GRANITE CONSTRUCTION INC
Form 10-K
February 27, 2015

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 1-12911
Granite Construction Incorporated
(Exact name of registrant as specified in its charter)

Delaware	77-0239383
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
585 West Beach Street Watsonville, California	95076
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (831) 724-1011
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was $1.4 billion as of June 30, 2014, based upon the price at which the registrant’s Common Stock was last sold as reported on the New York Stock Exchange on such date.

At February 18, 2015, 39,187,087 shares of Common Stock, par value $0.01, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Shareholders of Granite Construction Incorporated to be held on June 4, 2015, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2014.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

From time to time, Granite makes certain comments and disclosures in reports and statements, including in this Annual Report on Form 10-K, or statements made by its officers or directors, that are not based on historical facts, including statements regarding future events, occurrences, circumstances, activities, performance, outcomes and results that may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are identified by words such as “future,” “outlook,” “assumes,” “believes,” “expects,” “estimates,” “anticipates,” “intends,” “plans,” “appears,” “may,” “will,” “should,” “could,” “would,” “continue,” an thereof or other comparable terminology or by the context in which they are made. In addition, other written or oral statements which constitute forward-looking statements have been made and may in the future be made by or on behalf of Granite. These forward-looking statements are estimates reflecting the best judgment of senior management and reflect our current expectations regarding future events, occurrences, circumstances, activities, performance, outcomes and results. These expectations may or may not be realized. Some of these expectations may be based on beliefs, assumptions or estimates that may prove to be incorrect. In addition, our business and operations involve numerous risks and uncertainties, many of which are beyond our control, which could result in our expectations not being realized or otherwise materially affect our business, financial condition, results of operations, cash flows and liquidity. Such risks and uncertainties include, but are not limited to, those more specifically described in this report under “Item 1A. Risk Factors.” Due to the inherent risks and uncertainties associated with our forward-looking statements, the reader is cautioned not to place undue reliance on them. The reader is also cautioned that the forward-looking statements contained herein speak only as of the date of this Annual Report on Form 10-K, and, except as required by law, we undertake no obligation to revise or update any forward-looking statements for any reason.

PART I

Item 1. BUSINESS

Introduction

Granite Construction Company was originally incorporated in 1922. In 1990, Granite Construction Incorporated was formed as the holding company for Granite Construction Company and its wholly-owned subsidiaries and was incorporated in Delaware. Unless otherwise indicated, the terms “we,” “us,” “our,” “Company” and “Granite” refer to Granit Construction Incorporated and its consolidated subsidiaries.

We are one of the largest diversified heavy civil contractors and construction materials producers in the United States. We operate nationwide, serving both public and private sector clients. Within the public sector, we primarily concentrate on heavy-civil infrastructure projects, including the construction of streets, roads, highways, mass transit facilities, airport infrastructure, bridges, trenchless and underground utilities, power-related facilities, utilities, tunnels, dams and other infrastructure-related projects. Within the private sector, we perform site preparation and infrastructure services for residential development, energy development, commercial and industrial sites, and other facilities, as well as provide construction management professional services.

We own and lease substantial aggregate reserves and own a number of plant facilities to produce construction materials for use in our construction business and for sale to third parties. We also have one of the largest contractor-owned heavy construction equipment fleets in the United States. We believe that the ownership of these assets enables us to compete more effectively by ensuring availability of these resources at a favorable cost.

In December 2012, we purchased 100% of the outstanding stock of Kenny Construction Company (“Kenny”), a Northbrook, Illinois-based national contractor and construction manager. Amounts associated with Kenny are included in our consolidated statements of operations and of cash flows for the years ended December 31, 2014 and 2013 and on the consolidated balance sheets as of December 31, 2014 and 2013.

Operating Structure

During 2014, our business was organized into four reportable business segments. These business segments were: Construction, Large Project Construction, Construction Materials and Real Estate. In the fourth quarter of 2014, we determined that the Real Estate segment no longer met the requirements of a reportable business segment under Accounting Standard Codification ("ASC") 280 and have eliminated it as a segment for all periods presented. See Note 20 of "Notes to the Consolidated Financial Statements" for additional information about our reportable business segments.

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In addition to business segments, we review our business by operating groups and by public and private market sectors. Our operating groups are defined as follows: 1) California; 2) Northwest, which primarily includes offices in Alaska, Arizona, Nevada, Utah and Washington; 3) Heavy Civil, which primarily includes offices in California, Florida, New York and Texas; and 4) Kenny, which primarily includes offices in Colorado and Illinois. Each of these operating groups may include financial results from our Construction and Large Project Construction segments. A project's results are reported in the operating group that is responsible for the project, not necessarily the geographic area where the work is located. In some cases, the operations of an operating group include the results of work performed outside of that geographic region. Our California and Northwest operating groups include financial results from our Construction Materials segment.

Construction: Revenue from our Construction segment was $1.2 billion and $1.3 billion (52.1% and 55.2% of our total revenue) in 2014 and 2013, respectively. Revenue from our Construction segment is derived from both public and private sector clients. The Construction segment performs construction management, as well as various civil construction projects with a large portion of the work focused on new construction and improvement of streets, roads, highways, bridges, site work, underground, power-related facilities, utilities and other infrastructure projects. These projects are typically bid-build and construction management projects completed within two years with a contract value of less than $75 million.

Large Project Construction: Revenue from our Large Project Construction segment was $825.0 million and $777.8 million (36.3% and 34.3% of our total revenue) in 2014 and 2013, respectively. The Large Project Construction segment focuses on large, complex infrastructure projects which typically have a longer duration than our Construction segment work. These projects include major highways, mass transit facilities, bridges, tunnels, waterway locks and dams, pipelines, canals, power-related facilities, utilities and airport infrastructure. This segment primarily includes bid-build, design-build and construction management/general contractor contracts, together with various contract methods relating to Public Private Partnerships, generally with contract values in excess of $75 million.

We utilize the design-build construction management/general contract, construction management at-risk, and other alternative procurement methods of project delivery. Unlike traditional projects where owners first hire a design firm or design a project themselves and then put the project out to bid for construction, design-build projects provide the owner with a single point of responsibility and a single contact for both final design and construction. Although design-build projects carry additional risk as compared to traditional bid/build projects, the profit potential can also be higher. Under the construction management/general contract method of delivery, we contract with owners to manage the design phase of the contract with the understanding that we will negotiate a contract on the construction phase when the design nears completion. Revenue from alternative procurement method projects jointly represented 72.1% and 63.6% of Large Project Construction revenue in 2014 and 2013, respectively.

We participate in joint ventures with other construction companies mainly on projects in our Large Project Construction segment. Joint ventures are typically used for large, technically complex projects, including design-build projects, where it is necessary or desirable to share risk and resources. Joint venture partners typically provide independently prepared estimates, shared financing and equipment, and often bring local knowledge and expertise (see “Joint Ventures” section below).

Construction Materials: Revenue from our Construction Materials segment was $263.8 million and $237.9 million (11.6% and 10.5% of our total revenue) in 2014 and 2013, respectively. The Construction Materials segment mines and processes aggregates and operates plants that produce construction materials for internal use and for sale to third parties. We have significant aggregate reserves that we own or lease through long-term leases. Sales to our construction projects represented 30.5% of our gross sales during 2014, and ranged from 30.5% to 45.6% over the last five years. The remainder is sold to third parties.

During 2013 and in connection with our 2010 Enterprise Improvement Plan (“EIP”), we recorded $14.7 million in restructuring charges related to non-performing quarry sites and incurred $3.2 million in lease termination charges, both related to the Construction Materials segment. During 2014 we recorded a $1.3 million restructuring gain resulting from our release from the lease obligations. In addition, during 2013 as part of the EIP we recorded $31.1 million of non-cash impairment charges, including amounts attributable to non-controlling interests of $3.9 million, related to all of the remaining consolidated real estate assets. Separate from the EIP, we recorded $1.3 million in non-cash impairment gains and $3.2 million in non-cash impairment charges during 2014 and 2013, respectively, related to the Construction Materials segment. See Note 11 of “Notes to the Consolidated Financial Statements” and “Restructuring and Impairment (Gains) Charges, Net” under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information.

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Business Strategy

Our fundamental objective is to increase long-term shareholder value as measured by the appreciation of the value of our common stock over a period of time, as well as dividend payouts. A specific measure of our financial success is the achievement of a return on net assets greater than the cost of capital. The following are key factors in our ability to achieve these objectives:

Aggregate Materials - We own and lease aggregate reserves and own processing plants that are vertically integrated into our construction operations. By ensuring availability of these resources and providing quality products, we believe we have a competitive advantage in many of our markets, as well as a source of revenue and earnings from the sale of construction materials to third parties.

Controlled Growth - We intend to grow our business by working on many types of infrastructure projects, as well as by expanding into new geographic areas organically and through acquisitions. In addition, our financial strength and project experience provide us with a competitive advantage, as we focus our efforts on larger projects.

Decentralized Profit Centers - Each of our operating groups is established as an individual profit center which encourages entrepreneurial activity while allowing the operating groups to benefit from centralized administrative and support functions.

Diversification - To mitigate the risks inherent in the construction business as the result of general economic factors, we pursue projects: (i) in both the public and private sectors; (ii) in federal, rail, power and renewable energy markets; (iii) for a wide range of customers within each sector (from the federal government to small municipalities and from large corporations to individual homeowners); (iv) in diverse geographic markets; (v) that are construction management/general contractor, design-build and bid-build; (vi) at fixed price, time and materials, cost reimbursable and fixed unit price; and (vii) of various sizes, durations and complexity. In addition to pursuing opportunities with traditional project funding, we continue to evaluate other sources of project funding (e.g., public and private partnerships).

Employee Development - We believe that our employees are key to the successful implementation of our business strategies. Significant resources are employed to attract, develop and retain extraordinary talent and fully promote each employee’s capabilities.

Core Competency Focus - A core competency is to perform the myriad tasks necessary to deliver major infrastructure projects. These projects include the building of roads, highways, bridges, dams, tunnels, mass transit facilities, airport and railroad infrastructure, underground utilities, power-related facilities, materials management, construction management, staff augmentation and site preparation. This focus allows us to most effectively utilize our specialized strengths.

Ownership of Construction Equipment - We own a large fleet of well-maintained heavy construction equipment. The ownership of construction equipment enables us to compete more effectively by ensuring availability of the equipment at a favorable cost.

Profit-based Incentives - Managers are incentivized with cash compensation and restricted equity awards, payable upon the attainment of pre-established annual financial and non-financial metrics.

Selective Bidding - We focus our resources on bidding jobs that meet our selective bidding criteria, which include analyzing the risk of a potential job relative to: (i) available personnel to estimate and prepare the proposal as well as to effectively manage and build the project; (ii) the competitive environment; (iii) our experience with the type of work and with the owner; (iv) local resources and partnerships; (v) equipment resources; and (vi) the size, complexity and expected profitability of the job.

Our operating principles include:

Accident Prevention - We believe accident prevention is a moral obligation as well as good business. By identifying and concentrating resources to address jobsite hazards, we continually strive to reduce our incident rates and the costs associated with accidents.

Quality and High Ethical Standards - We believe in the importance of performing high quality work. Additionally, we believe in maintaining high ethical standards through an established code of conduct and an effective company-wide compliance program.

Sustainability - Our focus on sustainability encompasses many aspects of how we conduct ourselves and practice our core values. We believe sustainability is important to our customers, employees, shareholders, and communities, and is also a long-term business driver. By focusing on specific initiatives that address social, environmental and economic challenges, we can minimize risk and increase our competitive advantage.

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Raw Materials

We purchase raw materials, including aggregate products, cement, diesel fuel, liquid asphalt, natural gas, propane and steel, from numerous sources. Our aggregate reserves supply a portion of the raw materials needed in our construction projects. The price and availability of raw materials may vary from year to year due to market conditions and production capacities. We do not foresee a lack of availability of any raw materials in the near term.

Seasonality

Our operations are typically affected by weather conditions during the first and fourth quarters of our fiscal year which may alter our construction schedules and can create variability in our revenues, profitability and the required number of employees.

Customers

Customers in our Construction segment include certain federal agencies, state departments of transportation, county and city public works departments, school districts and developers, utilities and owners of industrial, commercial and residential sites. Customers of our Large Project Construction segment are predominantly in the public sector and currently include various state departments of transportation, local transit authorities, utilities and federal agencies. Customers of our Construction Materials segment include internal usage by our own construction projects, as well as third-party customers. Our third party customers include, but, are not limited to, contractors, landscapers, manufacturers of products requiring aggregate materials, retailers, homeowners, farmers and brokers.

During the years ended December 31, 2014, 2013, and 2012, our largest volume customer, including both prime and subcontractor arrangements, was the California Department of Transportation (“Caltrans”). Revenue recognized from contracts with Caltrans represented $195.4 million (8.6% of our total revenue) in 2014, of which $178.7 million (15.1% of segment revenue) was in our Construction segment and $16.8 million (2.0% of segment revenue) was in our Large Project Construction segment. Revenue from Caltrans represented $265.8 million (11.7% of total revenue) in 2013, of which $239.9 million (19.2% of segment revenue) was in our Construction segment and $25.9 million (3.3% of segment revenue) was in the Large Project Construction segment. Revenue from Caltrans represented $272.9 million (13.1% of total revenue) in 2012, of which $268.9 million (27.3% of segment revenue) was in the Construction segment and $4.1 million (0.5% of segment revenue) was in the Large Project Construction segment.

Contract Backlog

Our contract backlog consists of the remaining unearned revenue on awarded contracts, including 100% of our consolidated joint venture contracts and our proportionate share of unconsolidated joint venture contracts. We generally include a project in our contract backlog at the time a contract is awarded and funding is in place. Certain federal government contracts where funding is appropriated on a periodic basis are included in contract backlog at the time of the award. Existing contracts that include unexercised contract options and unissued task orders are included in contract backlog as follows:

Contract Options: Contract options represent the monetary value of option periods under existing contracts in contract backlog, which are exercisable at the option of our customers without requiring us to go through an additional competitive bidding process and would be canceled only if a customer decided to end the project (a termination for convenience) or through a termination for default. When the options are exercised and funding is in place, the amount associated with the exercised option is recorded into contract backlog.

Task Orders: Task orders represent the expected monetary value of signed contracts under which we perform work only when the customer awards specific task orders or projects to us. When agreements for such task orders or projects are signed and funding is in place, the amount associated with the task order is recorded into contract backlog.

Substantially all of the contracts in our contract backlog, as well as unexercised contract options and unissued task orders, may be canceled or modified at the election of the customer; however, we have not been materially adversely affected by contract cancellations or modifications in the past (see “Contract Provisions and Subcontracting”). Many projects in our Construction segment are added to backlog and completed within a year and therefore may not be reflected in our beginning or year-end contract backlog. Contract backlog by segment is presented in “Contract Backlog” under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Our contract backlog was $2.7 billion and $2.5 billion at December 31, 2014 and 2013, respectively. Approximately $1.4 billion of the December 31, 2014 contract backlog is expected to be completed during 2015.

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Equipment

At December 31, 2014 and 2013, we owned the following number of construction equipment and vehicles:

December 31,	2014	2013
Heavy construction equipment	2,506	2,534
Trucks, truck-tractors, trailers and vehicles	3,851	3,664

Our portfolio of equipment includes backhoes, barges, bulldozers, cranes, excavators, loaders, motor graders, pavers, rollers, scrapers, trucks and tunnel boring machines that are used in our Construction, Large Project Construction and Construction Materials segments. We believe that ownership of equipment is generally preferable to leasing because it ensures the equipment is available as needed and normally results in lower costs. We pool certain equipment for use by our Construction, Large Project Construction and Construction Materials segments to maximize utilization. We continually monitor and adjust our fleet size so that it is consistent with the size of our business, considering both existing backlog and expected future work. On a short-term basis, we lease or rent equipment to supplement existing equipment in response to construction activity peaks. In 2014 and 2013, we spent $32.3 million and $30.2 million, respectively, on purchases of construction equipment and vehicles.

Employees

On December 31, 2014, we employed approximately 1,700 salaried employees who work in management, estimating and clerical capacities, plus approximately 1,300 hourly employees. The total number of hourly personnel is subject to the volume of construction in progress and is seasonal. During 2014, the number of hourly employees ranged from approximately 1,300 to 3,600 and averaged approximately 2,900. Four of our wholly-owned subsidiaries, Granite Construction Company, Granite Construction Northeast, Inc., Granite Infrastructure Constructors, Inc., and Kenny Construction Company, are parties to craft collective bargaining agreements in many areas in which they work.

We believe our employees are our most valuable resource, and our workforce possesses a strong dedication to and pride in our company. Among salaried and non-union hourly employees, this dedication is reinforced by a 5.5% equity ownership at December 31, 2014 through our 401(k) Plan. Our managerial and supervisory personnel have an average of approximately 10 years of service with Granite.

Competition

Competitors in our Construction segment typically range from small, local construction companies to large, regional, national and international construction companies. We compete with numerous companies in individual markets; however, there are few, if any, companies which compete in all of our market areas. Many of our Construction segment competitors have the ability to perform work in either the private or public sectors. When opportunities for work in one sector are reduced, competitors tend to look for opportunities in the other sector. This migration has the potential to reduce revenue growth and/or increase pressure on gross profit margins.

The scale and complexity of jobs in the Large Project Construction segment preclude many smaller contractors from bidding such work. Consequently, our Large Project Construction segment competition typically is comprised of large, regional, national and international construction companies.

We own and/or have long-term leases on aggregate resources that we believe provide a competitive advantage in certain markets for both the Construction and Large Project Construction segments.

Competitors in our Construction Materials segment typically range from small local materials companies to large regional, national and international materials companies. We compete with numerous companies in individual markets; however, there are few, if any, companies which compete in all of our market areas.

Factors influencing our competitiveness include price, estimating abilities, knowledge of local markets and conditions, project management, financial strength, reputation for quality, aggregate materials availability, and machinery and equipment. Historically, the construction business has not required large amounts of capital, particularly for the smaller size construction work pursued by our Construction segment, which can result in relative ease of market entry for companies possessing acceptable qualifications. Although the construction business is highly competitive, we believe we are well positioned to compete effectively in the markets in which we operate.

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Contract Provisions and Subcontracting

Our contracts with our customers are primarily “fixed unit price” or “fixed price.” Under fixed unit price contracts, we are committed to providing materials or services at fixed unit prices (for example, dollars per cubic yard of concrete placed or cubic yard of earth excavated). While the fixed unit price contract shifts the risk of estimating the quantity of units required for a particular project to the customer, any increase in our unit cost over the expected unit cost in the bid, whether due to inflation, inefficiency, errors in our estimates or other factors, is borne by us unless otherwise provided in the contract. Fixed price contracts are priced on a lump-sum basis under which we bear the risk of performing all the work for the specified amount. The percentage of fixed price contracts in our contract backlog increased to 71.0% at December 31, 2014 compared with 63.5% at December 31, 2013. The percentage of fixed unit price contracts in our contract backlog was 19.9% and 26.0% at December 31, 2014 and 2013, respectively. All other contract types represented 9.1% and 10.5% of our backlog at December 31, 2014 and 2013, respectively.

Our construction contracts are obtained through competitive bidding in response to solicitations by both public agencies and private parties and on a negotiated basis as a result of solicitations from private parties. Project owners use a variety of methods to make contractors aware of new projects, including posting bidding opportunities on agency websites, disclosing long-term infrastructure plans, advertising and other general solicitations. Our bidding activity is affected by such factors as the nature and volume of advertising and other solicitations, contract backlog, available personnel, current utilization of equipment and other resources, our ability to obtain necessary surety bonds and competitive considerations. Our contract review process includes identifying risks and opportunities during the bidding process and managing these risks through mitigation efforts such as contract negotiation, insurance and pricing. Contracts fitting certain criteria of size and complexity are reviewed by various levels of management and, in some cases, by the Executive Committee of our Board of Directors. Bidding activity, contract backlog and revenue resulting from the award of new contracts may vary significantly from period to period.

There are a number of factors that can create variability in contract performance as compared to the original bid. Such factors can positively or negatively impact costs and profitability, may cause higher than anticipated construction costs and can create additional liability to the contract owner. The most significant of these include:

- the completeness and accuracy of the original bid;
- costs associated with scope changes;
- costs of labor and/or materials;
- extended overhead due to owner, weather and other delays;
- subcontractor performance issues;
- changes in productivity expectations;
- site conditions that differ from those assumed in the original bid (to the extent contract remedies are unavailable);
- continuing changes from original design on design-build projects;
- the availability and skill level of workers in the geographic location of the project;
- a change in the availability and proximity of equipment and materials; and
- our ability to fully and promptly recover on claims for additional contract costs.

The ability to realize improvements on project profitability at times is more limited than the risk of lower profitability. For example, design-build projects typically incur additional costs such as right-of-way and permit acquisition costs. In addition, design-build contracts carry additional risks such as those associated with design errors and estimating quantities and prices before the project design is completed. We manage this additional risk by adding contingencies to our bid amounts, obtaining errors and omissions insurance and obtaining indemnifications from our design consultants where possible. However, there is no guarantee that these risk management strategies will always be successful.

Most of our contracts, including those with the government, provide for termination at the convenience of the contract owner, with provisions to pay us for work performed through the date of termination. We have not been materially adversely affected by these provisions in the past. Many of our contracts contain provisions that require us to pay liquidated damages if specified completion schedule requirements are not met, and these amounts could be significant.

We act as prime contractor on most of our construction projects. We complete the majority of our projects with our own resources and subcontract specialized activities such as electrical and mechanical work. As prime contractor, we are responsible for the performance of the entire contract, including subcontract work. Thus, we may be subject to increased costs associated with the failure of one or more subcontractors to perform as anticipated. Based on our analysis of their construction and financial capabilities, among other criteria, we determine whether to require the subcontractor to furnish a bond or other type of security to guarantee their performance. Disadvantaged business enterprise regulations require us to use our good faith efforts to subcontract a specified portion of contract work done for governmental agencies to certain types of disadvantaged contractors or suppliers. As with all of our subcontractors, some may not be able to obtain surety bonds or other types of performance security.

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Joint Ventures

We participate in various construction joint ventures, partnerships and a limited liability company of which we are a limited member ("joint ventures") in order to share expertise, risk and resources for certain highly complex projects. Generally, each construction joint venture is formed to accomplish a specific project and is jointly controlled by the joint venture partners. We select our joint venture partners based on our analysis of their construction and financial capabilities, expertise in the type of work to be performed and past working relationships, among other criteria. The joint venture agreements typically provide that our interests in any profits and assets, and our respective share in any losses and liabilities, that may result from the performance of the contract are limited to our stated percentage interest in the project.

Under each joint venture agreement, one partner is designated as the sponsor. The sponsoring partner typically provides all administrative, accounting and most of the project management support for the project and generally receives a fee from the joint venture for these services. We have been designated as the sponsoring partner in certain of our current joint venture projects and are a non-sponsoring partner in others.

We also participate in various "line item" joint venture agreements under which each partner is responsible for performing certain discrete items of the total scope of contracted work. The revenue for these discrete items is defined in the contract with the project owner and each venture partner bears the profitability risk associated with its own work. There is not a single set of books and records for a line item joint venture. Each partner accounts for its items of work individually as it would for any self-performed contract. We account for our portion of these contracts as project revenues and costs in our accounting system and include receivables and payables associated with our work in our consolidated financial statements.

The agreements with our joint venture partners and limited liability company members ("partner(s)") for both construction joint ventures and line item joint ventures define each partner's management role and financial responsibility in the project. The amount of exposure is generally limited to our stated ownership interest. Due to the joint and several nature of the performance obligations under these agreements, if one of the partners fails to perform, we and the remaining partners, if any, would be responsible for performance of the outstanding work (i.e., we provide a performance guarantee). We estimate our liability for performance guarantees and include them in accrued expenses and other current liabilities with a corresponding asset in equity in construction joint ventures on the consolidated balance sheets. We reassess our liability when and if changes in circumstances occur. The liability and corresponding asset are removed from the consolidated balance sheets upon completion and customer acceptance of the project. Circumstances that could lead to a loss under these agreements beyond our stated ownership interest include the failure of a partner to contribute additional funds to the venture in the event the project incurs a loss or additional costs that we could incur should a partner fail to provide the services and resources that it had committed to provide in the agreement. We are not able to estimate amounts that may be required beyond the remaining cost of the work to be performed. These costs could be offset by billings to the customer or by proceeds from our partners' corporate and/or other guarantees.

At December 31, 2014, there was $5.7 billion of construction revenue to be recognized on unconsolidated and line item construction joint venture contracts, of which $1.7 billion represented our share and the remaining $4.0 billion represented our partners' share.

Insurance and Bonding

We maintain general and excess liability, construction equipment and workers' compensation insurance; all in amounts consistent with industry practice.

In connection with our business, we generally are required to provide various types of surety bonds that provide an additional measure of security for our performance under certain public and private sector contracts. Our ability to obtain surety bonds depends upon our capitalization, working capital, past performance, management expertise and external factors, including the capacity of the overall surety market. Surety companies consider such factors in light of the amount of our contract backlog that we have currently bonded and their current underwriting standards, which may change from time to time. The capacity of the surety market is subject to market-based fluctuations driven primarily by the level of surety industry losses and the degree of surety market consolidation. When the surety market capacity shrinks it results in higher premiums and increased difficulty obtaining bonding, in particular for larger, more complex projects throughout the market. In order to help mitigate this risk, we employ a co-surety structure involving three sureties. Although we do not believe that fluctuations in surety market capacity have significantly affected our ability to grow our business, there is no assurance that it will not significantly affect our ability to obtain new contracts in the future (see “Item 1A. Risk Factors”).

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Environmental Regulations

Our operations are subject to various federal, state and local laws and regulations relating to the environment, including those relating to discharges to air, water and land, the handling and disposal of solid and hazardous waste, the handling of underground storage tanks and the cleanup of properties affected by hazardous substances. Certain environmental laws impose substantial penalties for non-compliance and others, such as the federal Comprehensive Environmental Response, Compensation and Liability Act, impose strict, retroactive, joint and several liability upon persons responsible for releases of hazardous substances. We continually evaluate whether we must take additional steps at our locations to ensure compliance with environmental laws. While compliance with applicable regulatory requirements has not materially adversely affected our operations in the past, there can be no assurance that these requirements will not change and that compliance will not adversely affect our operations in the future. In addition, our aggregate materials operations require operating permits granted by governmental agencies. We believe that tighter regulations for the protection of the environment and other factors will make it increasingly difficult to obtain new permits and renewal of existing permits may be subject to more restrictive conditions than currently exist.

In July 2007, the California Air Resources Board (“CARB”) approved a regulation that will require California equipment owners/operators to reduce diesel particulate and nitrogen oxide emissions from in-use off-road diesel equipment and to meet progressively more restrictive emission targets from 2010 to 2020. In December 2008, CARB approved a similar regulation for in-use on-road diesel equipment that includes more restrictive emission targets from 2010 to 2022. The emission targets will require California off-road and on-road diesel equipment owners to retrofit equipment with diesel emission control devices or replace equipment with new engine technology as it becomes available, which will result in higher equipment-related expenses. In December 2010, CARB amended both regulations to grant economic relief to affected fleets by extending initial compliance dates as well as adding additional compliance requirements. To-date, costs to prepare the Company for compliance have totaled $14.7 million and costs of compliance in 2015 are expected to be $5.6 million. We will continue to manage compliance costs; however, it is not possible to determine the total future cost of compliance.

As is the case with other companies in our industry, some of our aggregate products contain varying amounts of crystalline silica, a common mineral. Also, some of our construction and material processing operations release, as dust, crystalline silica that is in the materials being handled. Excessive, prolonged inhalation of very small-sized particles of crystalline silica has allegedly been associated with respiratory disease (including Silicosis). The Mine Safety and Health Administration and the Occupational Safety and Health Administration have established occupational thresholds for crystalline silica exposure as respirable dust. We have implemented dust control procedures to measure compliance with requisite thresholds and to verify that respiratory protective equipment is made available as necessary. We also communicate, through safety information sheets and other means, what we believe to be appropriate warnings and cautions to employees and customers about the risks associated with excessive, prolonged inhalation of mineral dust in general and crystalline silica in particular (see “Item 1A. Risk Factors”).

Website Access

Our website address is www.graniteconstruction.com. On our website we make available, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (“SEC”). The information on our website is not incorporated into, and is not part of, this report. These reports, and any amendments to them, are also available at the website of the SEC, www.sec.gov.

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Executive Officers of the Registrant

Information regarding our executive officers is set forth below.

Name	Age	Position
James H. Roberts	58	President and Chief Executive Officer
Christopher S. Miller	48	Executive Vice President and Chief Operating Officer
Laurel J. Krzeminski	60	Senior Vice President and Chief Financial Officer
Michael F. Donnino	60	Senior Vice President and Group Manager
Martin P. Matheson	53	Senior Vice President and Group Manager
James D. Richards	51	Senior Vice President and Group Manager

Mr. Roberts joined Granite in 1981 and has served in various capacities, including President and Chief Executive Officer since September 2010. He also served as Executive Vice President and Chief Operating Officer from September 2009 to August 2010, Senior Vice President from May 2004 to September 2009, Granite West Manager from February 2007 to September 2009, Branch Division Manager from May 2004 to February 2007, Vice President and Assistant Branch Division Manager from 1999 to 2004, and Regional Manager of Nevada and Utah Operations from 1995 to 1999. Mr. Roberts served as Chairman of The National Asphalt Pavement Association in 2006. He received a B.S.C.E. in 1979 and an M.S.C.E. in 1980 from the University of California, Berkeley, and an M.B.A. from the University of Southern California in 1981. He also completed the Stanford Executive Program in 2009.

Mr. Miller has served as Granite's Executive Vice President and Chief Operating Officer since August 2014. From June 2006 to July 2014, he served in various executive positions with CH2M HILL, including Managing Director, Global Operations; Managing Director, United Kingdom Ministry of Defense Programs; President, Government Facilities and Infrastructure Business Group; President, CH2M HILL Constructors, Inc. and Global Business Development and Planning Director. Prior to CH2M Hill, Mr. Miller served as Director of Federal Programs for Jacobs Engineering Group. From 1989 to 1995, Mr. Miller served in the United States Air Force in the Human Systems Division, Weapons System Program Office and the Air Force Center for Environmental Excellence. He received a B.A. in Biology from the University of Louisville and an M.S. in Civil Engineering from the University of Texas at San Antonio.

Ms. Krzeminski joined Granite in 2008 and has served as Chief Financial Officer since November 2010 and Senior Vice President since January 2013. She also served as Vice President from July 2008 to December 2012, Interim Chief Financial Officer from June 2010 to October 2010 and Corporate Controller from July 2008 to May 2010. From 1993 to 2007, she served in various corporate and operational finance positions with The Gillette Company (acquired by The Procter & Gamble Company in 2005), including Finance Director for the Duracell and Braun North American business units. Ms. Krzeminski also served as the Director of Gillette's Sarbanes-Oxley Section 404 Compliance program and as Gillette's Director of Corporate Financial Reporting. Her experience also includes several years in public accounting with an international accounting firm. She received a Bachelor's degree in Business Administration-Accounting from San Diego State University.

Mr. Donnino joined Granite in 1977 and has served as Senior Vice President and Group Manager since January 2010, Senior Vice President since January 2005, Manager of Granite East from February 2007 to December 2009, and Heavy Construction Division Manager from January 2005 to February 2007. He served as Vice President and Heavy Construction Division Assistant Manager during 2004, Texas Regional Manager from 2000 to 2003 and Dallas Estimating Office Area Manager from 1991 to 2000. Mr. Donnino received a B.S.C.E. in Structural, Water and Soils Engineering from the University of Minnesota in 1976.

Mr. Matheson joined Granite in 1989 and has served as Senior Vice President and Group Manager since August 2013. He also served as Washington Region Manager from February 2007 through July 2013, Branch Division Construction Manager from 2006 through February 2007, Utah Operations Area/Operations Manager from 1999 to 2006 and in other positions at Granite's Nevada Branch between 1989 and 1997. Prior to joining Granite, he worked at Kenny Construction Company. Mr. Matheson received a B.S. in Animal Science from University of Illinois in 1983.

Mr. Richards joined Granite in January 1992 and has served as Senior Vice President and Group Manager since January 2013. He also served as Arizona Region Manager from February 2006 through December 2012, Arizona

Region Chief Estimator from January 2000 through January 2006 and in other positions at Granite's Arizona Branch between 1992 and 2000. Prior to joining Granite, he served as a U.S. Army Officer. Mr. Richards received a B.S. in Civil Engineering from New Mexico State University in 1987.

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Item 1A. RISK FACTORS

Set forth below and elsewhere in this report and in other documents we file with the SEC are various risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report or otherwise adversely affect our business.

- We work in a highly competitive marketplace. We have multiple competitors in all of the areas in which we work, and some of our competitors are larger than we are and may have greater resources than we do. Government funding for public works projects is limited, thus contributing to competition for the limited number of public projects available. This increased competition may result in a decrease in new awards at acceptable profit margins. In addition, should downturns in residential and commercial construction activity occur, the competition for available public sector work would intensify, which could impact our revenue, contract backlog and profit margins.
- Government contracts generally have strict regulatory requirements. Approximately 75.0% of our total revenue in 2014 was derived from contracts funded by federal, state and local government agencies and authorities. Government contracts are subject to specific procurement regulations, contract provisions and a variety of socioeconomic requirements relating to their formation, administration, performance and accounting and often include express or implied certifications of compliance. Claims for civil or criminal fraud may be brought for violations of regulations, requirements or statutes. We may also be subject to qui tam (“Whistle Blower”) litigation brought by private individuals on behalf of the government under the Federal Civil False Claims Act, which could include claims for up to treble damages. Further, if we fail to comply with any of the regulations, requirements or statutes or if we have a substantial number of accumulated Occupational Safety and Health Administration, Mine Safety and Health Administration or other workplace safety violations, our existing government contracts could be terminated and we could be suspended from government contracting or subcontracting, including federally funded projects at the state level. Should one or more of these events occur, it could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.
- Government contractors are subject to suspension or debarment from government contracting. Our substantial dependence on government contracts exposes us to a variety of risks that differ from those associated with private sector contracts. Various statutes to which our operations are subject, including the Davis-Bacon Act (which regulates wages and benefits), the Walsh-Healy Act (which prescribes a minimum wage and regulates overtime and working conditions), Executive Order 11246 (which establishes equal employment opportunity and affirmative action requirements) and the Drug-Free Workplace Act, provide for mandatory suspension and/or debarment of contractors in certain circumstances involving statutory violations. In addition, the Federal Acquisition Regulation and various state statutes provide for discretionary suspension and/or debarment in certain circumstances that might call into question a contractor’s willingness or ability to act responsibly, including as a result of being convicted of, or being found civilly liable for, fraud or a criminal offense in connection with obtaining, attempting to obtain or performing a public contract or subcontract. The scope and duration of any suspension or debarment may vary depending upon the facts and the statutory or regulatory grounds for debarment and could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.
- Our success depends on attracting and retaining qualified personnel, joint venture partners and subcontractors in a competitive environment. The success of our business is dependent on our ability to attract, develop and retain qualified personnel, joint venture partners, advisors and subcontractors. Changes in general or local economic conditions and the resulting impact on the labor market and on our joint venture partners may make it difficult to attract or retain qualified individuals in the geographic areas where we perform our work. If we are unable to provide competitive compensation packages, high-quality training programs and attractive work environments or to establish and maintain successful partnerships, our ability to profitably execute our work could be adversely impacted.
- Failure to maintain safe work sites could result in significant losses. Construction and maintenance sites are potentially dangerous workplaces and often put our employees and others in close proximity with mechanized equipment, moving vehicles, chemical and manufacturing processes, and highly regulated materials. On many sites, we are responsible for safety and, accordingly, must implement safety procedures. If we fail to implement these procedures or if the procedures we implement are ineffective, we may suffer the loss of or injury to our employees, as well as expose ourselves to possible litigation. Despite having invested significant resources in safety programs and

being recognized as an industry leader, a serious accident may nonetheless occur on one of our worksites. As a result, our failure to maintain adequate safety standards could result in reduced profitability or the loss of projects or clients, and could have a material adverse impact on our financial position, results of operations, cash flows and liquidity.

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- An inability to obtain bonding could have a negative impact on our operations and results. As more fully described in "Insurance and Bonding" under "Item 1. Business," we generally are required to provide surety bonds securing our performance under the majority of our public and private sector contracts. Our inability to obtain reasonably priced surety bonds in the future could significantly affect our ability to be awarded new contracts, which could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.
- We may be unable to identify and contract with qualified Disadvantaged Business Enterprise ("DBE") contractors to perform as subcontractors. Certain of our government agency projects contain minimum DBE participation clauses. If we subsequently fail to complete these projects with the minimum DBE participation, we may be held responsible for breach of contract, which may include restrictions on our ability to bid on future projects as well as monetary damages. To the extent we are responsible for monetary damages, the total costs of the project could exceed our original estimates, we could experience reduced profits or a loss for that project and there could be a material adverse impact to our financial position, results of operations, cash flows and liquidity.
- Fixed price and fixed unit price contracts subject us to the risk of increased project cost. As more fully described in "Contract Provisions and Subcontracting" under "Item 1. Business," the profitability of our fixed price and fixed unit price contracts can be adversely affected by a number of factors that can cause our actual costs to materially exceed the costs estimated at the time of our original bid.
- Design-build contracts subject us to the risk of design errors and omissions. Design-build is increasingly being used as a method of project delivery as it provides the owner with a single point of responsibility for both design and construction. We generally subcontract design responsibility to architectural and engineering firms. However, in the event of a design error or omission causing damages, there is risk that the subcontractor or their errors and omissions insurance would not be able to absorb the liability. In this case we may be responsible, resulting in a potentially material adverse effect on our financial position, results of operations, cash flows and liquidity.
- Many of our contracts have penalties for late completion. In some instances, including many of our fixed price contracts, we guarantee that we will complete a project by a certain date. If we subsequently fail to complete the project as scheduled we may be held responsible for costs resulting from the delay, generally in the form of contractually agreed-upon liquidated damages. To the extent these events occur, the total cost of the project could exceed our original estimate and we could experience reduced profits or a loss on that project.
- Strikes or work stoppages could have a negative impact on our operations and results. We are party to collective bargaining agreements covering a portion of our craft workforce. Although strikes or work stoppages have not had a significant impact on our operations or results in the past, such labor actions could have a significant impact on our operations and results if they occur in the future.
- Failure of our subcontractors to perform as anticipated could have a negative impact on our results. As further described in "Contract Provisions and Subcontracting" under "Item 1. Business," we subcontract portions of many of our contracts to specialty subcontractors, but we are ultimately responsible for the successful completion of their work. Although we seek to require bonding or other forms of guarantees, we are not always successful in obtaining those bonds or guarantees from our higher-risk subcontractors. In this case we may be responsible for the failures on the part of our subcontractors to perform as anticipated, resulting in a potentially adverse impact on our cash flows and liquidity. In addition, the total costs of a project could exceed our original estimates and we could experience reduced profits or a loss for that project, which could have an adverse impact on our financial position, results of operations, cash flows and liquidity.
- Our joint venture contracts subject us to joint and several liability. As further described in Note 1 of "Notes to the Consolidated Financial Statements" and under "Item 1. Business; Joint Ventures," we participate in various construction joint venture partnerships in connection with complex construction projects. If our joint venture partners fail to perform under one of these contracts, we could be liable for completion of the entire contract. If the contract were unprofitable, this could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.

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- Our failure to adequately recover on claims brought by us against project owners or other project participants for additional contract costs could have a negative impact on our liquidity and future operations. In certain circumstances, we assert claims against project owners, engineers, consultants, subcontractors or others involved in a project for additional costs exceeding the contract price or for amounts not included in the original contract price. These types of claims occur due to matters such as delays or changes from the initial project scope, both of which may result in additional costs. Often, these claims can be the subject of lengthy arbitration or litigation proceedings, and it is difficult to accurately predict when and the terms upon which these claims will be fully resolved. When these types of events occur, we use working capital in projects to promptly and fully cover cost overruns pending the resolution of the relevant claims. A failure to recover on these types of claims promptly and fully could have a negative impact on our liquidity and results of operations. In addition, while clients and subcontractors may be obligated to indemnify us against certain liabilities, such third parties may refuse or be unable to pay us.
- Failure to remain in compliance with covenants under our debt and credit agreements, service our indebtedness, or fund our other liquidity needs could adversely impact our business. Our debt and credit agreements and related restrictive and financial covenants are more fully described in Note 12 of "Notes to the Consolidated Financial Statements." Our failure to comply with any of these covenants, or to pay principal, interest or other amounts when due thereunder, would constitute an event of default under the applicable agreements. Under certain circumstances, the occurrence of an event of default under one of our debt or credit agreements (or the acceleration of the maturity of the indebtedness under one of our agreements) may constitute an event of default under one or more of our other debt or credit agreements. Default under our debt and credit agreements could result in (1) us no longer being entitled to borrow under the agreements; (2) termination of the agreements; (3) the requirement that any letters of credit under the agreements be cash collateralized; (4) acceleration of the maturity of outstanding indebtedness under the agreements; and/or (5) foreclosure on any collateral securing the obligations under the agreements. On March 3, 2014, Granite executed amendments to the Credit Agreement and 2019 NPA (the "Amendments"), which terms include, among other things, (i) revised minimum Consolidated Tangible Net Worth; and (ii) revised maximum Consolidated Leverage Ratio. For the Credit Agreement, the Amendments were effective for our quarter ending March 31, 2013 and for the 2019 NPA, the Amendments were retroactive to December 31, 2013. If we are unable to service our debt obligations or fund our other liquidity needs, we could be forced to curtail our operations, reorganize our capital structure (including through bankruptcy proceedings) or liquidate some or all of our assets in a manner that could cause holders of our securities to experience a partial or total loss of their investment in us.
- Unavailability of insurance coverage could have a negative effect on our operations and results. We maintain insurance coverage as part of our overall risk management strategy and pursuant to requirements to maintain specific coverage that are contained in our financing agreements and in most of our construction contracts. Although we have been able to obtain reasonably priced insurance coverage to meet our requirements in the past, there is no assurance that we will be able to do so in the future, and our inability to obtain such coverage could have an adverse impact on our ability to procure new work, which could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.
- Accounting for our revenues and costs involves significant estimates. As further described in "Critical Accounting Policies and Estimates" under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," accounting for our contract-related revenues and costs, as well as other expenses, requires management to make a variety of significant estimates and assumptions. Although we believe we have sufficient experience and processes to enable us to formulate appropriate assumptions and produce reasonably dependable estimates, these assumptions and estimates may change significantly in the future and could result in the reversal of previously recognized revenue and profit. Such changes could have a material adverse effect on our financial position and results of operations.
- We use certain commodity products that are subject to significant price fluctuations. Diesel fuel, liquid asphalt and other petroleum-based products are used to fuel and lubricate our equipment and fire our asphalt concrete processing plants. In addition, they constitute a significant part of the asphalt paving materials that are used in many of our construction projects and are sold to third parties. Although we are partially protected by asphalt or fuel price escalation clauses in some of our contracts, many contracts provide no such protection. We also use steel and other

commodities in our construction projects that can be subject to significant price fluctuations. We pre-purchase commodities, enter into supply agreements or enter into financial contracts to secure pricing. We have not been significantly adversely affected by price fluctuations in the past; however, there is no guarantee that we will not be in the future.

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- We are subject to environmental and other regulation. As more fully described in “Environmental Regulations” under “Item 1. Business,” we are subject to a number of federal, state and local laws and regulations relating to the environment, workplace safety and a variety of socioeconomic requirements. Noncompliance with such laws and regulations can result in substantial penalties, or termination or suspension of government contracts as well as civil and criminal liability. In addition, some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for contamination at such facilities and sites, without regard to causation or knowledge of contamination. We occasionally evaluate various alternatives with respect to our facilities, including possible dispositions or closures. Investigations undertaken in connection with these activities may lead to discoveries of contamination that must be remediated, and closures of facilities may trigger compliance requirements that are not applicable to operating facilities. While compliance with these laws and regulations has not materially adversely affected our operations in the past, there can be no assurance that these requirements will not change and that compliance will not adversely affect our operations in the future. Furthermore, we cannot provide assurance that existing or future circumstances or developments with respect to contamination will not require us to make significant remediation or restoration expenditures.
- Weather can significantly affect our revenues and profitability. Our ability to perform work is significantly affected by weather conditions such as precipitation and temperature. Changes in weather conditions can cause delays and otherwise significantly affect our project costs. The impact of weather conditions can result in variability in our quarterly revenues and profitability, particularly in the first and fourth quarters of the year.
- Increasing restrictions on securing aggregate reserves could negatively affect our future operations and results. Tighter regulations and the finite nature of property containing suitable aggregate reserves are making it increasingly challenging and costly to secure aggregate reserves. Although we have thus far been able to secure reserves to support our business, our financial position, results of operations, cash flows and liquidity may be adversely affected by an increasingly difficult permitting process.
- We may be required to contribute cash to meet our unfunded pension obligations in certain multi-employer plans. Three of our wholly-owned subsidiaries, Granite Construction Company, Granite Construction Northeast, Inc., and Kenny Construction Company, participate in various domestic multi-employer pension plans on behalf of union employees. One of our wholly-owned subsidiaries, Granite Infrastructure Constructors, Inc., participates in a Canadian multi-employer pension plan covering union employees working on a construction project in Canada. Union employee benefits generally are based on a fixed amount for each year of service. We are required to make contributions to the plans in amounts established under collective bargaining agreements. Pension expense is recognized as contributions are made. The domestic pension plans are subject to the Employee Retirement Income Security Act of 1974 (“ERISA”). Under ERISA, a contributor to a multi-employer plan may be liable, upon termination or withdrawal from a plan, for its proportionate share of a plan’s unfunded vested liability. While we currently have no intention of withdrawing from a plan and unfunded pension obligations have not significantly affected our operations in the past, there can be no assurance that we will not be required to make material cash contributions to one or more of these plans to satisfy certain underfunded benefit obligations in the future.
- Recent healthcare legislation may increase our costs and reduce our future profitability. In 2012, the United States Supreme Court upheld the majority of the provisions in the Patient Protection and Affordable Care Act (the “Act”). The Act places requirements on employers to provide a minimum level of benefits to employees and assesses penalties on employers if the benefits do not meet the required minimum level or if the cost of coverage to employees exceeds affordability thresholds specified in the Act. The minimum benefits and affordability requirements took effect in 2015. The Act also imposes an excise tax beginning in 2018 on plans whose average cost exceeds specified amounts. Although our initial assessment indicates that the provisions in the Act will not have a material adverse impact to our financial position, results of operations, cash flows and liquidity, it is difficult to predict the financial and operational impacts due to the breadth and complexity of this legislation.
- Force majeure events, including natural disasters and terrorists’ actions, could negatively impact our business, which may affect our financial condition, results of operations or cash flows. Force majeure or extraordinary events beyond the control of the contracting parties, such as natural and man-made disasters, as well as terrorist actions, could negatively impact the economies in which we operate. We typically negotiate contract language where we are

allowed certain relief from force majeure events in private client contracts and review and attempt to mitigate force majeure events in both public and private client contracts. We remain obligated to perform our services after most extraordinary events subject to relief that may be available pursuant to a force majeure clause. If we are not able to react quickly to force majeure events, our operations may be affected significantly, which would have a negative impact on our financial position, results of operations, cash flows and liquidity.

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- Changes to our outsourced software or infrastructure vendors as well as any sudden loss, breach of security, disruption or unexpected data or vendor loss associated with our information technology systems could have a material adverse effect on our business. We rely on third-party software and infrastructure to run critical accounting, project management and financial information systems. If software or infrastructure vendors decide to discontinue further development, integration or long-term maintenance support for our information systems, or there is any system interruption, delay, breach of security, loss of data or loss of a vendor, we may need to migrate some or all of our accounting, project management and financial information to other systems. Despite business continuity plans, these disruptions could increase our operational expense as well as impact the management of our business operations, which could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.
- An inability to safeguard our information technology environment could result in business interruptions, remediation costs and/or legal claims. To protect confidential customer, vendor, financial and employee information, we employ information security measures that secure our information systems from cybersecurity attacks or breaches. Even with these measures, we may be subject to unauthorized access of digital data with the intent to misappropriate information, corrupt data or cause operational disruptions. If a failure of our safeguarding measures were to occur, it could have a negative impact to our business and result in business interruptions, remediation costs and/or legal claims, which could have a material adverse effect on our financial position, results of operations, cash flow and liquidity.
- A change in tax laws or regulations of any federal, state or international jurisdiction in which we operate could increase our tax burden and otherwise adversely affect our financial position, results of operations, cash flows and liquidity. We continue to assess the impact of various U.S. federal, state and international legislative proposals that could result in a material increase to our U.S. federal, state and/or international taxes. We cannot predict whether any specific legislation will be enacted or the terms of any such legislation. However, if such proposals were to be enacted, or if modifications were to be made to certain existing regulations, the consequences could have a material adverse impact on us, including increasing our tax burden, increasing our cost of tax compliance or otherwise adversely affecting our financial position, results of operations, cash flows and liquidity.
- Our contract backlog is subject to unexpected adjustments and cancellations and could be an uncertain indicator of our future earnings. We cannot guarantee that the revenues projected in our contract backlog will be realized or, if realized, will be profitable. Projects reflected in our contract backlog may be affected by project cancellations, scope adjustments, time extensions or other changes. Such changes may adversely affect the revenue and profit we ultimately realize on these projects.
- Our strategic diversification plan includes growing our international operations in Canada and U.S. Territories, which are subject to a number of special risks. As part of our strategic diversification efforts, we may enter into more construction contracts in Canada or U.S. Territories, which may subject us to a number of special risks unique to foreign countries and/or operations. Due to the special risks associated with non-U.S. operations, our exposure to such risks may not be proportionate to the percentage of our revenues attributable to such operations.
- Our real estate investments are subject to mortgage financing and may require additional funding. Granite Land Company’s (“GLC’s”) real estate investments generally utilize short-term debt financing for their development activities. Such financing is subject to the terms of the applicable debt or credit agreement and generally is secured by mortgages on the applicable real property. GLC’s failure to comply with the covenants applicable to such financing or to pay principal, interest or other amounts when due thereunder would constitute an event of default under the applicable agreement and could have the effects described in the risk factor relating to our debt and credit agreements. Due to the tightening of the credit markets, banks have required lower loan-to-value ratios often resulting in the need to pay a portion of the debt when short-term financing is renegotiated. If our real estate investment partners are unable to make their proportional share of a required repayment, GLC may elect to provide the additional funding which could affect our financial position, cash flows and liquidity. Also, if we determine we are the primary beneficiary of real estate joint ventures, as defined by the applicable accounting guidance, we may be required to consolidate additional real estate investments in our financial statements.

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- As a part of our growth strategy we have made and may make future acquisitions, and acquisitions involve many risks. These risks include:
difficulties integrating the operations and personnel of the acquired companies;
diversion of management's attention from ongoing operations;
potential difficulties and increased costs associated with completion of any assumed construction projects;
insufficient revenues to offset increased expenses associated with acquisitions and the potential loss of key employees or customers of the acquired companies;
assumption of liabilities of an acquired business, including liabilities that were unknown at the time the acquisition was negotiated;
difficulties relating to assimilating the personnel, services, and systems of an acquired business and to assimilating marketing and other operational capabilities;
Increased burdens on our staff and on our administrative, internal control and operating systems, which may hinder our legal and regulatory compliance activities;
difficulties in applying and integrating our system of internal controls to an acquired business;
acquisitions may cause us to increase our liabilities, record goodwill or other non-amortizable intangible assets that will be subject to subsequent impairment testing and potential impairment charges, as well as amortization expenses related to certain other intangible assets; and
while we often obtain indemnification rights from the sellers of acquired businesses, such rights may be difficult to enforce, the losses may exceed any dedicated escrow funds, and the indemnitors may not have the ability to financially support the indemnity.

Failure to manage and successfully integrate acquisitions could harm our financial position, results of operations, cash flows and liquidity.

- In the event we issue stock as consideration for certain acquisitions we may make, we could dilute share ownership. One method of acquiring companies or otherwise funding our corporate activities is through the issuance of additional equity securities. If we issue additional equity securities, such issuances could have the effect of diluting our earnings per share as well as our existing shareholders' individual ownership percentages in the Company.
- Unfavorable economic conditions may have an adverse impact on our business. Volatility in the global financial system may have an adverse impact on our business, financial position, results of operations, cash flows and liquidity. In particular, low tax revenues, budget deficits, financing constraints and competing priorities may result in cutbacks in new infrastructure projects in the public sector and could have an adverse impact on collectibility of receivables from government agencies. In addition, levels of new commercial and residential construction projects could be adversely affected by oversupply of existing inventories of commercial and residential properties, low property values and a restrictive financing environment. A depressed demand for construction and construction materials in both the public and private sectors could result in intensified competition, which could have an adverse impact on both our revenues and profit margins and could impact growth opportunities. Although conditions are stabilizing, these factors have also had an adverse impact on the levels of activity and financial position, results of operations, cash flows and liquidity of our real estate investment and development business.
- Deterioration of the United States economy could have a material adverse effect on our business, financial condition and results of operations. Congress' inability to lower United States debt substantially could result in a decrease in government spending, which could negatively impact the ability of government agencies to fund existing or new infrastructure projects. In addition, such actions could have a material adverse effect on the financial markets and economic conditions in the United States as well as throughout the world, which may limit our ability and the ability of our customers to obtain financing and/or could impair our ability to execute our acquisition strategy. Deterioration in general economic activity and infrastructure spending or Congress' deficit reduction measures could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.
- Rising inflation and/or interest rates could have an adverse effect on our business, financial condition and results of operations. Economic factors, including inflation and fluctuations in interest rates, could have a negative impact on our business. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could have a material adverse effect

on our financial position, results of operations, cash flows and liquidity.
The foregoing list is not all-inclusive. There can be no assurance that we have correctly identified and appropriately assessed all factors affecting our business or that the publicly available and other information with respect to these matters is complete and correct. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect us. These developments could have material adverse effects on our business, financial condition, results of operations and liquidity. For these reasons, the reader is cautioned not to place undue reliance on our forward-looking statements.

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Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Quarry Properties

As of December 31, 2014, we had 39 active and 29 inactive permitted quarry properties available for the extraction of sand and gravel and hard rock, all of which are located in the western United States. All of our quarries are open-pit and are primarily accessible by road. We process aggregates into construction materials for internal use and for sale to third parties. Our plant equipment is powered mostly by electricity provided by local utility companies. The following map shows the approximate locations of our permitted quarry properties as of December 31, 2014.

We estimate our permitted proven[1] and probable[2] aggregate reserves to be approximately 763.4 million tons with an average permitted life of approximately 78 years at present operating levels. Present operating levels are determined based on a three-year annual average aggregate production rate of 9.7 million tons. Reserve estimates were made by our geologists and engineers based primarily on drilling studies. Reserve estimates are based on various assumptions, and any material inaccuracies in these assumptions could have a material impact on the accuracy of our reserve estimates.

[1]Proven reserves are determined through the testing of samples obtained from closely spaced subsurface drilling and/or exposed pit faces. Proven reserves are sufficiently understood so that quantity, quality, and engineering conditions are known with sufficient accuracy to be mined without the need for any further subsurface work. Actual required spacing is based on geologic judgment about the predictability and continuity of each deposit.

[2]Probable reserves are determined through the testing of samples obtained from subsurface drilling but the sample points are too widely spaced to allow detailed prediction of quantity, quality, and engineering conditions. Additional subsurface work may be needed prior to mining the reserve.

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The following tables present information about our quarry properties as of December 31, 2014 (tons in millions):

Quarry Properties	Type Sand & Gravel	Hard Rock	Permitted Aggregate Reserves (tons)	Unpermitted Aggregate Reserves (tons)	Three-Year Annual Average Production Rate (tons)	Average Reserve Life
Owned quarry properties	25	5	438.6	347.0	5.4	86
Leased quarry properties[1]	24	14	324.8	86.6	4.4	47

[1] Our leases have expiration dates which range from month-to-month to 44 years with most including an option to renew.

State	Number of Properties	Permitted Reserves for Each Product Type (tons) Sand & Gravel	Hard Rock	Percentage of Permitted Reserves Owned and Leased Owned	Leased
California	34	272.7	257.5	58 %	42 %
Non-California	34	145.4	87.8	55 %	45 %

Plant Properties

We operate plants at our quarry sites to process aggregates into construction materials. Some of our sites may have more than one crushing, concrete or asphalt processing plant. In an effort to continuously increase efficiencies based on external and internal demands, we sold or otherwise disposed of several plants and the associated land in California, Alaska, and Nevada during 2014, resulting in a gain of approximately $9.8 million that was recorded to gain on sales of property and equipment in the consolidated statement of operations. At December 31, 2014 and 2013, we owned the following plants:

December 31,	2014	2013
Aggregate crushing plants	33	37
Asphalt concrete plants	52	54
Cement concrete batch plants	9	16
Asphalt rubber plants	5	5
Lime slurry plants	9	9

Other Properties

The following table provides our estimate of certain information about other properties as of December 31, 2014:

	Land Area (acres)	Building Square Feet
Office and shop space (owned and leased)	1,249	1,336,485
Real estate held for sale and use	1,230	—

As of December 31, 2014, approximately 52% of our office and shop space was attributable to our Construction segment, 12% to our Large Project Construction segment and 7% to our Construction Materials segment. The remainder is primarily attributable to administration.

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Item 3. LEGAL PROCEEDINGS

In the ordinary course of business, we and our affiliates are involved in various legal proceedings alleging, among other things, public liability issues or breach of contract or tortious conduct in connection with the performance of services and/or materials provided, the outcomes of which cannot be predicted with certainty. We and our affiliates are also subject to government inquiries in the ordinary course of business seeking information concerning our compliance with government construction contracting requirements and various laws and regulations, the outcomes of which cannot be predicted with certainty.

Some of the matters in which we or our joint ventures and affiliates are involved may involve compensatory, punitive, or other claims or sanctions that, if granted, could require us to pay damages or make other expenditures in amounts that are not probable to be incurred or cannot currently be reasonably estimated. In addition, in some circumstances our government contracts could be terminated, we could be suspended, debarred or incur other administrative penalties or sanctions, or payment of our costs could be disallowed. While any of our pending legal proceedings may be subject to early resolution as a result of our ongoing efforts to settle, whether or when any legal proceeding will be resolved through settlement is neither predictable nor guaranteed.

Accordingly, it is possible that future developments in such proceedings and inquiries could require us to (i) adjust existing accruals, or (ii) record new accruals that we did not originally believe to be probable or that could not be reasonably estimated. Such changes could be material to our financial condition, results of operations and/or cash flows in any particular reporting period. In addition to matters that are considered probable for which the loss can be reasonably estimated, we also disclose certain matters where the loss is considered reasonably possible and is reasonably estimable.

Liabilities relating to legal proceedings and government inquiries, to the extent that we have concluded such liabilities are probable and the amounts of such liabilities are reasonably estimable, are recorded on the consolidated balance sheets. The aggregate liabilities recorded as of December 31, 2014 and 2013 related to these matters were approximately $9.7 million and $16.3 million, respectively, and were primarily included in accrued expenses and other current liabilities. The aggregate range of reasonably estimable loss related to matters considered reasonably possible was zero to approximately $4.0 million as of December 31, 2014. Our view as to such matters could change in future periods.

Investigation Related to Grand Avenue Project Disadvantaged Business Enterprise (“DBE”) Issues: On March 6, 2009, the U.S. Department of Transportation, Office of Inspector General served upon our wholly-owned subsidiary, Granite Construction Northeast, Inc. (“Granite Northeast”), a United States District Court, Eastern District of New York Grand Jury subpoena to produce documents. The subpoena sought all documents pertaining to the use of a DBE firm (the “Subcontractor”), and the Subcontractor’s use of a non-DBE subcontractor/consultant, on the Grand Avenue Bus Depot and Central Maintenance Facility for the Borough of Queens Project (the “Grand Avenue Project”), a Granite Northeast project, that began in 2004 and was substantially complete in 2008. The subpoena also sought any documents regarding the use of the Subcontractor as a DBE on any other projects and any other documents related to the Subcontractor or to the subcontractor/consultant. Granite Northeast produced the requested documents, together with other requested information. Subsequently, Granite Northeast was informed by the Department of Justice (“DOJ”) that it is a subject of an investigation, along with others, and that the DOJ believes that Granite Northeast’s claim of DBE credit for the Subcontractor was improper. In addition to the documents produced in response to the Grand Jury subpoena, Granite Northeast has provided requested information to the DOJ, along with other federal and state agencies (collectively the “Agencies”) concerning other DBE entities for which Granite Northeast has historically claimed DBE credit. The Agencies have informed Granite Northeast that they believe that the claimed DBE credit taken for some of those other DBE entities was improper. Granite Northeast has met several times since January 2013 with the DOJ and the Agencies’ representatives, to discuss the government’s criminal investigation of the Grand Avenue Project participants, including Granite Northeast, and to discuss their respective positions on, and potential resolution of, the issues raised in the investigation. In connection with this investigation, Granite Northeast is subject to potential civil, criminal, and/or administrative penalties or sanctions, as well as additional future DBE compliance activities and the costs associated therewith. Granite believes that the incurrence of some form of penalty or sanction is probable, and has therefore recorded what it believes to be the most likely amount of liability it may incur on the consolidated balance sheet as of December 31, 2014. Granite believes that it is reasonably possible that it may incur liability in relation to this matter that is in excess of such accrual. The resolution of the matters under investigation will likely be in the form of either a non-prosecution agreement or deferred prosecution agreement and could have direct or indirect consequences that could have a material adverse effect on our financial position, results of operations and/or liquidity.

Item 4. MINE SAFETY DISCLOSURES

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17CFR 229.104) is included in Exhibit 95 to this Annual Report on Form 10-K.

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the New York Stock Exchange under the ticker symbol GVA.

As of February 18, 2015, there were 39,187,087 shares of our common stock outstanding held by 875 shareholders of record.

We have paid quarterly cash dividends since the second quarter of 1990, and we expect to continue to do so. However, declaration and payment of dividends is within the sole discretion of our Board of Directors, subject to limitations imposed by Delaware law and compliance with our credit agreements (which allow us to pay dividends so long as we have at least $150 million in unencumbered cash and equivalents and marketable securities on the consolidated balance sheet), and will depend on our earnings, capital requirements, financial condition and such other factors as the Board of Directors deems relevant. As of December 31, 2014, we had unencumbered cash, cash equivalents and marketable securities that exceeded the aforementioned limitations.

Market Price and Dividends of Common Stock

2014 Quarters Ended	December 31,	September 30,	June 30,	March 31,
High	$39.09	$37.49	$40.52	$40.55
Low	30.44	31.78	34.24	31.39
Dividends per share	0.13	0.13	0.13	0.13
2013 Quarters Ended	December 31,	September 30,	June 30,	March 31,
High	$35.32	$32.46	$32.16	$37.74
Low	28.35	27.88	26.07	29.55
Dividends per share	0.13	0.13	0.13	0.13

During the three months ended December 31, 2014, we did not sell any of our equity securities that were not registered under the Securities Act of 1933, as amended. The following table sets forth information regarding the repurchase of shares of our common stock during the three months ended December 31, 2014:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs[2]
October 1 through October 31, 2014	104	$33.35	—	$64,065,401
November 1 through November 30, 2014	115	$36.48	—	$64,065,401
December 1 through December 31, 2014	11,807	$36.21	—	$64,065,401
Total	12,026	$36.19	—	

[1]The number of shares purchased is in connection with employee tax withholding for shares vested under our Amended and Restated 1999 Equity Incentive Plan.

[2]In October 2007, our Board of Directors authorized us to purchase, at management's discretion, up to $200.0 million of our common stock. Under this purchase program, the Company may purchase shares from time to time on the open market or in private transactions. The specific timing and amount of purchases will vary based on market conditions, securities law limitations and other factors. Purchases under the share purchase program may be commenced, suspended or discontinued at any time and from time to time without prior notice.

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Performance Graph

The following graph compares the cumulative 5-year total return provided to shareholders on Granite Construction Incorporated’s common stock relative to the cumulative total returns of the S&P 500 index and the Dow Jones U.S. Heavy Construction index. The Dow Jones U.S. Heavy Construction index includes the following companies: AECOM Technology Corp., Chicago Bridge & Iron Co NV, EMCOR Group Inc., Fluor Corp., Jacobs Engineering Group Inc., KBR Inc., and Quanta Services Inc. Certain of these companies differ from Granite in that they derive revenue and profit from non-U.S. operations and have customers in different markets. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each of the indexes on December 31, 2009 and its relative performance is tracked through December 31, 2014.

December 31,	2009	2010	2011	2012	2013	2014
Granite Construction Incorporated	$100.00	$83.12	$73.51	$106.10	$112.23	$123.74
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14
Dow Jones U.S. Heavy Construction	100.00	128.40	105.86	128.54	168.74	125.68

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Item 6. SELECTED FINANCIAL DATA

Other than contract backlog, the selected consolidated financial data set forth below have been derived from our consolidated financial statements. Refer to the consolidated financial statements for further information. These historical results are not necessarily indicative of the results of operations to be expected for any future period.

Selected Consolidated Financial Data

Years Ended December 31,	2014	2013	2012	2011	2010
Operating Summary	(In Thousands, Except Per Share Data)				
Revenue	$2,275,270	$2,266,901	$2,083,037	$2,009,531	$1,762,965
Gross profit	250,306	185,263	234,759	247,963	177,784
As a percent of revenue	11.0%	8.2%	11.3%	12.3%	10.1%
Selling, general and administrative expenses	203,821	199,946	185,099	162,302	191,593
As a percent of revenue	9.0%	8.8%	8.9%	8.1%	10.9%
Restructuring and impairment (gains) charges, net[1]	(2,643)	52,139	(3,728)	2,181	109,279
Net income (loss)	35,876	(44,766)	59,920	66,085	(62,448)
Amount attributable to non-controlling interests	(10,530)	8,343	(14,637)	(14,924)	3,465
Net income (loss) attributable to Granite	25,346	(36,423)	45,283	51,161	(58,983)
As a percent of revenue	1.1%	-1.6%	2.2%	2.5%	(3.3)%
Net income (loss) per share attributable to common shareholders:					
Basic	$0.65	$(0.94)	$1.17	$1.32	$(1.56)
Diluted	$0.64	$(0.94)	$1.15	$1.31	$(1.56)
Weighted average shares of common stock:					
Basic	39,096	38,803	38,447	38,117	37,820
Diluted	39,795	38,803	39,076	38,473	37,820
Dividends per common share	$0.52	$0.52	$0.52	$0.52	$0.52
Consolidated Balance Sheet[2]					
Total assets	$1,620,494	$1,617,155	$1,729,487	$1,547,799	$1,535,533
Cash, cash equivalents and marketable securities	358,028	346,323	433,420	406,648	395,728
Working capital	507,352	452,633	490,785	461,254	475,079
Current maturities of long-term debt	1,247	1,247	19,060	32,173	38,119
Long-term debt	275,621	276,868	271,070	218,413	242,351
Other long-term liabilities	44,495	48,580	47,124	49,221	47,996
Granite shareholders' equity	794,385	781,940	829,953	799,197	761,031
Book value per share	20.27	20.09	21.43	20.66	19.64
Common shares outstanding	39,186	38,918	38,731	38,683	38,746
Contract backlog	$2,718,873	$2,526,751	$1,708,761	$2,022,454	$1,899,170

[1] During 2014, we recorded restructuring gains of $1.3 million related to our 2010 Enterprise Improvement Plan ("EIP") and $1.3 million in impairment gains related to nonperforming quarry sites. During 2013, we recorded net restructuring charges of $49.0 million related to our EIP and $3.2 million in other impairment charges related to nonperforming quarry sites. During 2012, we recorded net restructuring gains of $3.7 million and during 2011, we recorded net restructuring charges of $2.2 million (see Note 11 of the "Notes to the Consolidated Financial Statements"

for additional information regarding the 2014, 2013 and 2012 amounts). During 2010, we recorded restructuring charges of $109.3 million related to our EIP.

[2] Assets acquired and liabilities assumed resulting from the acquisition of Kenny Construction Company are included on the consolidated balance sheet commencing as of December 31, 2012 (see Note 21 of the “Notes to the Consolidated Financial Statements”).

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

We are one of the largest diversified heavy civil contractors and construction materials producers in the United States, engaged in the construction and improvement of streets, roads, highways, mass transit facilities, airport infrastructure, bridges, trenchless and underground utilities, power-related facilities, utilities, tunnels, dams and other infrastructure-related projects. We own aggregate reserves and plant facilities to produce construction materials for use in our construction business and for sale to third parties. We also operate a real estate investment business that we have been divesting over the past four years as part of our 2010 Enterprise Improvement Plan ("EIP"). Our permanent offices are located in Alaska, Arizona, California, Colorado, Florida, Illinois, Nevada, New York, Texas, Utah and Washington.

During 2014, our business was organized into four reportable business segments. These business segments were: Construction, Large Project Construction, Construction Materials and Real Estate. In the fourth quarter of 2014, we determined that the Real Estate segment no longer met the requirements of a reportable business segment under Accounting Standard Codification ("ASC") 280 and have eliminated it as a segment for all periods presented. Prior period amounts relating to the real estate segment have been combined with the Construction Materials segment. See Note 20 of "Notes to the Consolidated Financial Statements" for additional information about our reportable business segments.

In addition to business segments, we review our business by operating groups and by public and private market sectors. Our operating groups are defined as follows: (1) California; (2) Northwest, which primarily includes offices in Alaska, Arizona, Nevada, Utah and Washington; (3) Heavy Civil, which primarily includes offices in California, Florida, New York and Texas; and (4) Kenny, which primarily includes offices in Colorado and Illinois. Each of these operating groups may include financial results from our Construction and Large Project Construction segments. A project's results are reported in the operating group that is responsible for the project, not necessarily the geographic area where the work is located. In some cases, the operations of an operating group include the results of work performed outside of that geographic region. Our California and Northwest operating groups include financial results from our Construction Materials segment.

Our construction contracts are obtained through competitive bidding in response to solicitations by both public agencies and private parties and on a negotiated basis as a result of solicitations from private parties. Project owners use a variety of methods to make contractors aware of new projects, including posting bidding opportunities on agency websites, disclosing long-term infrastructure plans, advertising and other general solicitations. Our bidding activity is affected by such factors as the nature and volume of advertising and other solicitations, contract backlog, available personnel, current utilization of equipment and other resources, our ability to obtain necessary surety bonds and competitive considerations. Our contract review process includes identifying risks and opportunities during the bidding process and managing these risks through mitigation efforts such as insurance and pricing. Contracts fitting certain criteria of size and complexity are reviewed by various levels of management and, in some cases, by the Executive Committee of our Board of Directors. Bidding activity, contract backlog and revenue resulting from the award of new contracts may vary significantly from period to period.

Our typical construction project begins with the preparation and submission of a bid to a customer. If selected as the successful bidder, we generally enter into a contract with the customer that provides for payment upon completion of specified work or units of work as identified in the contract. We usually invoice our customers on a monthly basis. Our contracts frequently call for retention that is a specified percentage withheld from each payment until the contract is completed and the work accepted by the customer. We defer recognition of profit on projects until there is sufficient information to determine the estimated profit on the project with a reasonable level of certainty and our profit recognition is based on estimates that may change over time. Our revenue, gross margin and cash flows can differ significantly from period to period due to a variety of factors, including the projects' stage of completion, the mix of early and late stage projects, our estimates of contract costs, outstanding contract change orders and claims and the payment terms of our contracts. The timing differences between our cash inflows and outflows require us to maintain adequate levels of working capital.

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The four primary economic drivers of our business are (1) the overall health of the economy; (2) federal, state and local public funding levels; (3) population growth resulting in public and private development; and (4) the need to replace or repair aging infrastructure. A stagnant or declining economy will generally result in reduced demand for construction and construction materials in the private sector. This reduced demand increases competition for private sector projects and will ultimately also increase competition in the public sector as companies migrate from bidding on scarce private sector work to projects in the public sector. Greater competition can reduce our revenues and/or have a downward impact on our gross profit margins. In addition, a stagnant or declining economy tends to produce less tax revenue for public agencies, thereby decreasing a source of funds available for spending on public infrastructure improvements. Some funding sources that have been specifically earmarked for infrastructure spending, such as diesel and gasoline taxes, are not as directly affected by a stagnant or declining economy, unless actual consumption is reduced. However, even these can be temporarily at risk as federal, state and local governments take actions to balance their budgets. Additionally, high fuel prices and more fuel efficient vehicles can have a dampening effect on consumption, resulting in overall lower tax revenue. Conversely, increased levels of public funding as well as an expanding or robust economy will generally increase demand for our services and provide opportunities for revenue growth and margin improvement.

Critical Accounting Policies and Estimates

The financial statements included in “Item 8. Financial Statements and Supplementary Data” have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Our estimates, judgments and assumptions are continually evaluated based on available information and experiences; however, actual amounts could differ from those estimates.

The following are accounting policies and estimates that involve significant management judgment and can have significant effects on the Company’s reported results of operations. The Audit & Compliance Committee of our Board of Directors has reviewed our disclosure of critical accounting policies and estimates.

Revenue and Earnings Recognition for Construction Contracts

Revenue and earnings on construction contracts, including construction joint ventures, are recognized under the percentage of completion method using the ratio of costs incurred to estimated total costs. Revenue in an amount equal to cost incurred is recognized until there is sufficient information to determine the estimated profit on the project with a reasonable level of certainty. The factors considered in this evaluation include the stage of design completion, the stage of construction completion, the status of outstanding subcontracts or buyouts, certainty of quantities of labor and materials, certainty of schedule and the relationship with the owner.

Revenue from affirmative contract claims is recognized when we have a signed agreement and payment is assured. Revenue from unapproved change orders is recognized to the extent the related costs have been incurred, the amount can be reliably estimated and recovery is probable, which is often when the owner has agreed to the change order in writing. Provisions are recognized in the consolidated statements of operations for the full amount of estimated losses on uncompleted contracts whenever evidence indicates that the estimated total cost of a contract exceeds its estimated total revenue. All contract costs, including those associated with affirmative claims and unapproved change orders, are recorded as incurred and revisions to estimated total costs are reflected as soon as the obligation to perform exists. Contract costs consist of direct costs on contracts, including labor and materials, amounts payable to subcontractors, direct overhead costs and equipment expense (primarily depreciation, fuel, maintenance and repairs). All state and federal government contracts and many of our other contracts provide for termination of the contract at the convenience of the party contracting with us, with provisions to pay us for work performed through the date of termination.

The accuracy of our revenue and profit recognition in a given period is dependent on the accuracy of our estimates of the cost to complete each project. Cost estimates for all of our significant projects use a detailed “bottom up” approach and we believe our experience and process allows us to provide materially reliable estimates. However, there are a number of factors that can contribute to changes in estimates of contract cost and profitability. The most significant of these include:

- the completeness and accuracy of the original bid;
- costs associated with scope changes where final price negotiations are not complete;
- costs of labor and/or materials;
- extended overhead and other costs due to owner, weather and other delays;
- subcontractor performance issues;
- changes in productivity expectations;
- site conditions that differ from those assumed in the original bid (to the extent contract remedies are unavailable);
- continuing changes from original design on design-build projects;
- the availability and skill level of workers in the geographic location of the project;
- a change in the availability and proximity of equipment and materials; and
- our ability to fully and promptly recover on claims for additional contract costs.

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The foregoing factors as well as the stage of completion of contracts in process and the mix of contracts at different margins may cause fluctuations in gross profit between periods. Significant changes in cost estimates, particularly in our larger, more complex projects, have had, and can in future periods have, a significant effect on our profitability. Our contracts with our customers are primarily either “fixed unit price” or “fixed price.” Under fixed unit price contracts, we are committed to provide materials or services required by a project at fixed unit prices (for example, dollars per cubic yard of concrete placed or cubic yards of earth excavated). While the fixed unit price contract shifts the risk of estimating the quantity of units required for a particular project to the customer, any increase in our unit cost over the expected unit cost in the bid, whether due to inflation, inefficiency, faulty estimates or other factors, is borne by us unless otherwise provided in the contract. Fixed price contracts are priced on a lump-sum basis under which we bear the risk that we may not be able to perform all the work profitably for the specified contract amount. The percentage of fixed price contracts in our contract backlog increased to 71.0% at December 31, 2014 from 63.5% at December 31, 2013. The percentage of fixed unit price contracts in our contract backlog was 19.9% and 26.0% at December 31, 2014 and 2013, respectively. All other types of contracts represented 9.1% and 10.5% of our contract backlog at December 31, 2014 and 2013, respectively.

Goodwill

As of December 31, 2014, we had four reporting units in which goodwill was recorded as follows:

- Kenny Group Construction
- Kenny Group Large Project Construction
- Northwest Group Construction
- Northwest Group Construction Materials

The most significant goodwill balances reside in the reporting units associated with the Kenny Group.

We perform impairment tests annually and more frequently when events and circumstances occur that indicate a possible impairment of goodwill. We have historically performed goodwill impairment testing on an annual basis as of December 31. However, in 2014 we changed the annual goodwill impairment testing date to November 1, which we believe is preferable as the new testing date better aligns with our financial planning and budgeting cycle. In addition, we evaluate goodwill for impairment if events or circumstances change between annual tests indicating a possible impairment. Examples of such events or circumstances include the following:

- a significant adverse change in legal factors or in the business climate;
- an adverse action or assessment by a regulator;
- a more likely than not expectation that a segment or a significant portion thereof will be sold; or
- the testing for recoverability of a significant asset group within the segment.

In performing step one of the goodwill impairment tests, we calculate the estimated fair value of the reporting unit in which the goodwill is recorded using the discounted cash flows and market multiple methods. Judgments inherent in these methods include the determination of appropriate discount rates, the amount and timing of expected future cash flows and growth rates, and appropriate benchmark companies. The cash flows used in our 2014 discounted cash flow model were based on five-year financial forecasts, which in turn were based on the 2015-2017 operating plan developed internally by management adjusted for market participant-based assumptions. Our discount rate assumptions are based on an assessment of the equity cost of capital and appropriate capital structure for our reporting units. In assessing the reasonableness of our determined fair values of our reporting units, we evaluate the reasonableness of our results against our current market capitalization.

After calculating the estimated fair value, we compare the resulting fair value to the net book value of the reporting unit, including goodwill. If the net book value of a reporting unit exceeds its fair value, we measure and record the amount of the impairment loss by comparing the implied fair value of the reporting unit’s goodwill with the carrying amount of that goodwill.

The results of our annual goodwill impairment tests, performed in accordance with ASC 350, indicated that the estimated fair values of our reporting units exceeded their net book values (i.e., cushion) by at least 50% for the four reporting units with goodwill. The Kenny Large Project Construction business is susceptible to fluctuations in results depending on awarded work given the size and frequency of awards. While we believe the current cushion is adequate to absorb these fluctuations, a significant decline in job win rates could have a significant impact to this reporting unit’s estimated fair value.

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Long-lived Assets

We review property and equipment and amortizable intangible assets for impairment whenever events or changes in circumstances indicate the net book value of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their net book values to the future undiscounted cash flows the assets are expected to generate. If the assets are considered to be impaired, an impairment charge will be recognized equal to the amount by which the net book value of the asset exceeds fair value. We group plant equipment assets at a regional level, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets. When an individual asset or group of assets are determined to no longer contribute to the vertically integrated asset group, it is assessed for impairment independently.

During 2013 and in connection with our EIP, we recorded $14.7 million in restructuring charges related to non-performing quarry sites and incurred $3.2 million in lease termination charges, both related to the Construction Materials segment. During 2014 we recorded a $1.3 million restructuring gain resulting from our release from the lease obligations. In addition, during 2013 as part of the EIP we recorded $31.1 million of non-cash impairment charges, including amounts attributable to non-controlling interests of $3.9 million, related to all of the remaining consolidated real estate assets. Separate from the EIP, we recorded $1.3 million in non-cash impairment gains and $3.2 million in non-cash impairment charges during 2014 and 2013, respectively, related to the Construction Materials segment. See Note 11 of “Notes to the Consolidated Financial Statements” and “Restructuring and Impairment (Gains) Charges, Net” under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information.

Insurance Estimates

We carry insurance policies to cover various risks, primarily general liability, automobile liability and workers compensation, under which we are liable to reimburse the insurance company for a portion of each claim paid. Payment for general liability and workers compensation claim amounts generally range from the first $0.5 million to $1.0 million per occurrence. We accrue for probable losses, both reported and unreported, that are reasonably estimable using actuarial methods based on historic trends, modified, if necessary, by recent events. Changes in our loss assumptions caused by changes in actual experience would affect our assessment of the ultimate liability and could have an effect on our operating results and financial position up to $1.0 million per occurrence.

Asset Retirement and Reclamation Obligations

We account for the costs related to legal obligations to reclaim aggregate mining sites and other facilities by recording our estimated reclamation liability at fair value, capitalizing the estimated liability as part of the related asset’s carrying amount and allocating it to expense over the asset’s useful life. To determine the fair value of the obligation, we estimate the cost for a third-party to perform the legally required reclamation including a reasonable profit margin. This cost is then increased for future estimated inflation based on the estimated years to complete and discounted to fair value using present value techniques with a credit-adjusted, risk-free rate. In estimating the settlement date, we evaluate the current facts and conditions to determine the most likely settlement date.

We review reclamation obligations at least annually for a revision to the cost or a change in the estimated settlement date. Additionally, reclamation obligations are reviewed in the period that a triggering event occurs that would result in either a revision to the cost or a change in the estimated settlement date.

Contingencies

Loss contingency provisions are recorded if the potential loss from any asserted or unasserted claim or legal proceeding is considered probable and the amount can be reasonably estimated. If a potential loss is considered probable but only a range of loss can be determined, the low-end of the range is recorded. These accruals represent management’s best estimate of probable loss. Disclosure also is provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the amount recorded. Significant judgment is required in both the determination of probability of loss and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to claims and litigation and may revise our estimates. See Note 19 of “Notes to the Consolidated Financial Statements” and “Item 3. Legal Proceedings” for additional information.

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Current Economic Environment and Outlook for 2015

At more than $2.7 billion at the end of 2014, total company backlog continues to provide Granite with opportunities to grow. Financing from the Transportation Infrastructure Financing and Innovation Act has been a key driver for large projects across the country. However, dedicated federal funding remains a concern. The two-year federal highway bill, Moving Ahead for Progress in the 21st Century, expired in September 2014 and the current short-term extension runs out in May. Congress must act swiftly to ensure long-term funding and continued federal financing are achieved in the next highway bill. A clear commitment to federal infrastructure investment is overdue and is necessary to give state and local leaders the confidence to plan beyond the end of the next short-term patchwork funding.

Despite increased tax revenues, without long-term federal funding commitments, capital budgets for many of our traditional Western markets have remained flat or gone negative over the past few years. Though generally stable, the volume of available work and the bidding environment in these traditional markets remains highly competitive. We remain encouraged by continued signs of recovery in the private sector, and we continue to expect growing revenue and profit synergies from our diversified markets including power, tunnel and underground.

The markets for projects within our Large Project Construction segment remain strong. Granite is a a highly desired partner for all types of work, including Public, Private Partnerships. We continue to pursue significant bidding opportunities for our Large Project Construction segment, which include teaming arrangements with partners to bid on more than $15 billion over the next several years.

Results of Operations

Comparative Financial Summary

Years Ended December 31,	2014	2013	2012
(in thousands)			
Total revenue	$2,275,270	$2,266,901	$2,083,037
Gross profit	250,306	185,263	234,759
Restructuring and impairment (gains) charges, net	(2,643)	52,139	(3,728)
Operating income (loss)	65,100	(54,692)	80,835
Total other expense (income)	9,503	9,337	(194)
Amount attributable to non-controlling interests	(10,530)	8,343	(14,637)
Net income (loss) attributable to Granite Construction Incorporated	25,346	(36,423)	45,283

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Revenue

Total Revenue by Segment									
Years Ended December 31,	2014			2013			2012		
(dollars in thousands)									
Construction	$1,186,445	52.1	%	$1,251,197	55.2	%	$984,106	47.2	%
Large Project Construction	825,044	36.3		777,811	34.3		863,217	41.5	
Construction Materials	263,781	11.6		237,893	10.5		235,714	11.3	
Total	$2,275,270	100.0	%	$2,266,901	100.0	%	$2,083,037	100.0	%

Construction Revenue									
Years Ended December 31,	2014			2013			2012		
(dollars in thousands)									
California:									
Public sector	$388,049	32.7	%	$386,050	31.0	%	$434,570	44.1	%
Private sector	103,791	8.7		85,219	6.8		53,886	5.5	
Northwest:									
Public sector	396,919	33.5		442,089	35.3		371,917	37.8	
Private sector	133,271	11.2		132,907	10.6		114,851	11.7	
Heavy Civil:									
Public sector	19,642	1.7		4,093	0.3		8,798	0.9	
Private sector	—	—		528	—		84	—	
Kenny:									
Public sector	93,291	7.9		77,953	6.2		—	—	
Private sector	51,482	4.3		122,358	9.8		—	—	
Total	$1,186,445	100.0	%	$1,251,197	100.0	%	$984,106	100.0	%

Construction revenue for the year ended December 31, 2014 decreased by $64.8 million, or 5.2%, compared to the year ended December 31, 2013 primarily due to lower volumes from entering the year with less backlog, as well as the timing of new awards in the Northwest public and Kenny private sector. The decreases were partially offset by an improved success rate on bidding activity in the California private sector and entering the year with higher backlog in the Heavy Civil and Kenny public sectors from bid successes during 2013.

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Large Project Construction Revenue									
Years Ended December 31,	2014			2013			2012		
(dollars in thousands)									
California[1]	$57,229	6.9	%	$73,486	9.5	%	$73,359	8.5	%
Northwest[1]	13,883	1.7		24,085	3.1		175,595	20.3	
Heavy Civil[1]	633,063	76.7		623,166	80.1		614,263	71.2	
Kenny:									
Public sector	103,828	12.6		55,174	7.1		—	—	
Private sector	17,041	2.1		1,900	0.2		—	—	
Total	$825,044	100.0	%	$777,811	100.0	%	$863,217	100.0	%

[1]For the periods presented, Large Project Construction revenue was earned from the public sector.

Large Project Construction revenue for the year ended December 31, 2014 increased by $47.2 million, or 6.1%, compared to the year ended December 31, 2013, primarily due to increases in Kenny and Heavy Civil operating groups from entering the year with greater backlog than 2013 and the settlement of outstanding claims. Decreases in the California and Northwest groups were from ongoing projects nearing completion coupled with delayed starts on new work.

Construction Materials Revenue									
Years Ended December 31,	2014			2013			2012		
(dollars in thousands)									
California	$152,959	58.0	%	$134,697	56.6	%	$143,315	60.8	%
Northwest	110,822	42.0		103,196	43.4		92,399	39.2	
Total	$263,781	100.0	%	$237,893	100.0	%	$235,714	100.0	%

Construction Materials revenue for the year ended December 31, 2014 increased $25.9 million, or 10.9%, when compared to the year ended December 31, 2013 primarily due to increased volume and pricing. The increased volume and pricing was due to more aggressive sales efforts coupled with increased demand in most Western states.

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Contract Backlog

Our contract backlog consists of the remaining unearned revenue on awarded contracts, including 100% of our consolidated joint venture contracts and our proportionate share of unconsolidated joint venture contracts. We generally include a project in our contract backlog at the time it is awarded and funding is in place. Certain federal government contracts where funding is appropriated on a periodic basis are included in contract backlog at the time of the award. Existing contracts that include unexercised contract options and unissued task orders under existing contracts are included in contract backlog as task orders are issued or options are exercised as further described in "Contract Backlog" under "Item 1. Business". Substantially all of the contracts in our contract backlog may be canceled or modified at the election of the customer; however, we have not been materially adversely affected by contract cancellations or modifications in the past.

The following tables illustrate our contract backlog as of the respective dates:

Total Contract Backlog by Segment

December 31,	2014			2013		
(dollars in thousands)						
Construction	$712,967	26.2	%	$681,415	27.0	%
Large Project Construction	2,005,906	73.8		1,845,336	73.0	
Total	$2,718,873	100.0	%	$2,526,751	100.0	%

Construction Contract Backlog

December 31,	2014			2013		
(dollars in thousands)						
California:						
Public sector	$285,230	40.0	%	$387,251	56.9	%
Private sector	60,490	8.5		33,365	4.9	
Northwest:						
Public sector	185,987	26.1		118,123	17.3	
Private sector	35,444	5.0		21,418	3.1	
Heavy Civil:						
Public sector	27,557	3.8		46,972	6.9	
Private sector	—	—		—	—	
Kenny:						
Public sector	44,927	6.3		46,956	6.9	
Private sector	73,332	10.3		27,330	4.0	
Total	$712,967	100.0	%	$681,415	100.0	%

Construction contract backlog of $713.0 million at December 31, 2014 was $31.6 million, or 4.6%, higher than at December 31, 2013. The increase was primarily due to an improved success rate on bidding activity in the Northwest and Kenny operating groups, partially offset by progress on existing projects in the California and Heavy Civil operating groups. Not included in Construction contract backlog as of December 31, 2014 is $76.8 million associated with Kenny underground contracts, the majority of which is expected to be booked into contract backlog as additional releases are issued by the owner in 2015.

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Large Project Construction Contract Backlog						
December 31,	2014			2013		
(dollars in thousands)						
Heavy Civil[1]	$1,682,047	83.9	%	$1,445,849	78.4	%
California[1]	19,066	1.0		55,593	3.0	
Northwest[1]	38,463	1.8		6,860	0.4	
Kenny:						
Public sector[2]	156,010	7.8		161,361	8.7	
Private sector	110,320	5.5		175,673	9.5	
Total	$2,005,906	100.0	%	$1,845,336	100.0	%

[1]For the periods presented, all Large Project Construction contract backlog is related to contracts with public agencies.
[2]As of December 31, 2014 and 2013, $35.0 million and $58.4 million, respectively, of Kenny public sector contract backlog was translated from Canadian dollars to U.S. dollars at the spot rate in effect at the date of reporting.

Large Project Construction contract backlog of $2.0 billion at December 31, 2014 was $160.6 million, or 8.7%, higher than at December 31, 2013. The increase from December 31, 2013 was primarily due to the award of a $696.6 million design-build highway improvement project in Florida for our Heavy Civil operating group, partially offset by progress on existing projects. Not included in Large Project Construction contract backlog as of December 31, 2014 is $359.6 million associated with our share of the Rapid Bridge replacement project in Pennsylvania that will be booked into contract backlog when funding is approved.

Non-controlling partners' share of Large Project Construction contract backlog as of December 31, 2014 and 2013 was $26.8 million and $59.2 million, respectively.

Large Project Construction contracts with forecasted losses represented $32.1 million, or 1.6%, and $127.8 million, or 6.9%, respectively, of Large Project Construction contract backlog at December 31, 2014 and 2013. Provisions are recognized in the consolidated statements of operations for the full amount of estimated losses on uncompleted contracts whenever evidence indicates that the estimated total cost of a contract exceeds its estimated total revenue. Future revisions to these estimated losses will be recorded in the periods in which the revisions are made.

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Gross Profit

The following table presents gross profit by business segment for the respective periods:

Years Ended December 31,	2014		2013		2012	
(dollars in thousands)						
Construction	$118,834		$106,374		$77,963	
Percent of segment revenue	10.0	%	8.5	%	7.9	%
Large Project Construction	112,601		71,808		148,418	
Percent of segment revenue	13.6		9.2		17.2	
Construction Materials	18,871		7,081		8,378	
Percent of segment revenue	7.2		3.0		3.6	
Total gross profit	$250,306		$185,263		$234,759	
Percent of total revenue	11.0	%	8.2	%	11.3	%

Construction gross profit in 2014 increased $12.5 million, or 11.8%, compared to 2013. Construction gross margin as a percentage of segment revenue for 2014 increased to 10.0% from 8.5% in 2013. Improved project efficiency resulting from better utilization of vertically integrated construction materials partially offset the decline in revenue volume.

Large Project Construction gross profit in 2014 increased $40.8 million, or 56.8%, compared to 2013. Large Project Construction gross margin as a percentage of segment revenue for 2014 increased to 13.6% from 9.2% in 2013. The increases were due to increased revenue volume, claims settlements and an increase in the timing of recognition of deferred profit.

Construction Materials gross profit in 2014 increased $11.8 million, or 166.6%, compared to 2013. Construction Materials gross margin as a percentage of segment revenue for 2014 increased to 7.2% from 3.0% in 2013. The increases were primarily due to operating cost reductions in both the California and Northwest groups enhanced by improved sales volumes and pricing.

Revenue in an amount equal to cost incurred is recognized until there is sufficient information to determine the estimated profit on the project with a reasonable level of certainty. Gross profit can vary significantly in periods where previously deferred profit is recognized on one or more projects or, conversely, if we have outstanding claims that are not resolved or executed, in periods where contract backlog is growing rapidly and/or a higher percentage of projects are in their early stages with no associated gross profit recognition.

The following table presents revenue from projects that have not yet recognized profit:

Years Ended December 31,	2014	2013	2012
(in thousands)			
Construction	$13,124	$16,761	$22,110
Large Project Construction	33,238	145,038	16,982
Total revenue from contracts with deferred profit	$46,362	$161,799	$39,092

When we experience significant changes in our estimates of costs to complete, we undergo a process that includes reviewing the nature of the changes to ensure that there are no material amounts that should have been recorded in a prior period rather than as revisions in estimates for the current period. In our review of these changes for the years ended December 31, 2014, 2013 and 2012, we did not identify any material amounts that should have been recorded in a prior period.

Unresolved contract modifications and claims to recover additional compensation for unanticipated additional costs to which the Company believes it is entitled under the terms of the projects' contracts are pending or have been submitted on certain projects. The projects' owners or their authorized representatives and/or other third parties may be in partial or full agreement with the request or proposed modification, or may have rejected or disagree entirely as to such entitlement. The potential gross profit impact of recoveries for contract modifications and claims may be material in future periods when claims, or a portion of such claims, against customers become probable and estimable or when claims against other third parties are settled. In addition, the Company may incur additional costs when pursuing such potential recoveries.

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Selling, General and Administrative Expenses

The following table presents the components of selling, general and administrative expenses for the respective periods:

Years Ended December 31,	2014		2013		2012	
(dollars in thousands)						
Selling						
Salaries and related expenses	$40,704		$38,410		$35,051	
Other selling expenses	9,561		6,901		13,321	
Total selling	50,265		45,311		48,372	
General and administrative						
Salaries and related expenses	61,394		65,482		57,583	
Incentive compensation	11,749		9,376		11,543	
Restricted stock amortization	12,273		14,770		10,909	
Other general and administrative expenses	68,140		65,007		56,692	
Total general and administrative	153,556		154,635		136,727	
Total selling, general and administrative	$203,821		$199,946		$185,099	
Percent of revenue	9.0	%	8.8	%	8.9	%

Selling, general and administrative expenses for 2014 increased $3.9 million, or 1.9%, compared to 2013.

Selling Expenses

Selling expenses include the costs for materials facility permits, business development, estimating and bidding. Selling expenses can vary depending on the volume of projects in process and the number of employees assigned to estimating and bidding activities. As projects are completed or the volume of work slows down, we temporarily redeploy project employees to bid on new projects, moving their salaries and related costs from cost of revenue to selling expenses. Selling expenses for 2014 increased $5.0 million, or 10.9%, compared to 2013. The increases were primarily due to increased bidding activity.

General and Administrative Expenses

General and administrative expenses include costs related to our operational offices that are not allocated to direct contract costs and expenses related to our corporate functions. These costs include variable cash and restricted stock performance-based incentives for select management personnel on which our compensation strategy heavily relies. The cash portion of these incentives is expensed when earned while the restricted stock portion is expensed as earned over the vesting period of the restricted stock award (generally three years). Other general and administrative expenses include travel and entertainment, outside services, information technology, depreciation, occupancy, training, office supplies, changes in the fair market value of our Non-Qualified Deferred Compensation plan liability and other miscellaneous expenses, none of which individually exceeded 10% of total general and administrative expenses. Total general and administrative expenses for 2014 remained relatively flat compared to 2013.

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Restructuring and Impairment (Gains) Charges, Net

The following table presents the components of restructuring and impairment (gains) charges, net during the respective periods (in thousands):

Years ended December 31,	2014	2013	2012
Impairment losses (gains) associated with our real estate investments, net	$—	$31,090	$(3,093)
Impairment charges on quarry assets	—	14,651	—
Lease termination (gains) costs, net of estimated sublease income	(1,283)	3,234	(635)
Total restructuring (gains) charges	(1,283)	48,975	(3,728)
Other impairment (gains) charges	(1,360)	3,164	—
Total restructuring and impairment (gains) charges, net	$(2,643)	$52,139	$(3,728)

In 2010, we announced our EIP, which included actions to reduce our cost structure, enhance operating efficiencies and strengthen our business to achieve long-term profitable growth. The majority of restructuring charges associated with the EIP were recorded in 2010.

In 2011, development activities were curtailed for the majority of our real estate development projects as divestiture efforts increased, and we recorded $1.5 million in additional restructuring charges associated with the sale or other disposition of three separate projects located in California.

During 2012, we recorded a restructuring gain of $3.1 million associated with the sale or other disposition of three separate, previously impaired real estate investments located in California, Oregon and Washington.

During 2013 and pursuant to the EIP, management approved a plan to sell or otherwise dispose of all of the remaining consolidated real estate assets, as well as certain assets in our Construction Materials segment. These actions resulted in restructuring charges of $49.0 million in 2013, including amounts attributable to non-controlling interests of $3.9 million. Restructuring charges consisted of the non-cash impairment of certain real estate and quarry assets and the accrual of lease termination costs. The carrying values of the impaired assets were adjusted to their expected fair values, which were estimated by a variety of factors including, but not limited to, comparative market data, historical sales prices, broker quotes and third-party valuations.

Restructuring charges in 2013 associated with the Company's consolidated real estate assets resulted in $31.1 million of non-cash impairment charges, including amounts attributable to non-controlling interests of $3.9 million.

Restructuring charges in 2013 associated with the Company's Construction Materials segment included $14.7 million of non-cash impairment charges related to non-performing quarry assets, and in connection with the impairment of these quarry assets, we recorded lease termination charges of $3.2 million. In 2014, we recorded a restructuring gain of $1.3 million resulting from our release from lease obligations.

Separate from the EIP but related to our process of continually optimizing our assets, we identified a quarry asset within our Construction Materials segment that no longer had strategic value to our vertically integrated business. Therefore, during 2013, management approved a plan to sell or otherwise dispose of this asset. We determined that the asset's carrying value was not recoverable and recorded a $3.2 million non-cash impairment charge. In 2014, this asset was sold, resulting in a $1.3 million impairment gain.

We completed the majority of our EIP during 2013. As the remaining assets are sold, we may recognize additional restructuring charges or gains; however, we do not expect these charges or gains to be material.

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Gain on Sales of Property and Equipment

The following table presents the gain on sales of property and equipment for the respective periods:

Years Ended December 31,	2014	2013	2012
(in thousands)			
Gain on sales of property and equipment	(15,972)	(12,130)	(27,447)

Gain on sales of property and equipment for 2014 increased $3.8 million, or 31.7%, compared to 2013, primarily due to the sale of underutilized quarry properties associated with our efforts to continuously optimize the asset base of our Construction Materials segment.

Other Expense (Income)

The following table presents the components of other expense (income) for the respective periods:

Years Ended December 31,	2014	2013	2012
(in thousands)			
Interest income	$(1,872)	$(1,785)	$(2,626)
Interest expense	14,159	14,386	10,603
Equity in income of affiliates	(901)	(1,304)	(1,988)
Other income, net	(1,883)	(1,960)	(6,183)
Total other expense (income)	$9,503	$9,337	$(194)

Total other expense for 2014 remained relatively unchanged when compared to 2013.

Income Taxes

The following table presents the provision for (benefit from) income taxes for the respective periods:

Years Ended December 31,	2014	2013	2012
(dollars in thousands)			
Provision for (benefit from) income taxes	$19,721	$(19,263)	$21,109
Effective tax rate	35.5%	30.1%	26.1%

Our 2014 tax rate increased by 5.4% from 30.1% to 35.5% when compared to 2013. The 5.4% increase included a 9.9% increase related to state taxes, offset by a 4.5% decrease related to non-controlling interests and all other permanent differences. The increase related to state taxes was driven by a state tax law change resulting in a revaluation of our net deferred tax assets in that jurisdiction in 2014. In addition, there was a change in state apportionment that resulted in an abnormally low state rate in 2013 relative to 2014.

Amount Attributable to Non-controlling Interests

The following table presents the amount attributable to non-controlling interests in consolidated subsidiaries for the respective periods:

Years Ended December 31,	2014	2013	2012
(in thousands)			
Amount attributable to non-controlling interests	$(10,530)	$8,343	$(14,637)

The amount attributable to non-controlling interests represents the non-controlling owners’ share of the income or loss of our consolidated construction joint ventures and real estate entities. The change during 2014 was primarily due to the settlement of outstanding claims with contract owners in 2014 partially offset by certain profitable projects nearing completion in 2013, both within our Large Projects Construction segment. In addition, losses incurred in 2013 from the real estate investment restructuring charges did not occur in 2014.

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Prior Years

Revenue: Construction revenue for the year ended December 31, 2013 increased by $267.1 million, or 27.1%, compared to the year ended December 31, 2012, primarily due to the acquisition of Kenny in December 2012. The remaining increase resulted from increases in the Northwest public and private sectors, as well as in California private sector revenues, offset by decreases in California public sector revenue due to fluctuations in bidding success and resulting awards.

Large Project Construction revenue for the year ended December 31, 2013 decreased by $85.4 million, or 9.9%, compared to the year ended December 31, 2012. The decrease was primarily due to ongoing projects nearing completion, a lack of Large Project Construction awards during 2012 and new projects in the early stage of completion. These decreases were partially offset by increases from the acquisition of Kenny in December 2012.

Construction Materials revenue for the year ended December 31, 2013 increased $2.2 million, or 0.9%, when compared to the year ended December 31, 2012 primarily due to increased sales volumes to meet demand for new projects within the Northwest group. The Northwest group increases were partially offset by a decrease in the California group due to continued weakness in the commercial and residential development markets.

Contract Backlog: Construction contract backlog of $681.4 million at December 31, 2013 was $49.0 million, or 7.7%, higher than at December 31, 2012. The increase was primarily due to an improved success rate on bidding activity in the California and Heavy Civil operating groups, partially offset by progress on existing projects in the Northwest and Kenny operating groups.

Large Project Construction contract backlog of $1.8 billion at December 31, 2013 was $769.0 million, or 71.4%, higher than at December 31, 2012. The increase was primarily due to new awards in the Kenny and Heavy Civil operating groups, offset by jobs completing or nearing completion in the California and Northwest operating groups.

Gross Profit: Construction gross profit in 2013 increased $28.4 million compared to 2012. Construction gross margin as a percentage of segment revenue for 2013 increased to 8.5% from 7.9% in 2012. The increase was due to improved project execution, increase in project volumes and the addition of gross profit from Kenny operations.

Large Project Construction gross profit in 2013 decreased $76.6 million compared to 2012. Large Project Construction gross margin as a percentage of segment revenue for 2013 decreased to 9.2% from 17.2% in 2012. The decreases were due to several projects that were completed or were nearing completion as well as projects that had not yet reached profit recognition, primarily in the Heavy Civil operating group. The decreases during 2013 were also attributable to a net increase of $25.5 million from revisions in estimates in 2013, down from a net increase of $64.6 million in 2012.

Construction Materials gross profit in 2013 decreased $1.3 million compared to 2012. Construction Materials gross margin as a percentage of segment revenue for 2013 decreased to 3.0% from 3.6% in 2012. The decreases were primarily due to the continued competitive environment in the commercial and public markets in general.

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Selling, General and Administrative Expenses: Selling, general and administrative expenses for 2013 increased $14.8 million, or 8.0%, compared to 2012. Total selling expenses for 2013 decreased $3.1 million, or 6.3%, compared to 2012 primarily due to lower pre-bid costs within the Heavy Civil operating group partially offset by additional salary and related expenses associated with Kenny of $4.2 million. Total general and administrative expenses for 2013 increased $17.9 million, or 13.1%, compared to 2012 primarily due to the addition of expenses associated with Kenny of $23.1 million. This included $9.7 million of salaries and related expenses, $3.7 million of restricted stock amortization and incentive compensation, $6.6 million of other general and administrative expenses and $3.1 million in integration costs. These increases were partially offset by a decrease in salaries and related expenses as part of our ongoing efforts to reduce our cost structure, as well as a decrease in incentive compensation expense due to our net loss during 2013.

Restructuring and Impairment Charges (Gains), Net: During 2013, we recorded net restructuring charges of $52.1 million, and in 2012 we recorded a net restructuring gain of $3.7 million. The restructuring gains and charges recorded in 2013 and 2012 were primarily the result of executing our EIP.

Gain on Sales of Property and Equipment: Gain on sales of property and equipment for 2013 decreased $15.3 million, or 55.8%, compared to 2012, primarily due to an $18.0 million gain from the sale of an underutilized quarry asset during 2012 with no corresponding sale in 2013.

Other Expense (Income): Interest expense during 2013 increased $3.8 million compared to 2012 primarily due to increased borrowings under Granite’s existing revolving credit facility related to the acquisition of Kenny in 2012. Other income, net in 2012 included a $7.4 million gain from the sale of gold, a by-product of aggregate production, partially offset by a $2.8 million non-cash impairment charge from the write-off of our cost method investment in the preferred stock of a corporation that designs and manufactures solar power generation equipment.

Provision for Income Taxes: Our effective tax rate increased to 30.1% in 2013 from 26.1% in 2012. The most significant change was due to the effect of non-controlling interests as a percentage of net (loss) income, as non-controlling interests are not subject to income taxes on a standalone basis. Additionally, included in the tax rate for the year ended December 31, 2012, is the release of a state valuation allowance.

Amount Attributable to Non-controlling Interests: The change in non-controlling interests during 2013 was primarily due to a consolidated construction joint venture project nearing completion thereby realizing less income when compared to 2012. Additionally, the change was from losses incurred due to a project write down from revisions in profitability estimates on a highway project in Washington State and from the 2013 restructuring charges.

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Liquidity and Capital Resources

We believe our cash and cash equivalents, short-term investments, available borrowing capacity and cash expected to be generated from operations will be sufficient to meet our expected working capital needs, capital expenditures, financial commitments, cash dividend payments, and other liquidity requirements associated with our existing operations for the next twelve months. We maintain a collateralized revolving credit facility of $215.0 million, of which $134.8 million was available at December 31, 2014, primarily to provide capital needs to fund growth opportunities, either internal or generated through acquisitions (see Credit Agreement discussion below for further information). We do not anticipate that this credit facility will be required to fund future working capital needs associated with our existing operations. However, we have the ability and intent to draw on this credit facility or obtain another source of financing during 2015 to re-pay $40.0 million of maturing 2019 Notes (defined in Senior Notes Payable section below). If we experience a prolonged change in our business operating results or make a significant acquisition, we may need to acquire additional sources of financing, which, if available, may be limited by the terms of our existing debt covenants, or may require the amendment of our existing debt agreements. There can be no assurance that sufficient capital will continue to be available in the future or that it will be available on terms acceptable to us.

The following table presents our cash, cash equivalents and marketable securities, including amounts from our consolidated joint ventures, as of the respective dates:

December 31,	2014	2013
(in thousands)		
Cash and cash equivalents excluding consolidated joint ventures	$194,685	$190,321
Consolidated construction joint venture cash and cash equivalents[1]	61,276	38,800
Total consolidated cash and cash equivalents	255,961	229,121
Short-term and long-term marketable securities[2]	102,067	117,202
Total cash, cash equivalents and marketable securities	$358,028	$346,323

[1]The volume and stage of completion of contracts from our consolidated construction joint ventures may cause fluctuations in joint venture cash and cash equivalents between periods. These funds generally are not available for the working capital or other liquidity needs of Granite until distributed.

[2]See Note 3 of “Notes to the Consolidated Financial Statements” for the composition of our marketable securities.

Our primary sources of liquidity are cash and cash equivalents and marketable securities. We may also from time to time access our credit facility, issue and sell equity, debt or hybrid securities or engage in other capital markets transactions.

Our cash and cash equivalents consisted of deposits and money market funds held with established national financial institutions. Marketable securities consist of U.S. Government and agency obligations and commercial paper.

Consolidated joint ventures were responsible for $22.5 million, or 83.8%, of the $26.8 million increase in cash and cash equivalents during 2014. Granite’s portion of consolidated joint venture cash and cash equivalents was $38.6 million and $23.8 million as of December 31, 2014 and 2013, respectively. Granite’s portion of unconsolidated joint venture cash and cash equivalents was $80.2 million and $112.9 million as of December 31, 2014 and December 31, 2013, respectively. Cash and cash equivalents held by our joint ventures are primarily used to fulfill the working capital needs of each joint venture’s project, and generally cannot be distributed to any of the venture partners without the consent of the majority of the venture partners.

Our principal uses of liquidity are paying the costs and expenses associated with our operations, servicing outstanding indebtedness, making capital expenditures and paying dividends on our capital stock. We may also from time to time prepay or repurchase outstanding indebtedness and acquire assets or businesses that are complementary to our operations, such as with the acquisition of Kenny in December 2012.

In March 2014, we entered into an interest rate swap with a notional amount of $100.0 million which matures in June 2018 to convert the interest rate of our 2019 Notes (defined in Senior Notes Payable section below) from a fixed rate of 6.11% to a floating rate of 4.15% plus six-month LIBOR. LIBOR floating rate is variable and subject to market changes over the life of the swap with no guarantees to settle as forecasted. The interest rate swap is reported at fair value using Level 2 inputs, with any gain or loss recorded in other (income) expense, net in our consolidated statements of operations and was a net gain of $1.4 million during 2014.

In March 2014, we entered into two diesel commodity swaps covering the periods from May 2014 to October 2014 and from May 2015 to October 2015 which represented roughly 25% of our forecasted purchases of diesel during these periods. In May 2014, we entered into two natural gas commodity swaps covering the periods from June 2014 to October 2014 and from May 2015 to October 2015 representing roughly 25% of our forecasted purchases of natural gas during these periods. The commodity swaps are reported at fair value using Level 2 inputs, with any gain or loss recorded in other (income) expense, net in our consolidated statements of operations and was a net loss of $2.0 million during 2014.

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Cash Flows

Years Ended December 31,	2014	2013	2012
(in thousands)			
Net cash provided by (used in):			
Operating activities	$43,142	$5,380	$91,790
Investing activities	780	(31,648)	(42,554)
Financing activities	(17,082)	(66,601)	15,764

Cash flows from operating activities result primarily from our earnings or losses, and are also impacted by changes in operating assets and liabilities. As a large construction and heavy civil contractor and construction materials producer, our operating cash flows are subject to seasonal cycles, as well as the cycles primarily associated with winning, performing and closing projects. Additionally, operating cash flows are impacted by the timing related to funding construction joint ventures and the resolution of uncertainties inherent in the complex nature of the work that we perform.

Cash provided by operating activities of $43.1 million during 2014 increased $37.8 million when compared to 2013. The increase was primarily attributable to an $80.6 million increase in net income after adjusting for non-cash items, offset by a $39.4 million decrease in net distributions from unconsolidated joint ventures and a $3.4 million decrease in cash from working capital.

Cash provided by investing activities of $0.8 million during 2014 represents a $32.4 million change from the amount of cash used in investing activities in 2013. The change was primarily due to a $21.3 million increase in net proceeds and maturities of marketable securities driven by the Company’s cash flow requirements and/or the maturities of investments, an increase in proceeds, net of additions, from sales of property and equipment of $3.1 million and an $8.4 million decrease in payments associated with the acquisition of Kenny.

Cash used in financing activities of $17.1 million during 2014 represents a $49.5 million increase when compared to 2013. The increase was primarily due to a $37.3 million decrease in net distributions to non-controlling partners related to consolidated construction joint ventures and a $10.9 million decrease in long-term debt principal payments.

Capital Expenditures

During the year ended December 31, 2014, we had capital expenditures of $43.4 million compared to $43.7 million in 2013. Major capital expenditures are typically for aggregate and asphalt production facilities, aggregate reserves, construction equipment, buildings and leasehold improvements and investments in our information technology systems. The timing and amount of such expenditures can vary based on the progress of planned capital projects, the type and size of construction projects, changes in business outlook and other factors. We currently anticipate investing between $40.0 million and $60.0 million in capital expenditures during 2015.

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Debt and Contractual Obligations

The following table summarizes our significant obligations outstanding as of December 31, 2014:

	Payments Due by Period				
(in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt – principal[1]	$276,868	$1,248	$195,564	$80,056	$—
Long-term debt – interest[2]	41,958	14,395	20,225	7,338	—
Operating leases[3]	36,633	8,439	12,127	8,714	7,353
Other purchase obligations[4]	2,610	2,610	—	—	—
Deferred compensation obligations[5]	21,797	3,223	3,718	2,311	12,545
Asset retirement obligations[6]	27,441	6,553	4,243	2,298	14,347
Total	$407,307	$36,468	$235,877	$100,717	$34,245

[1] Included in the “1 - 3 years” category in the table above is $40.0 million related to the first installment of the 2019 Notes (defined in Senior Notes Payable section below) that we have the intent and ability to refinance using our revolving credit facility or other source of financing.

[2] Included in the total is $0.4 million related to mortgages, the terms of which include a 6.00% variable interest rate at December 31, 2014. Also included in this balance is $4.8 million interest related to borrowings under our revolving credit facility, the terms of which include a variable interest rate that was 2.76% at December 31, 2014 using LIBOR. In addition, included in the total is $36.7 million in interest related to borrowings under our senior notes, respectively, the terms of which include a 6.11% per annum interest rate. The future payments were calculated using rates in effect as of December 31, 2014 and may differ from actual results. See Note 12 of “Notes to the Consolidated Financial Statements.”

[3] These obligations represent the minimum rental commitments and minimum royalty requirements under all noncancellable operating leases. See Note 18 of “Notes to the Consolidated Financial Statements.”

[4] These obligations represent firm purchase commitments for equipment and other goods and services not connected with our construction contract backlog which are individually greater than $10,000 and have an expected fulfillment date after December 31, 2014.

[5] The timing of expected payment of deferred compensation is based on estimated dates of retirement. Actual dates of retirement could be different and could cause the timing of payments to change.

[6] Asset retirement obligations represent reclamation and other related costs associated with our owned and leased quarry properties, the majority of which have an estimated settlement date beyond five years (see Note 8 of “Notes to the Consolidated Financial Statements”).

In addition to the significant obligations described above, as of December 31, 2014, we had approximately $1.1 million associated with uncertain tax positions filed on our tax returns which were excluded because we cannot make a reasonably reliable estimate of the timing of potential payments relative to such reserves.

Credit Agreement

We have a $215.0 million committed revolving credit facility, with a sublimit for letters of credit of $100.0 million (the “Credit Agreement”), which expires on October 11, 2016, of which $134.8 million was available at December 31, 2014. At December 31, 2014 and 2013, there was a revolving loan of $70.0 million outstanding under the Credit Agreement related to financing the Kenny acquisition, which is included in long-term debt on the consolidated balance sheets. In addition, as of December 31, 2014, there were standby letters of credit totaling $10.3 million. The letters of credit will expire between June 2015 and December 2017.

Borrowings under the Credit Agreement bear interest at LIBOR or a base rate (at our option), plus an applicable margin based on certain financial ratios calculated quarterly. LIBOR varies based on the applicable loan term, market conditions and other external factors. The applicable margin was 2.50% for loans bearing interest based on LIBOR and 1.50% for loans bearing interest at the base rate at December 31, 2014. Accordingly, the effective interest rate was between 2.76% and 4.75% at December 31, 2014. Borrowings at the base rate have no designated term and may be repaid without penalty any time prior to the Credit Agreement’s maturity date. Borrowings at a LIBOR rate have a term no less than one month and no greater than six months. Typically, at the end of such term, such borrowings may be paid off or rolled over at our discretion into either a borrowing at the base rate or a borrowing at a LIBOR rate with similar terms, not to exceed the maturity date of the Credit Agreement. On a periodic basis, we assess the timing of payment depending on facts and circumstances that exist at the time of our assessment. Our obligations under the Credit Agreement are guaranteed by certain of our subsidiaries and are collateralized on an equivalent basis with the obligations under the 2019 Notes (defined below) by first priority liens (subject only to other liens permitted under the Credit Agreement) on substantially all of the assets of the Company and our subsidiaries that are guarantors or borrowers under the Credit Agreement.

The Credit Agreement provides for the release of the liens securing the obligations, at our option and expense, so long as certain conditions as defined by the terms in the Credit Agreement are satisfied (“Collateral Release Period”). However, if subsequent to exercising the option, our Consolidated Fixed Charge Coverage Ratio is less than 1.25 or our Consolidated Leverage Ratio is greater than 2.50, then we will be required to promptly re-pledge substantially all of the assets of the Company and our subsidiaries that are guarantors or borrowers under the Credit Agreement. As of December 31, 2014, the conditions for the exercise of the unsecured option were not satisfied.

Senior Notes Payable

As of December 31, 2014, senior notes payable in the amount of $200.0 million were due to a group of institutional holders in five equal annual installments beginning in 2015 and bear interest at 6.11% per annum (“2019 Notes”). In March 2014, we entered into an interest rate swap to convert the interest rate from a fixed rate of 6.11% to a floating rate of 4.15% plus six-month LIBOR (see Liquidity and Capital Resources section above for further discussion). The first installment of the 2019 Notes is included in long-term debt on the consolidated balance sheet as of December 31, 2014 as we have the ability and intent to pay this installment using borrowings under the Credit Agreement (defined in Credit Agreement section above) or by obtaining another source of financing.

Our obligations under the note purchase agreement governing the 2019 Notes (the “2019 NPA”) are guaranteed by certain of our subsidiaries and are collateralized on an equivalent basis with the Credit Agreement by liens on substantially all of the assets of the Company and subsidiaries that are guarantors or borrowers under the Credit Agreement. The 2019 NPA provides for the release of liens and re-pledge of collateral on substantially the same terms and conditions as those set forth in the Credit Agreement.

Surety Bonds and Real Estate Mortgages

We are generally required to provide various types of surety bonds that provide an additional measure of security under certain public and private sector contracts. At December 31, 2014, approximately $2.3 billion of our contract backlog was bonded. Performance bonds do not have stated expiration dates; rather, we are generally released from the bonds after the owner accepts the work performed under contract. The ability to maintain bonding capacity to support our current and future level of contracting requires that we maintain cash and working capital balances satisfactory to our sureties.

Our real estate held for development and sale is subject to mortgage indebtedness. This indebtedness is non-recourse to Granite but is recourse to the real estate entity. The terms of this indebtedness are typically renegotiated to reflect the evolving nature of the real estate project as it progresses through acquisition, entitlement and development. Modification of these terms may include changes in loan-to-value ratios requiring the real estate entity to repay portions of the debt. As of December 31, 2014, the principal amount of debt of our consolidated real estate entity secured by a mortgage was $6.7 million, of which approximately $1.2 million was included in current liabilities and approximately $5.5 million was included in long-term liabilities on the consolidated balance sheets.

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Covenants and Events of Default

Our debt and credit agreements require us to comply with various affirmative, restrictive and financial covenants, including the financial covenants described below. Our failure to comply with any of these covenants, or to pay principal, interest or other amounts when due thereunder, would constitute an event of default under the applicable agreements. Under certain circumstances, the occurrence of an event of default under one of our debt or credit agreements (or the acceleration of the maturity of the indebtedness under one of our agreements) may constitute an event of default under one or more of our other debt or credit agreements. Default under our debt and credit agreements could result in (1) us no longer being entitled to borrow under the agreements; (2) termination of the agreements; (3) the requirement that any letters of credit under the agreements be cash collateralized; (4) acceleration of the maturity of outstanding indebtedness under the agreements and/or (5) foreclosure on any collateral securing the obligations under the agreements.

The most significant financial covenants under the terms of our Credit Agreement and 2019 NPA require the maintenance of a minimum Consolidated Tangible Net Worth, a minimum Consolidated Interest Coverage Ratio and a maximum Consolidated Leverage Ratio. The calculations and terms of such financial covenants are defined in the amendments to the Credit Agreement and 2019 NPA, which were filed as Exhibits 10.31 and 10.32, respectively, to our Form 10-K filed March 3, 2014.

As of December 31, 2014 and pursuant to the definitions in the agreements, our Consolidated Tangible Net Worth was $766.3 million, which exceeded the minimum of $622.7 million, our Consolidated Leverage Ratio was 2.77 which did not exceed the maximum of 3.00 and our Consolidated Interest Coverage Ratio was 6.93 which exceeded the minimum of 4.00.

As of December 31, 2014, we were in compliance with all covenants contained in the Credit Agreement and 2019 NPA, as amended, and the debt agreements related to our consolidated real estate entities. We are not aware of any non-compliance by any of our unconsolidated real estate entities with the covenants contained in their debt agreements.

Share Purchase Program

In 2007, our Board of Directors authorized us to purchase up to $200.0 million of our common stock at management's discretion. As of December 31, 2014, $64.1 million remained available under this authorization. We did not purchase shares under the share purchase program in any of the periods presented. The specific timing and amount of any future purchases will vary based on market conditions, securities law limitations and other factors. Purchases under the share purchase program may be commenced, suspended or discontinued at any time and from time to time without prior notice.

Recently Issued and Adopted Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and "represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." For disposals of individually significant components that do not qualify as discontinued operations, an entity must disclose pre-tax earnings of the disposed component. This ASU will be effective for all disposals (or classifications as held for sale) of components of an entity that occur during our year ended December 31, 2015 and interim periods within the year. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. This ASU's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods or services. The ASU will be effective commencing with our quarter ending March 31, 2017. We are currently assessing the potential impact of this ASU on our consolidated financial statements.

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We maintain an investment portfolio of various holdings, types and maturities. We purchase instruments that meet high credit quality standards, as specified in our investment policy. This policy prohibits investments in auction rate and asset-backed securities. It also limits the amount of credit exposure to any one issue, issuer or type of instrument. The portfolio is limited to an average maturity of no more than one year from the date of purchase. On an ongoing basis we monitor credit ratings, financial condition and other factors that could affect the carrying amount of our investment portfolio.

Marketable securities, consisting of U.S. government and agency obligations and commercial paper, are classified as held-to-maturity and are stated at cost, adjusted for amortization of premiums and discounts to maturity.

We are exposed to financial market risks due largely to changes in interest rates, which we have managed primarily by managing the maturities in our investment portfolio. We do not have any material business transactions in foreign currencies.

The fair value of our short-term held-to-maturity investment portfolio and related income would not be significantly affected by changes in interest rates since the investment maturities are short and the interest rates are primarily fixed. The fair value of our long-term held-to-maturity investment portfolio may be affected by changes in interest rates. Given the short-term nature of certain investments, our investment income is subject to the general level of interest rates in the United States at the time of maturity and reinvestment.

We are exposed to various commodity price risks, including, but not limited to, diesel fuel, natural gas, propane, steel, cement and liquid asphalt arising from transactions that are entered into in the normal course of business. In order to manage or reduce commodity price risk, we monitor the costs of these commodities at the time of bid and price them into our contracts accordingly. Additionally, some of our contracts include commodity price escalation clauses which partially protect us from increasing prices. At times we enter into supply agreements or pre-purchase commodities to secure pricing and use financial contracts to further manage price risk. In 2014, we entered into commodity swaps to protect us from diesel and natural gas market price escalations. Specifically, in March 2014, we entered into two diesel commodity swaps covering May 2014 to October 2014 and May 2015 to October 2015 which represented roughly 25% of our forecasted purchases for diesel. In addition, in May 2014, we entered into two natural gas commodity swaps covering June 2014 to October 2014 and May 2015 to October 2015 representing roughly 25% of our forecasted purchases of natural gas. Each $0.50 decrease in the diesel unit market price when compared to the fixed price of the swaps would result in an additional $0.7 million of annual expense and each $0.50 decrease in the natural gas unit market price when compared to the fixed price of the swaps would result in an additional $0.1 million of annual expense.

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At December 31, 2014, senior notes payable in the amount of $200.0 million were due to a group of institutional holders in five equal installments beginning in 2015 and bear interest at 6.11% per annum. In March 2014, we entered into an interest rate swap with a notional amount of $100.0 million which matures in June 2018 to convert the interest rate from a fixed rate of 6.11% to a floating rate of 4.15% plus six-month LIBOR. LIBOR floating rate is variable and subject to market changes over the life of the swap with no guarantees to settle as forecasted. Once LIBOR increases over 2.50%, each 25 basis point increase would result in an additional $0.3 million of annual interest expense.
At December 31, 2014 and 2013, there was $70.0 million in revolving loans outstanding under the Credit Agreement related to financing the Kenny acquisition, which is included in long-term debt on the consolidated balance sheets. These borrowings bear interest at LIBOR or a base rate (at our option), plus an applicable margin based on certain financial ratios calculated quarterly. The applicable margin was 2.50% for loans bearing interest based on LIBOR and 1.50% for loans bearing interest at the base rate at December 31, 2014. Accordingly, the effective interest rate was between 2.76% and 4.75% at December 31, 2014. Each 25 basis point increase in LIBOR would result in an additional $0.2 million of annual interest expense.
The table below presents principal amounts due by year and related weighted average interest rates for our cash and cash equivalents, held-to-maturity investments and significant debt obligations as of December 31, 2014 (dollars in thousands):

	2015	2016	2017	2018	2019	Thereafter	Total
Assets							
Cash, cash equivalents, held-to-maturity investments	$281,465	$20,113	$26,450	$30,000	$—	$—	$358,028
Weighted average interest rate	0.33%	0.65%	1.02%	1.42%	—%	—%	0.33%
Liabilities							
Fixed rate debt							
Senior notes payable[1]	$—	$40,000	$40,000	$40,000	$40,000	$—	$160,000
Weighted average interest rate	6.11%	6.11%	6.11%	6.11%	6.11%	—%	6.11%
Variable rate debt							
Credit Agreement loan[1]	$—	$110,000	$—	$—	$—	$—	$110,000
Weighted average interest rate[3]	2.58%	2.58%	—%	—%	—%	—%	2.58%

[1]As of December 31, 2014, senior notes payable in the amount of $200.0 million were due to a group of institutional holders in five equal annual installments beginning in 2015. We have the intent and ability to refinance $40.0 million related to the first installment using our revolving credit facility or other source of financing; therefore, it is included in the Credit Agreement amount.
[2]The weighted average interest rate was calculated using LIBOR rates and the applicable margin in effect as of December 31, 2014 and may differ from actual results.

The estimated fair value of our cash, cash equivalents and short-term held-to-maturity investments approximates the principal amounts reflected above based on the generally short maturities of these financial instruments. Based on the fixed borrowing rates currently available to us for bank loans with similar terms and average maturities, the fair value of the senior notes payable was approximately $220.2 million as of December 31, 2014 and $225.9 million as of December 31, 2013. The fair value of the Credit Agreement loan was approximately $70.2 million as of December 31, 2014 and $69.6 million as of December 31, 2013.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of Granite, the supplementary data and the independent registered public accounting firm's report are incorporated by reference from Part IV, Item 15(1) and (2):

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets - At December 31, 2014 and 2013
Consolidated Statements of Operations - Years Ended December 31, 2014, 2013 and 2012
Consolidated Statements of Shareholders' Equity - Years Ended December 31, 2014, 2013 and 2012
Consolidated Statements of Cash Flows - Years Ended December 31, 2014, 2013 and 2012
Notes to the Consolidated Financial Statements
Quarterly Financial Data (unaudited)
Schedule II - Schedule of Valuation and Qualifying Accounts

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: Our management carried out, as of December 31, 2014, with the participation of our Chief Executive Officer and our Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2014, our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed by us in reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting: During the quarter ended December 31, 2014, there were no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting: Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d -15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

Independent Registered Public Accounting Firm Report: PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued a report on the Company's internal control over financial reporting as of December 31, 2014. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2014, is included in "Item 15. Exhibits and Financial Statement Schedules" under the heading "Report of Independent Registered Public Accounting Firm."

Item 9B. OTHER INFORMATION

Not Applicable.

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PART III

Certain information required by Part III is omitted from this report. We will file our definitive proxy statement for our Annual Meeting of Shareholders to be held on June 4, 2015 (the “Proxy Statement”) pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report, and certain information included therein is incorporated herein by reference.

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

For information regarding our Directors and compliance with Section 16(a) of the Securities Exchange Act of 1934, we direct you to the sections entitled “Proposal 1 - Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance,” respectively, in the Proxy Statement. For information regarding our Audit/Compliance Committee and our Audit/Compliance Committee’s financial expert, we direct you to the section entitled “Information about the Board of Directors and Corporate Governance - Committees of the Board - Audit/Compliance Committee” in the Proxy Statement. For information regarding our Code of Conduct, we direct you to the section entitled “Information about the Board of Directors and Corporate Governance - Code of Conduct” in the Proxy Statement. Information regarding our executive officers is contained in the section entitled “Executive Officers of the Registrant,” in Part I, Item I of this report. This information is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

For information regarding our Executive Compensation, we direct you to the section captioned “Executive and Director Compensation and Other Matters” in the Proxy Statement. This information is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

This information is located in the sections captioned “Stock Ownership of Beneficial Owners and Certain Management” and “Equity Compensation Plan Information” in the Proxy Statement. This information is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

You will find this information in the sections captioned “Transactions with Related Persons” and “Information about the Board of Directors and Corporate Governance - Director Independence” in the Proxy Statement. This information is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

You will find this information in the section captioned “Independent Registered Public Accountants - Principal Accountant Fees and Services” in the Proxy Statement. This information is incorporated herein by reference.

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PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

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

2. Financial Statement Schedule. The following financial statement schedule of Granite for the years ended December 31, 2014, 2013 and 2012 is filed as part of this report and should be read in conjunction with the consolidated financial statements of Granite.

Schedules not listed above have been omitted because the required information is either not material, not applicable or is shown in the consolidated financial statements or notes thereto.

3. Exhibits. The Exhibits listed in the accompanying Exhibit Index, which is incorporated herein by reference, are filed or incorporated by reference as part of, or furnished with, this report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Granite Construction Incorporated:
In our opinion, the consolidated financial statements listed in the index appearing under Item 15(1) present fairly, in all material respects, the financial position of Granite Construction Incorporated and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP
San Francisco, California
February 27, 2015

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GRANITE CONSTRUCTION INCORPORATED
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share and per share data)

December 31,	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents ($61,276 and $38,800 related to consolidated construction joint ventures (“CCJV”))	$255,961	$229,121
Short-term marketable securities	25,504	49,968
Receivables, net ($36,781 and $38,372 related to CCJVs)	310,934	313,598
Costs and estimated earnings in excess of billings	36,411	33,306
Inventories	68,920	62,474
Real estate held for development and sale	11,609	12,478
Deferred income taxes	53,231	55,874
Equity in construction joint ventures	184,575	162,673
Other current assets	23,033	30,711
Total current assets	970,178	950,203
Property and equipment, net ($11,969 and $22,216 related to CCJVs)	409,653	436,859
Long-term marketable securities	76,563	67,234
Investments in affiliates	32,361	32,480
Goodwill	53,799	53,799
Other noncurrent assets	77,940	76,580
Total assets	$1,620,494	$1,617,155
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of long-term debt	$21	$21
Current maturities of non-recourse debt	1,226	1,226
Accounts payable ($18,009 and $16,937 related to CCJVs)	151,935	160,706
Billings in excess of costs and estimated earnings ($32,830 and $60,185 related to CCJVs)	108,992	138,375
Accrued expenses and other current liabilities ($2,714 and $11,299 related to CCJVs)	200,652	197,242
Total current liabilities	462,826	497,570
Long-term debt	270,105	270,127
Long-term non-recourse debt	5,516	6,741
Other long-term liabilities	44,495	48,580
Deferred income taxes	20,446	7,793
Commitments and contingencies		
Equity		
Preferred stock, $0.01 par value, authorized 3,000,000 shares, none outstanding	—	—
Common stock, $0.01 par value, authorized 150,000,000 shares; issued and outstanding 39,186,386 shares as of December 31, 2014 and 38,917,728 shares as of December 31, 2013	392	389
Additional paid-in capital	134,177	126,449
Retained earnings	659,816	655,102
Total Granite Construction Incorporated shareholders’ equity	794,385	781,940
Non-controlling interests	22,721	4,404

Total equity	817,106	786,344
Total liabilities and equity	$1,620,494	$1,617,155

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

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GRANITE CONSTRUCTION INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

Years Ended December 31,	2014	2013	2012
Revenue			
Construction	$1,186,445	$1,251,197	$984,106
Large Project Construction	825,044	777,811	863,217
Construction Materials	263,781	237,893	235,714
Total revenue	2,275,270	2,266,901	2,083,037
Cost of revenue			
Construction	1,067,611	1,144,823	906,143
Large Project Construction	712,443	706,003	714,799
Construction Materials	244,910	230,812	227,336
Total cost of revenue	2,024,964	2,081,638	1,848,278
Gross profit	250,306	185,263	234,759
Selling, general and administrative expenses	203,821	199,946	185,099
Restructuring and impairment (gains) charges, net	(2,643)	52,139	(3,728)
Gain on sales of property and equipment	(15,972)	(12,130)	(27,447)
Operating income (loss)	65,100	(54,692)	80,835
Other expense (income)			
Interest income	(1,872)	(1,785)	(2,626)
Interest expense	14,159	14,386	10,603
Equity in income of affiliates	(901)	(1,304)	(1,988)
Other income, net	(1,883)	(1,960)	(6,183)
Total other expense (income)	9,503	9,337	(194)
Income (loss) before provision for (benefit from) income taxes	55,597	(64,029)	81,029
Provision for (benefit from) income taxes	19,721	(19,263)	21,109
Net income (loss)	35,876	(44,766)	59,920
Amount attributable to non-controlling interests	(10,530)	8,343	(14,637)
Net income (loss) attributable to Granite Construction Incorporated	$25,346	$(36,423)	$45,283
Net income (loss) per share attributable to common shareholders (see Note 16)			
Basic	$0.65	$(0.94)	$1.17
Diluted	$0.64	$(0.94)	$1.15
Weighted average shares of common stock			
Basic	39,096	38,803	38,447
Diluted	39,795	38,803	39,076
Dividends per common share	$0.52	$0.52	$0.52

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

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GRANITE CONSTRUCTION INCORPORATED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share data)

	Outstanding Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Granite Shareholders' Equity	Non-controlling Interests	Total Equity
Balances at December 31, 2011	38,682,771	$387	$111,514	$687,296	$799,197	$ 28,466	$827,663
Net income	—	—	—	45,283	45,283	14,637	59,920
Stock units vested	191,285	2	(1)	—	1	—	1
Amortized restricted stock	—	—	11,475	—	11,475	—	11,475
Purchase of common stock	(161,080)	(2)	(4,852)	—	(4,854)	—	(4,854)
Cash dividends on common stock	—	—	—	(20,117)	(20,117)	—	(20,117)
Net tax on stock-based compensation	—	—	(1,573)	—	(1,573)	—	(1,573)
Non-controlling interest from acquisition	—	—	—	—	—	14,788	14,788
Transactions with non-controlling interests, net	—	—	—	—	—	(15,986)	(15,986)
Stock options exercised and other	17,689	—	859	(318)	541	—	541
Balances at December 31, 2012	38,730,665	387	117,422	712,144	829,953	41,905	871,858
Net loss	—	—	—	(36,423)	(36,423)	(8,343)	(44,766)
Stock units vested	359,941	4	(4)	—	—	—	—
Amortized restricted stock	—	—	13,443	—	13,443	—	13,443
Purchase of common stock	(197,313)	(2)	(5,900)	—	(5,902)	—	(5,902)
Cash dividends on common stock	—	—	—	(20,210)	(20,210)	—	(20,210)
Net tax on stock-based compensation	—	—	419	—	419	—	419
Transactions with non-controlling interests, net	—	—	—	—	—	(29,158)	(29,158)
Employee Stock Purchase Plan and other	24,435	—	1,069	(409)	660	—	660
Balances at December 31, 2013	38,917,728	389	126,449	655,102	781,940	4,404	786,344
Net income	—	—	—	25,346	25,346	10,530	35,876
Stock units vested	378,027	4	—	—	4	—	4
Amortized restricted stock	—	—	11,160	—	11,160	—	11,160
Purchase of common stock	(135,028)	(1)	(5,186)	—	(5,187)	—	(5,187)
Cash dividends on common stock	—	—	—	(20,354)	(20,354)	—	(20,354)
Net tax on stock-based compensation	—	—	1,080	—	1,080	—	1,080
Transactions with non-controlling interests, net	—	—	—	—	—	7,787	7,787
Employee Stock Purchase Plan and other	25,659	—	674	(278)	396	—	396
Balances at December 31, 2014	39,186,386	$392	$134,177	$659,816	$794,385	$ 22,721	$817,106

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

GRANITE CONSTRUCTION INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

Years Ended December 31,	2014	2013	2012
Operating activities			
Net income (loss)	$35,876	$(44,766)	$59,920
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Non-cash restructuring and impairment (gains) charges, net	(2,643)	44,734	145
Depreciation, depletion and amortization	68,252	72,899	56,101
Gain on sales of property and equipment	(15,972)	(12,130)	(27,447)
Change in deferred income taxes	14,907	(19,557)	6,013
Stock-based compensation	11,160	13,443	11,475
Equity in net income from unconsolidated joint ventures	(49,168)	(72,764)	(101,747)
Changes in assets and liabilities, net of the effects of acquisition in 2012:			
Receivables	3,549	12,236	9,415
Costs and estimated earnings in excess of billings, net	(13,856)	(507)	2,780
Inventories	(6,446)	(2,689)	(8,079)
Contributions to unconsolidated construction joint ventures	(37,097)	(40,758)	(4,986)
Distributions from unconsolidated construction joint ventures	67,255	110,347	92,474
Other assets, net	4,618	3,961	8,898
Accounts payable	(12,669)	(34,048)	(9,472)
Accrued expenses and other current liabilities, net	(24,624)	(25,021)	(3,700)
Net cash provided by operating activities	43,142	5,380	91,790
Investing activities			
Purchases of marketable securities	(64,975		