

GRANITE CONSTRUCTION INC

Form DEF 14A

April 04, 2006

**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

Filed by a Party other than the Registrant

Check the appropriate box:

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

**GRANITE CONSTRUCTION INCORPORATED**

\_\_\_\_\_  
(Name of Registrant as Specified In Its Charter)

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

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**GRANITE CONSTRUCTION INCORPORATED**  
**585 West Beach Street**  
**Watsonville, California 95076**  
**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**May 22, 2006**

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of GRANITE CONSTRUCTION INCORPORATED, a Delaware corporation, will be held on May 22, 2006 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 (3) directors for the ensuing three-year term;
2. To act upon a proposal to amend Granite's Certificate of Incorporation so as to increase the authorized shares of common stock;
3. To ratify the appointment by the Audit/ Compliance Committee of PricewaterhouseCoopers LLP as Granite's independent auditor for the fiscal year ending December 31, 2006; and
4. To transact such other business as may properly come before the meeting.

Shareholders of record at the close of business on March 24, 2006 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 shareholders entitled to vote at the meeting will be available for examination by any shareholder for any purpose relative to the meeting during ordinary business hours at 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 shareholder 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 13, 2006

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**GRANITE CONSTRUCTION INCORPORATED**  
**585 West Beach Street**  
**Watsonville, California 95076**  
**PROXY STATEMENT**  
**2006 ANNUAL MEETING OF SHAREHOLDERS**

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 shareholders to be held on May 22, 2006, 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 shareholders on or about April 13, 2006.

**SOLICITATION OF PROXIES**

The cost of the solicitation of proxies will be borne by Granite. In addition to soliciting shareholders 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.

**VOTING RIGHTS**

All shares represented by valid proxy cards received prior to the meeting will be voted, unless the proxies are revoked, in accordance with the instructions indicated on the proxy card. If no instructions are given on a properly executed proxy card, the shares will be voted in accordance with the recommendations of the Board. Your Board's recommendations are set forth along with the description of each item in this proxy statement. In summary, your Board recommends a vote:

- ◆ **For** election of all three nominated directors;
- ◆ **For** the proposal to amend Granite's Certificate of Incorporation so as to increase the authorized shares of common stock;
- ◆ **For** ratification of the appointment of PricewaterhouseCoopers LLP as Granite's independent auditor for the fiscal year ending December 31, 2006.

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 shareholder 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 if the shareholder is a holder of record. Granite's 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.

The voting securities entitled to vote at the meeting consist of shares of our common stock. Only shareholders of record at the close of business on March 24, 2006 are entitled to notice of, and to vote at, the annual meeting. At the close of business on March 24, 2006, there were 41,635,167 shares of common stock issued and outstanding. Each shareholder shall have one vote for every share of common stock registered in his or her name or

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held for him or her as the beneficial owner through a shareholder, broker or other nominee on the record date for the meeting.

Pursuant to Granite's Bylaws and policies, in advance of the annual meeting of shareholders, 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 Granite's 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 shareholders.

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 Linda Griego, David H. Kelsey and James W. Bradford. Ms. Griego and Mr. Kelsey have served on the Board since 1999 and 2003, respectively. Mr. Bradford was recommended by a third party search firm engaged by the Nominating and Corporate Governance Committee along with five other candidates and was elected to the Board at a regular meeting of the Board on January 17, 2006 to serve until this year's annual meeting of shareholders.

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

If elected, each nominee will hold office until his term expires at the 2009 annual meeting and until his successor is elected and qualified unless he resigns or his office becomes vacant by death, removal, or other cause in accordance with Granite's Bylaws.

Unless otherwise instructed on the proxy card, 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 proxies will be voted for the election of such other person(s) recommended by the Board for director in the place of such nominee(s). The proxies cannot be voted for more than three nominees.

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.



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

	<b>Position</b>	<b>Age</b>	<b>Director Since</b>
<b>Directors Whose Terms Expire at the 2006 Annual Meeting</b>			
Linda Griego	Director	58	1999
David H. Kelsey	Director	55	2003
James W. Bradford	Director	59	2006

**Directors Whose Terms Expire at the 2007 Annual Meeting**

William G. Dorey	President, Chief Executive Officer & Director	61	2004
Rebecca A. McDonald	Director	53	1994
William H. Powell	Director	60	2004

**Directors Whose Terms Expire at the 2008 Annual Meeting**

David H. Watts	Chairman of the Board	67	1988
J. Fernando Niebla	Director	66	1999
Gary M. Cusumano	Director	62	2005

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**

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. She is currently a director of Southwest Water Company and AECOM Technology Corporation, a global company providing design and management services. Ms. Griego also served 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. 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.

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



### **Continuing Directors**

Mr. Watts has served as our Chairman of the Board since May 1999. He also served as our Chief Executive Officer from October 1987 to December 2003 and as our President from October 1987 to January 2003. Mr. Watts was formerly President and Chief Executive Officer and a director of Ford, Bacon & Davis, Inc., an industrial engineering and construction firm. Mr. Watts currently serves as a director of Infrasource, Inc. (NYSE: IFS), the California Chamber of Commerce, of which he is a past Chair, 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. Cusumano recently retired as Chairman of The Newhall Land and Farming Company, a developer of new towns and master-planned communities in north Los Angeles County, in which capacity he served since Lennar and LNR Properties acquired Newhall Land in 2004. Prior to the acquisition, he served as President and Chief Operating Officer of Newhall Land from 1989 to 2001, Chief Executive Officer from 2001 to 2004, and director since 1995. He is currently a director of Sunkist Growers, Inc. Mr. Cusumano holds a B.S. degree in Economics from the University of California, Davis and is a graduate of the Sloan Program at the Stanford University Business School.

Mr. Dorey has been an employee of Granite since 1968 and has served in various capacities, including Chief Executive Officer since January 2004 and President since February 2003. He also served as Chief Operating Officer between May 1998 and January 2004, Executive Vice President between November 1998 and February 2003, Senior Vice President between 1990 and 1998, Manager, Branch Division from 1987 to 1998, and Vice President and Assistant Manager, Branch Division from 1983 to 1987. Mr. Dorey has been a director of Granite since January 2004 and is also a director of Wilder Construction Company. Between 1997 and 2002, he served as a director of TIC Holdings, Inc. Mr. Dorey holds a B.S. degree in Construction Engineering from Arizona State University.

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 The BOC Group. Ms. McDonald holds a B.S. degree in Education from Stephen F. Austin State University.

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

Mr. Powell has served as Chairman and Chief Executive Officer of National Starch and Chemical Company since 1999. He is currently a director of ICI PLC and American Chemistry Council, and the Vice Chairman, Board of Trustees of State Theatre Performing Arts Center in New Brunswick, New Jersey. Mr. Powell holds a B.A. degree in Chemistry and an M.S. in Chemical Engineering from Case Western Reserve University and an M.A. in Business Administration from the University of North Dakota.

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**

Dr. Raymond E. Miles was elected to his present term in 1988. 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 72<sup>nd</sup> birthday. Dr. Miles' term will expire at this year's annual meeting and, accordingly, he will retire from the Board at this year's annual meeting.

Mr. George B. Searle was elected to his present term in 1998. Although his term expires at next year's annual meeting, Mr. Searle has decided to retire at this year's annual meeting.

### **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**

David H. Kelsey, Chair

Linda Griego

J. Fernando Niebla

William H. Powell

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 outside 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 is qualified as an audit committee financial expert 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 charter for the Audit/Compliance Committee is available on Granite's website (*see Granite Website on Page 9*). The Audit/Compliance Committee held twelve meetings in 2005.

#### **Compensation Committee**

William H. Powell, Chair

Gary M. Cusumano

Rebecca A. McDonald

The Compensation Committee reviews and recommends compensation for our directors, corporate officers and key employees. In addition, the Compensation Committee administers the Amended and Restated 1999 Equity Incentive Plan (the Plan) with respect to persons subject to Section 16 of the Securities Exchange Act of 1934. In the case of awards intended to qualify for the performance-based compensation exemption under Section 162(m) of the 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 on Page 9*) and the Report of the Compensation Committee contained within this proxy statement. The Compensation Committee held two meetings in 2005.

#### **Nominating and Corporate Governance Committee**

Raymond E. Miles, Chair

Gary M. Cusumano

Linda Griego

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 shareholders as long as the shareholder gives timely notice in writing of his or her intent to nominate a director. To be timely, a shareholder nomination for a director to be elected at the 2007 annual meeting must be received at Granite's principal office, addressed to the Corporate Secretary, on or before December 14, 2006. The Committee's policy with regard to the consideration of any director candidates, including candidates recommended by shareholders, is discussed in more detail below under the heading Nominations to the Board and is available on Granite's website (*see Granite Website on Page 9*). 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 six meetings in 2005.



**Strategic Planning Committee**

Rebecca A. McDonald, Chair  
Gary M. Cusumano  
J. Fernando Niebla  
William H. Powell  
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 two meetings in 2005.

**Executive Committee**

David H. Watts, Chair  
Raymond E. Miles, Presiding Director  
David H. Kelsey

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 as set forth in the Bylaws. Members of the Executive Committee do not receive any meeting fees or other compensation for their service on the Committee.

**PRESIDING DIRECTOR**

At each regularly scheduled meeting, the Board schedules an executive session without the presence of management. In 2004 the Board elected Dr. Raymond E. Miles, Chairman of the Nominating and Corporate Governance Committee, to the position of Presiding Director. 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, he/she serves as a liaison between the Chairman and the Board and discusses and approves the structure and content of the Board agenda. A new Presiding Director is elected every two years.

**BOARD OF DIRECTORS' NOMINATION POLICY**

**Evaluation Criteria and Procedures**

Members of the Board of Directors of Granite are divided into three classes and are nominated for election for staggered three-year terms. The Board, its members, its committee structure and performance and its overall governance performance are continuously reviewed. Included in this review is a careful evaluation of the mix of skills and experience of Board members weighed against Granite's current and emerging operating and strategic challenges and opportunities. These evaluations are made on the basis of observations and interviews with management and with Board members conducted annually by the Nominating and Corporate Governance Committee, with the assistance of an 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 Granite's expectations and needs are nominated for reelection in the year of their term's completion. In accordance with the Granite's Corporate Governance Guidelines, Board members are not re-nominated after they reach their 72<sup>nd</sup> birthday.

Each member of the Board of Directors must meet a set of core criteria, referred to as the three C's: Character, Capability, and Commitment. Granite was founded by persons of outstanding character, and it is Granite's intention to ensure that it continues to be governed by persons of high integrity and worthy of the trust of its shareholders. Further, Granite intends to recruit and select persons whose capabilities, including their educational background, their work and life experiences, and their demonstrated records of performance will ensure that

Granite's Board will have the balance of expertise and judgment required for its long-term performance and growth. Finally, Granite will recruit and select only those persons who demonstrate that they have the commitment to devote the time, energy, and effort required to guarantee that Granite will have the highest possible level of leadership and governance.

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

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

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

#### **Shareholder Recommendation and Direct Nomination of Board Candidates**

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

In addition, Granite's Bylaws provide that any shareholder entitled to vote in the election of directors may directly nominate a candidate or candidates for election at a meeting provided that timely notice of his or her intention to make such nomination is given. To be timely, a shareholder nomination for a director to be elected at an annual meeting must be received by Granite not less than 120 days prior to the first anniversary of the date the proxy statement for the preceding year's annual meeting of shareholders was released to shareholders and must contain the information specified in the Bylaws.

#### **DETERMINATION OF DIRECTOR INDEPENDENCE**

Under the listing standards of the New York Stock Exchange, no director will be considered independent unless the Board affirmatively determines that the director has no material relationship with Granite. In making independence determinations, the Board will consider all relevant facts and circumstances including commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. The Board will refer to the following guidelines when making or assessing the independence of a director:

A director who is, or has been, within the last three years, an employee of Granite or whose immediate family member is, or has been within the last three years, an executive officer of Granite, may not be

deemed independent until three years after the end of such employment relationship. Employment as an interim Chairman or CEO or other executive officer shall not disqualify a director from being considered independent following that employment.

A director who has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from Granite, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), may not be deemed independent.

Compensation received by a director for former service as an interim Chairman or CEO or other executive officer and compensation received by an immediate family member for service as an employee of Granite (other than an executive officer) will not be considered in determining independence under this test.

The following directors may not be deemed independent: (A) a director who is affiliated with or employed by or whose immediate family member is a current partner of a firm that is Granite's internal or external auditor; (B) a director who is a current employee of such a firm; (C) a director who has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance practice; or (D) a director or immediate family member who was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on Granite's audit within that time.

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

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

The Board reviews the independence of all non-employee directors annually. Information is gathered from responses to questionnaires completed by directors and other sources in order to complete the review. Directors are required to inform the Nominating and Corporate Governance Committee immediately of any material changes in their or their immediate family members' relationships or circumstances that might have an impact on or alter their independence status.

#### **BOARD MEETING ATTENDANCE**

During 2005, the Board of Directors held seven meetings. All directors attended at least 75% of the total number of meetings of the Board and any committee on which they served. Directors are expected to attend the annual meeting of shareholders 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 on Page 9). All directors attended Granite's 2005 annual meeting of shareholders.

#### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Mr. Dorey, our President and Chief Executive Officer and a director of Granite, is a non-managing member of a limited liability company, or LLC, in which he holds an 11.32% interest. During 2005, \$33,499 in retention was paid to our wholly-owned subsidiary, Granite Construction Company, for work performed for the LLC in 2003. In addition, Granite Construction Company performed extra work along with minor remedial work for the LLC totaling \$14,062, which Granite expects to receive in 2006.



Since he retired as our Chief Executive Officer in 2003, David H. Watts, our Chairman of the Board, has continued as an employee in a non-executive capacity and received compensation totaling \$405,000 during fiscal year 2005. Mr. Watts received no additional compensation for service as a director of Granite.

David V. Watts, a son of David H. Watts, Chairman of the Board, is Granite's Director of Information Technology. During fiscal year 2005, David V. Watts was paid a salary of \$140,004, and other compensation totaling \$45,644 (including a Profit Sharing cash bonus, a restricted stock dividends, a commission and a miscellaneous reimbursement). He also has a home loan from Granite as part of a relocation package. During fiscal year 2005, the largest amount outstanding on the loan was \$50,000. At December 31, 2005, the outstanding amount was \$50,000.

Director Searle's son, George G. Searle, is an area manager with Granite's subsidiary, Granite Construction Company. During fiscal year 2005, he received \$140,000 in salary and other compensation totaling \$7,627 (including a Profit Sharing cash bonus and vehicle fringe benefits).

James B. Dorey, brother of William G. Dorey, President, CEO and a director of Granite, is a Custom Job Estimator for Granite Construction Company. During fiscal year 2005, he received a salary of \$86,585 and other compensation totaling \$5,373 (including a Profit Sharing cash bonus and vehicle fringe benefits).

#### **SHAREHOLDER COMMUNICATION TO THE BOARD**

Any shareholder 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 Shareholder Communication to the Board of Directors Policy and can be found on Granite's website (*see* Granite Website below).

#### **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 available on Granite's website at [www.graniteconstruction.com](http://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. A copy of the Code of Conduct may also be obtained, without charge, by contacting Granite's Human Resources Department at (831) 724-1011.

#### **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](http://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 Shareholder Communication to the Board Policy. Copies of these charters and policies are also available in print upon request and without charge by any shareholder by contacting Granite's Investor Relations Department at (831) 761-4714.

**STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS  
AND MANAGEMENT**

The following table contains information as of March 27, 2006 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 <sup>(1)</sup>	Percent of Common Stock Outstanding <sup>(2)</sup>
Emben & Co. (ESOP Trust) c/o BNY Western Trust Company One Wall Street New York, NY 10286	7,157,909	17.15%
Vanguard Chester Funds Vanguard Primecap Fund <sup>(3)</sup> 100 Vanguard Blvd. Malvern, PA 19355	3,150,000	7.55%
AXA Financial, Inc. <sup>(4)</sup> 1290 Avenue of the Americas New York, NY 10104	2,110,169	5.1%
David H. Watts <sup>(5)</sup>	1,468	*
James W. Bradford	0**	*
Gary M. Cusumano <sup>(6)</sup>	1,976**	*
Linda Griego <sup>(7)</sup>	7,279**	*
David H. Kelsey <sup>(8)</sup>	8,196**	*
Rebecca A. McDonald <sup>(9)</sup>	12,608**	*
Raymond E. Miles <sup>(10)</sup>	16,156**	*
J. Fernando Niebla <sup>(11)</sup>	13,904**	*
William H. Powell <sup>(12)</sup>	3,836**	*
George B. Searle <sup>(13)</sup>	26,114**	*
William G. Dorey <sup>(14)</sup>	287,085	*
Mark E. Boitano <sup>(15)</sup>	198,920	*
William E. Barton <sup>(16)</sup>	121,698	*
Michael F. Donnino <sup>(17)</sup>	91,089	*
James H. Roberts <sup>(18)</sup>	191,599	*
All Executive Officers and Directors as a Group (15 Persons) <sup>(5-18)</sup>	981,928	2.35%

\* 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 cash. All stock-based awards are exercisable at time of grant. Refer to Page 18 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 41,635,167 shares of common stock outstanding as of March 27, 2006, except that shares of common stock underlying options exercisable within 60 days of March 27, 2006 are deemed outstanding for purposes of calculating the beneficial ownership of common stock of the holders of such options.
- (3) Share ownership is as of December 31, 2005. Based upon Amendment 10 of 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. Based also upon Amendment 4 of a Schedule 13G filed by PRIMECAP Management Company ( Primecap ) with the Securities and Exchange Commission. As of December 31, 2005, Primecap, as manager of the Vanguard fund, has sole dispositive power with respect to all of Vanguard s 3,150,000 shares. Primecap also manages 48,200 shares in other funds for which it has sole dispositive power with respect to all 48,200 shares; and Primecap owns 4,000 shares for which it has sole dispositive power and sole voting power with respect to all 4,000 shares.

Footnotes continued from previous page

- (4) Share ownership is as of December 31, 2005. Based upon a Schedule 13G filed by AXA Financial, Inc. ( AXA ) with the Securities and Exchange Commission. AXA has sole voting power with respect to 1,183,314 shares, shared voting power with respect to 12,150 shares and sole dispositive power with respect to all 2,110,169 shares.
- (5) Includes 142 shares of common stock owned by the Employee Stock Ownership Plan ( ESOP ) but allocated to Mr. Watts account as of March 27, 2006, over which Mr. Watts has voting but not dispositive power. These shares became eligible for distribution during the plan year following the plan year in which Mr. Watts turned 59<sup>1</sup>/<sub>2</sub>. Also includes 1,326 shares that Mr. Watts holds in trust for the benefit of family members, as to which Mr. Watts and his wife share voting and investment power.
- (6) Includes 505 shares of common stock which Mr. Cusumano has the right to acquire as of March 27, 2006 as a result of options vested and exercisable on the day of grant under the Amended and Restated 1999 Equity Incentive Plan and 1,471 shares of common stock that Mr. Cusumano holds in trust for the benefit of family members as to which Mr. Cusumano and his wife both separately and jointly hold voting and investment power.
- (7) All 7,279 shares are common stock which Ms. Griego has the right to acquire as of March 27, 2006 as a result of options vested and exercisable on the day of grant under the Amended and Restated 1999 Equity Incentive Plan.
- (8) All 8,196 shares are common stock which Mr. Kelsey has the right to acquire as of March 27, 2006 as a result of options vested and exercisable on the day of grant under the Amended and Restated 1999 Equity Incentive Plan.
- (9) Includes 8,613 shares of common stock which Ms. McDonald has the right to acquire as of March 27, 2006 as a result of options vested and exercisable on the day of grant under the Amended and Restated 1999 Equity Incentive Plan and 2,870 common stock units granted under the Amended and Restated 1999 Equity Incentive Plan. Also includes 1,125 shares that Ms. McDonald holds jointly with her husband.
- (10) Includes 13,906 shares of common stock which Mr. Miles has the right to acquire as of March 27, 2006 as a result of options vested and exercisable on the day of grant under the Amended and Restated 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.
- (11) Consists of 13,904 shares of common stock which Mr. Niebla has the right to acquire as of March 27, 2006 as a result of options vested and exercisable on the day of grant under the Amended and Restated 1999 Equity Incentive Plan.
- (12) Consists of 1,783 common stock units granted to Mr. Powell under the Amended and Restated 1999 Equity Incentive Plan. Also includes 2,053 shares that Mr. Powell holds jointly with his wife.
- (13) Includes 4,763 shares of common stock which Mr. Searle has the right to acquire as of March 27, 2006 as a result of options vested and exercisable on the day of grant under the Amended and Restated 1999 Equity Incentive Plan and 4,658.67 common stock units granted to Mr. Searle under the Amended and Restated 1999 Equity Incentive Plan.
- (14)

Includes approximately 226,248 shares of common stock owned by the ESOP but allocated to Mr. Dorey's account as of March 27, 2006. These shares became eligible for distribution during the plan year following the plan year in which Mr. Dorey turned 59<sup>1/2</sup>. Also includes 41,337 shares of restricted stock over which Mr. Dorey has voting, but not dispositive power and 11,119 shares held in trust for the benefit of his family as to which shares Mr. Dorey and his wife share voting and investment power.

- (15) Includes approximately 157,455 shares of common stock owned by the ESOP but allocated to Mr. Boitano's account, and 34,749 shares of restricted stock over which Mr. Boitano has voting, but not dispositive power, as of March 27, 2006. Mr. Boitano's ESOP shares cannot be distributed until the plan year following the plan year in which he turns 59<sup>1/2</sup>, at which time he can elect to receive distributions prior to retirement or if he becomes disabled or dies.
- (16) Includes approximately 69,022 shares of common stock owned by the ESOP but allocated to Mr. Barton's account as of March 27, 2006. These shares became eligible for distribution during the plan year following the plan year in which Mr. Barton turned 59<sup>1/2</sup>. Also includes 20,904 shares of restricted stock over which Mr. Barton has voting, but not dispositive power, as of March 27, 2006, and 31,772 shares held jointly with his wife.
- (17) Includes approximately 65,200 shares of common stock owned by the ESOP but allocated to Mr. Donnino's account as of March 27, 2006, and 13,938 shares of restricted stock over which Mr. Donnino has voting, but not dispositive power, as of March 27, 2006. Mr. Donnino's ESOP shares cannot be distributed until the plan year following the plan year in which Mr. Donnino turns 59<sup>1/2</sup>, at which time he can elect to receive distributions prior to retirement or if he becomes disabled or dies.
- (18) Includes approximately 127,505 shares of common stock owned by the ESOP but allocated to Mr. Roberts' account as of March 27, 2006, and 51,448 shares of restricted stock over which Mr. Roberts has voting, but not dispositive power, as of March 27, 2006. Mr. Roberts' ESOP shares cannot be distributed until the plan year following the plan year in which Mr. Roberts turns 59<sup>1/2</sup>, at which time he can elect to receive distributions prior to retirement or if he becomes disabled or dies. Mr. Roberts also holds 5,585 shares held in a trust for the benefit of members of his family.

**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, Gary M. Cusumano's Form 3 was filed one day late.

**REPORT OF THE AUDIT/ COMPLIANCE COMMITTEE**

The Audit/Compliance Committee is appointed by the Board of Directors. Its purpose is to (a) assist the Board in its oversight of (1) Granite's accounting and financial reporting principles and policies and internal and disclosure controls and procedures, including the internal audit function, (2) Granite's system of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002, (3) the integrity of Granite's financial statements, (4) the qualifications and independence of Granite's independent auditor, (5) Granite's compliance with legal and regulatory requirements, and (6) Granite's Corporate Compliance Program and Code of Conduct; and (b) 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 the independent auditor (or nominating an independent auditor to be proposed for shareholder approval in any proxy statement).