stock in accordance with the terms and conditions of the Stock Units Award. Non-employee directors are not required to pay any additional cash consideration in connection with the settlement of a Stock Units Award.

Each Stock Units Award must be evidenced by a written agreement between Granite and the non-employee director specifying the number of stock units subject to the award and the other terms and conditions of the Stock Units Award, consistent with the requirements of the Plan. Stock Unit Awards are fully vested upon grant and will be settled by distribution to the non-employee director of a number of whole shares of common stock equal to the number of stock units subject to the award within 30 days following the earlier of (i) the date on which the participant's service as a director terminates or (ii) an early settlement

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date elected by the non-employee director in accordance with the terms of the Plan at the time of his or her election to receive the Stock Units Payment. A holder of stock units has no voting rights or other rights as a stockholder until shares of common stock are issued to the participant in settlement of the stock units. However, non-employee directors holding stock units will be entitled to receive dividend equivalents with respect to any payment of cash dividends on an equivalent number of shares of common stock. Such dividend equivalents will be credited in the form of additional whole and fractional stock units determined by the fair market value of a share of common stock on the dividend record date. Prior to settlement, no Stock Units Award may be assigned or transferred other than by will or the laws of descent and distribution.

Change in Control. The Plan defines a **Change in Control** of Granite as any of the following events: (i) an acquisition, consolidation, or merger of Granite with or into any other corporation or corporations, unless the stockholders of Granite retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the surviving or acquiring corporation or corporations; (ii) the sale, exchange, or transfer of all or substantially all of the assets of Granite to a transferee other than a corporation or partnership controlled by Granite or its stockholders; or (iii) a transaction or series of related transactions in which stock representing more than 30% of the outstanding voting power of Granite is sold, exchanged, or transferred to any single person or affiliated persons leading to a change of a majority of the members of the Board of Directors. If a Change in Control occurs, the surviving, continuing, successor or purchasing corporation or its parent may either assume all outstanding awards or substitute new awards having an equivalent value. If the outstanding awards are not assumed or replaced, then all unexercisable, unvested or unpaid portions of the outstanding awards will become immediately exercisable, vested and payable in full immediately prior to the date of the Change in Control. For this purpose, the value of outstanding performance awards will be determined and paid on the basis of the greater of (i) the degree of attainment of the applicable performance goals prior the date of the Change in Control or (ii) 100% of the pre-established performance goal target. Any option not assumed, replaced or exercised prior to the Change in Control will terminate. The Plan authorizes the Committee, in its discretion, to provide in any award agreement that if, within a period following a Change in Control specified by the Committee, the participant's service is involuntarily terminated without cause (as defined in the Plan) or the participant resigns for good reason (as defined in the Plan), then the exercisability, vesting and payment of such participant's outstanding awards will be accelerated to such extent as specified by the Committee and, if the outstanding award is an option, it will remain exercisable for six months (or such other period specified by the Committee) following the date of the participant's termination of service (but not beyond the expiration of the option's term).

Termination or Amendment. The Plan will continue in effect until the first to occur of (i) its termination by the Committee, (ii) the date on which all shares available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing awards granted under the Plan have lapsed, or (iii) May 24, 2014. The Committee may terminate or amend the Plan at any time, provided that no amendment may be made without stockholder approval if the Committee deems such approval necessary for compliance with any applicable tax or securities law or other regulatory requirements, including the requirements of any stock exchange or market system on which our common stock is then listed. No termination or amendment may affect any outstanding award unless expressly provided by the Committee, and, in any event, may not adversely affect an outstanding award without the consent of the participant unless necessary to comply with any applicable law, regulation or rule.

Summary of U.S. Federal Income Tax Consequences

The following summary is intended only as a general guide to the U.S. federal income