GRANITE CONSTRUCTION INC
Form DEF 14A
April 11, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN
PROXY STATEMENT
SCHEDULE 14A INFORMATION

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

Filed by the Registrantþ
Filedby a Party other than the Registranto

Check the appropriate box:

oPreliminary Proxy Statement
oConfidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þDefinitive Proxy Statement
oDefinitive Additional Materials
oSoliciting Material Pursuant to §240.14a-12

GRANITE CONSTRUCTION INCORPORATED

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

GRANITE CONSTRUCTION INCORPORATED
585 West Beach Street
Watsonville, California 95076

Notice of Annual Meeting of Shareholders

April 11, 2012

Date: Wednesday, May 23, 2012

Time: 10:30 a.m., Pacific Daylight Time

Place: Chaminade Resort
1 Chaminade Lane
Santa Cruz, California 95065

Purposes of the Meeting:

- To elect two directors for the ensuing three-year term;
- To hold an advisory vote on executive compensation for the Named Executive Officers;
- To act upon a proposal to approve the Granite Construction Incorporated 2012 Equity Incentive Plan;
- To ratify the appointment by the Audit/Compliance Committee of PricewaterhouseCoopers LLP as Granite's independent registered public accounting firm for the fiscal year ending December 31, 2012; and
- To consider any other matters properly brought before the meeting.

Who May Attend the Meeting:

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

What to Bring:

If you received a Notice of Internet Availability of Proxy Materials, please bring that Notice with you. If your shares are held in the name of a broker, trust, bank, or other nominee, you will need to bring a proxy or letter from that broker, trust, bank, or other nominee that confirms you are the beneficial owner of those shares. If you hold shares through the Granite Construction Profit Sharing and 401(k) Plan or the Granite Construction Employee Stock Purchase Plan, you will need to bring proof of ownership of the shares.

Record Date:

The record date for the 2012 Annual Meeting of Shareholders is March 26, 2012. This means that if you own Granite stock at the close of business on that date, you are entitled to receive notice of the meeting and vote at the meeting and any adjournments or postponements of the meeting.

Annual Report:

We have included a copy of the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 with the proxy materials on Granite's website.

Shareholder List:

For 10 days prior to the meeting, a complete list of shareholders entitled to vote at the meeting will be available for examination by any shareholder for any purpose relative to the meeting during regular business hours at Granite's headquarters located at 585 West Beach Street, Watsonville, CA 95076. The shareholder list will also be available at the annual meeting.

Information about the Notice of Internet Availability of Proxy Materials:

Instead of mailing a printed copy of our proxy materials, including our annual report, to each shareholder of record, we will provide access to these materials in a fast and efficient manner via the Internet. This reduces the amount of paper necessary to produce these materials, as well as the costs associated with mailing these materials to all shareholders. Accordingly, on or about April 11, 2012, we will begin mailing a Notice of Internet Availability of Proxy Materials to all shareholders of record as of March 26, 2012, other than (i) persons who hold shares in the Granite Construction Profit Sharing and 401 (k) Plan (such persons, the "401(k) Participants" and such plan, the "401(k) Plan") and (ii) persons who hold shares in the Granite Construction Employee Stock Ownership Plan (such persons, the "ESOP Participants" and such plan, the "ESOP"). We will post our proxy materials on the website referenced in the notice (https://www.proxyvote.com). All 401(k) Participants and ESOP Participants will receive a package in the mail that includes all proxy materials. The proxy materials will be mailed to all 401(k) Participants and ESOP Participants on or about April 11, 2012.

All shareholders may choose to access our proxy materials on the website or may request to receive a printed set of our proxy materials. In addition, the notice and website provide information regarding how you may request to receive proxy materials in printed form by mail on an ongoing basis.

Proxy Voting:

Your vote is important. Please vote your proxy promptly so your shares can be represented at the annual meeting even if you plan to attend the meeting. Shareholders, including 401(k) Participants and ESOP Participants, can vote by Internet, telephone or mail. Shareholders, other than 401(k) Participants and ESOP Participants, may revoke a proxy and vote in person if attending the meeting.

To get directions to the 2012 Annual Meeting of Shareholders, call our Investor Relations Department at 831.724.1011 or visit our website at www.graniteconstruction.com at the "Investors" site.

By Order of the Board of Directors,

/s/ Richard A. Watts
Richard A. Watts
Vice President, General Counsel and Secretary

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GRANITE CONSTRUCTION INCORPORATED
585 West Beach Street
Watsonville, California 95076
Proxy Statement

As more fully described in the Notice of Internet Availability of Proxy Materials, Granite Construction Incorporated, a Delaware corporation (referred to herein as "we," "us," "our," "Granite" or the "Company"), on behalf of its Board of Directors, has made its proxy materials available to you on the Internet in connection with Granite's 2012 Annual Meeting of Shareholders, which will take place on May 23, 2012 at 10:30 a.m., Pacific Daylight Time, at Chaminade Resort, 1 Chaminade Lane, Santa Cruz, California 95065. The Notice of Internet Availability of Proxy Materials was mailed to all Granite shareholders of record, except 401(k) Participants and ESOP Participants, on or about April 11, 2012, and our proxy materials were posted on the website referenced in the Notice of Internet Availability of Proxy Materials and made available to shareholders on April 11, 2012. If you received a Notice of Internet Availability of Proxy Materials by mail and would like to receive a printed copy of our proxy materials, please follow the instructions included in the Notice of Internet Availability of Proxy Materials. The proxy materials were mailed to all 401(k) Participants and ESOP Participants on or about April 11, 2012.

Granite, on behalf of its Board of Directors, is soliciting your proxy to vote your shares at the 2012 Annual Meeting of Shareholders or any subsequent adjournment or postponement. We solicit proxies to give all shareholders of record an opportunity to vote on the matters listed in the accompanying notice and/or any other matters that may be presented at the annual meeting. In this proxy statement you will find information on these matters, which is provided to assist you in voting your shares.

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

Voting Information

Who Pays for This Solicitation?

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

Who Can Vote?

You will have received notice of the annual meeting and can vote if you were a shareholder of record of Granite's common stock as of the close of business on March 26, 2012. You are entitled to one vote for each share of Granite common stock that you own. You may vote all shares owned by you as of the record date, including shares held directly in your name as the shareholder of record and shares held for you as the beneficial owner through a broker, trust, bank or other nominee. As of the close of business on March 26, 2012, there were 38,617,504 shares of common stock issued and outstanding.

How Do I Vote?

Shareholders, other than 401(k) Participants and ESOP Participants, have the option to vote by proxy in the following three ways:

By Internet: You can vote by Internet by following the instructions in the Notice of Internet Availability of Proxy Materials or by accessing the Internet at https://www.proxyvote.com and following the instructions at that website at any time prior to 11:59 p.m., Eastern Daylight Time, on May 22, 2012;

By telephone: In the United States and Canada you can vote by telephone using a touch-tone phone by following the instructions in the Notice of Internet Availability of Proxy Materials or by calling 1.800.690.6903 (toll free) and following the instructions at any time prior to 11:59 p.m., Eastern Daylight Time, on May 22, 2012; or

By mail: If you have received a paper copy of the proxy card by mail you may submit your proxy by completing, signing and dating your proxy card and mailing it in the accompanying pre-addressed envelope. Instructions are also on the proxy card. Your proxy card must be received prior to 11:59 p.m., Eastern Daylight Time, on May 22, 2012.

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Please refer to the Notice of Internet Availability of Proxy Materials or the information your broker, trust, bank or other nominee provides you for more information on the above options. If you vote your shares over the Internet or by telephone, you should not return a proxy card by mail (unless you are revoking your previous proxy).

All 401(k) Participants and ESOP Participants have the option to vote by proxy in the following three ways:

By Internet: You can vote by Internet by following the instructions on your proxy card or by accessing the Internet at https://www.proxyvote.com and following the instructions at that website at any time prior to 12:00 p.m. (noon), Eastern Daylight Time, on May 21, 2012;

By telephone: In the United States and Canada you can vote by telephone using a touch-tone phone by following the instructions on your proxy card or by calling 1.800.690.6903 (toll free) and following the instructions at any time prior to 12:00 p.m. (noon), Eastern Daylight Time, on May 21, 2012; or

By mail: You can submit your proxy by completing, signing and dating your proxy card and mailing it in the accompanying pre-addressed envelope. Instructions are also on the proxy card. Your proxy card must be received prior to 12:00 p.m. (noon), Eastern Daylight Time, on May 21, 2012.

If you vote your shares over the Internet or telephone, you should not return a proxy card by mail (unless you are revoking your previous proxy).

What Is the Deadline for Voting My Shares?

For shareholders other than 401(k) Participants or ESOP Participants: If you vote by telephone or Internet, you must submit your vote at any time prior to 11:59 p.m., Eastern Daylight Time, on May 22, 2012. If you vote by mail, your proxy card must be received prior to 11:59 p.m., Eastern Daylight Time, on May 22, 2012.

401(k) Participants and ESOP Participants: If you vote by telephone or Internet, you must submit your vote at any time prior to 12:00 p.m. (noon), Eastern Daylight Time, on May 21, 2012. If you vote by mail, your proxy card must be received prior to 12:00 p.m. (noon), Eastern Daylight Time, on May 21, 2012.

Shares held by broker, trust, bank or other nominee: If you own shares held through your broker, trust, bank or other nominee, please follow the voting instructions provided by your broker, trust, bank or other nominee.

What Is the Voting Requirement To Approve the Proposals?

If there is a quorum, nominees for election to the Board who receive a majority of the shares voted will be elected as members of our Board of Directors for the upcoming three-year term. This means that a majority of votes cast "for" the election of a director must exceed the number of votes cast "against" the director's election. Each of the approvals of the Granite Construction Incorporated 2012 Equity Plan, the advisory vote on executive compensation and the ratification of the appointment by the Audit/Compliance Committee of PricewaterhouseCoopers LLP as Granite's independent registered accounting firm for the fiscal year ending December 31, 2012 require the affirmative vote of a majority of the votes cast for approval of such matters. In addition, the New York Stock Exchange rules require that the total votes cast on the approval of the 2012 Equity Plan represent greater than 50% of the shares outstanding as of the record date. Under New York Stock Exchange rules, abstentions are treated as votes cast but broker non-votes (described below) are not, and as a result abstentions will be treated as a vote against approval of the 2012 Equity Plan and broker non-votes will have no effect on the vote relating to approval of the 2012 Equity Plan. Any other matters properly proposed at the meeting, including a motion to adjourn the annual meeting to another time or place (including for the purpose of soliciting additional proxies), will also be determined by a majority of the votes cast except as otherwise required by law or by Granite's Certificate of Incorporation, as amended, or bylaws.

If you hold shares through a broker, trust, bank or other nominee (i.e., in "street name"), and you do not provide your broker, trust, bank or other nominee with voting instructions, "broker non-votes" may occur. Generally, a broker non-vote occurs when a broker, trust, bank or other nominee who holds shares for a beneficial owner does not vote on a particular matter (i.e., a non-routine matter) because the broker, trust, bank or other nominee does not have discretionary voting power with respect to that matter and has not received instructions on such matter from the beneficial owner. Among our proposals, a broker, trust, bank or other nominee will have discretionary voting power only with respect to the proposal to ratify the appointment by the Audit/Compliance Committee of PricewaterhouseCoopers LLP as Granite's independent registered public accounting firm for the fiscal year ending December 31, 2012.

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How Are Votes Counted?

In the election of directors and all proposals you may vote "For," "Against" or "Abstain" with respect to each of the nominees and proposals. If you elect to abstain in the election of directors, the advisory vote on executive compensation or the ratification of the appointment by the Audit/Compliance Committee of PricewaterhouseCoopers LLP as Granite's independent registered accounting firm for the fiscal year ending December 31, 2012, the abstention will not impact the election of the directors or the outcome of such proposal. In tabulating the voting results for the election of directors and such proposals, only "For" and "Against" votes are counted for purposes of determining whether a majority has been obtained. Abstentions and broker non-votes are not considered to be votes cast and therefore will have no effect on the outcome of the vote on these matters.

The affirmative vote of a majority of the votes cast is required for the approval of the 2012 Equity Plan. In addition, the New York Stock Exchange rules require that the total votes cast on the approval of the 2012 Equity Plan represent greater than 50% of the shares outstanding as of the record date. Under New York Stock Exchange rules, abstentions are treated as votes cast but broker non-votes are not. As a result, abstentions will be treated as a vote against approval of the 2012 Equity Plan and broker non-votes will have no effect on the vote.

If you vote by proxy card, telephone or the Internet, your shares will be voted at the annual meeting in the manner you indicated. James H. Roberts and Laurel J. Krzeminski are officers of the Company and were named by our Board of Directors as proxy holders. They will vote all proxies, or record an abstention, in accordance with the directions on the proxy. If no contrary direction is given, the shares will be voted as recommended by the Board of Directors. This proxy statement contains a description of each item that you are to vote on along with our Board's recommendations. Below is a summary of our Board's recommendations:

For election of each of the director nominees;

For the approval of the compensation of the Named Executive Officers as disclosed in this proxy statement;

For the approval of the Granite Construction Incorporated 2012 Equity Incentive Plan; and

For the ratification of the appointment by the Audit/Compliance Committee of PricewaterhouseCoopers LLP as Granite's independent registered public accounting firm for the fiscal year ending December 31, 2012.

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

After I Vote by Proxy Can I Change or Revoke My Proxy?

You can change your vote or revoke your proxy at any time before the annual meeting. Shareholders, other than 401(k) Participants and ESOP Participants, may change their vote by: (i) voting again by telephone at any time prior to 11:59 p.m., Eastern Daylight Time, on May 22, 2012, if you originally voted by telephone, (ii) voting again by Internet at any time prior to 11:59 p.m., Eastern Daylight Time, on May 22, 2012, if you originally voted by Internet, or (iii) returning a later dated proxy card such that it is received prior to 11:59 p.m., Eastern Daylight Time, on May 22, 2012, if you voted by mail. Shareholders, other than 401(k) Participants and ESOP Participants, may revoke their proxy by filing with our Secretary a written revocation that is received by us before the polls close at the annual meeting. All 401(k) Participants and ESOP Participants may change their vote by: (i) voting again by telephone at any time prior to 12:00 p.m. (noon), Eastern Daylight Time, on May 21, 2012, if you originally voted by telephone, (ii) voting again by Internet at any time prior to 12:00 p.m. (noon), Eastern Daylight Time, on May 21, 2012, if you originally voted by Internet, or (iii) returning a later dated proxy card such that it is received prior to 12:00 p.m.

(noon), Eastern Daylight Time, on May 21, 2012, if you voted by mail. Except for 401(k) Participants and ESOP Participants, shareholders may also change their vote or revoke their proxy by attending the annual meeting and voting in person if they are a shareholder of record.

If you hold your shares through a broker, bank, trust or other nominee, please refer to the information forwarded by your broker, bank, trust or other nominee for procedures on revoking your proxy.

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

Except for 401(k) Participants and ESOP Participants, you may attend the annual meeting and vote in person instead of voting by proxy. However, even if you intend to attend the meeting we strongly encourage you to vote by Internet, telephone or mail prior to the meeting to ensure that your shares are voted. Although Granite's 401(k) Participants and ESOP Participants cannot vote in person at the meeting, they may attend the meeting.

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What Constitutes a Quorum?

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

Who Supervises the Voting at the Meeting?

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

How Can I Find Out the Voting Results?

We will announce preliminary voting results at the annual meeting, and final results will be published on a Form 8-K to be filed with the Securities and Exchange Commission (the "SEC") within four business days following the annual meeting. If the final results are not available at that time, we will provide preliminary results in the Form 8-K, and we will provide the final results in an amendment to the Form 8-K as soon as they become available.

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Proposal 1: Election of Directors

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

The terms of David H. Kelsey and James W. Bradford, Jr. will expire at the 2012 annual meeting. The Board has nominated David H. Kelsey and James W. Bradford, Jr. for new terms. In accordance with our Board of Directors Corporate Governance Guidelines and Policies, which provide that Board members will retire no later than the first annual meeting of shareholders immediately following their 72nd birthday, J. Fernando Niebla will retire at the 2012 Annual Meeting. The Board will fill the vacancy on the Board created as a result of Mr. Niebla retiring at a later date. If elected, each of the nominees will serve as a director until the 2015 annual meeting and until his or her successor is elected and qualified or he resigns or until his death, retirement or removal, or other cause identified in Granite's bylaws.

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

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

Director Qualifications

The following paragraphs provide information as of the date of this proxy statement about each director and director nominee. The information presented includes information each director or director nominee has given us about his/her age, all positions he/she holds with Granite, his/her principal occupation and business experience for the past five years, and the names of other publicly-held companies of which he/she currently serves as a director or has served as a director during the past five years. In addition to the information presented below regarding each director's and nominee's specific experience, qualifications, attributes and skills that led our Board to the conclusion the he/she should serve as a director, the Board also believes that all of our directors and nominees have a reputation for integrity, honesty and adherence to high ethical standards. The Board also believes that all of our directors have demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to Granite and our Board.

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Nominees for Director for Terms Expiring at the 2015 Annual Meeting

David H. Kelsey Director since 2003

Mr. Kelsey has served as Chief Financial Officer of Elevance Renewable Sciences, Inc., a privately-owned producer of high performance specialty chemicals and intermediate chemicals from natural oils, since August 2011. Prior to that, Mr. Kelsey served as Chief Financial Officer of Sealed Air Corporation, an S&P 500 manufacturer of specialty packaging for food and other protective applications, from January 2002 to August 2011. We believe that Mr. Kelsey's experience as the chief financial officer of a major NYSE-listed company, as well as his in-depth knowledge and understanding of generally accepted accounting principles, experience in preparing, auditing and analyzing financial statements, understanding of internal control over financial reporting, and his understanding of audit committee functions qualify him to serve on our Board. Mr. Kelsey holds a B.S.E. degree in Civil and Geological Engineering from Princeton University and an M.B.A. degree from Harvard University Graduate School of Business. Age 61.

James W. Bradford, Jr. Director since 2006

Mr. Bradford has served in various capacities at Vanderbilt University, Owen School of Management. Since March 2005, he has served as Dean and Ralph Owen Professor for the Practice of Management. Between 2002 and March 2005, he served as Acting Dean, Associate Dean Corporate Relations, Clinical Professor of Management and Adjunct Professor. He has also served as President and Chief Executive Officer of United Glass Corporation, and President and Chief Executive Officer of AFG Industries. Mr. Bradford is currently also a member of the boards of directors of Genesco, Inc., Clarcor, Inc. and Cracker Barrel Old Country Store, Inc. We believe that Mr. Bradford's perspective as an academic, his experience in corporate compliance and governance matters and his knowledge of business strategies and financial matters, combined with his executive-level and legal experiences, qualify him to serve on our Board. Mr. Bradford holds a B.A. degree from the University of Florida and a J.D. degree from Vanderbilt University, and he has completed the Harvard Business School Advanced Management Program. Age 64.

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Continuing Directors with Terms Expiring at the 2013 Annual Meeting

William G. Dorey Director since 2004

Mr. Dorey retired in August 2010 as the Chief Executive Officer and President of Granite, in which capacities he served since 2004 and 2003, respectively. Mr. Dorey joined Granite in 1968 and, prior to being named Chief Executive Officer and President, held a variety of executive-level positions with Granite throughout his career, including Chief Operating Officer, Executive Vice President, Senior Vice President and Branch Division Manager. During this time, Mr. Dorey developed an intimate knowledge of our business, employees, culture, competitors and the effect on our business of various government policies. Mr. Dorey is currently a member of the board of directors of Astec Industries, Inc. We believe that his long history and experience with Granite, and his in-depth knowledge of the construction industry, demonstrate that Mr. Dorey is well qualified to serve on our Board. Mr. Dorey holds a B.S. degree in Construction Engineering from Arizona State University. Age 67.

Rebecca A. McDonald Director since 1994

Ms. McDonald has served as Chief Executive Officer of Laurus Energy Inc. since December 2008. She previously served as President, Gas and Power, BHP Billiton from March 2004 to September 2007. Ms. McDonald is currently a member of the board of directors of Veresen, Inc. We believe that Ms. McDonald’s executive-level experience and her wealth of knowledge of business systems and operations qualify her to serve on our Board. Ms. McDonald holds a B.S. degree in Education from Stephen F. Austin State University. Age 59.

William H. Powell Director since 2004

Mr. Powell retired in 2006 as Chairman and Chief Executive Officer of National Starch and Chemical Company, a position he had held since 1999, and has served as our Chairman of the Board since September 2009. Mr. Powell is currently a member of the boards of directors of PolyOne Inc. and FMC Corporation. Until June 2009, Mr. Powell was Chairman, Board of Trustees, of State Theatre Performing Arts Center in New Brunswick, New Jersey. We believe that Mr. Powell’s knowledge and experience as chief executive officer of a major global company qualify him to serve on our Board. Mr. Powell holds a B.A. degree in Chemistry, an M.S. in Chemical Engineering from Case Western Reserve University and an M.A. in Business Administration from the University of North Dakota. Age 66.

Claes G. Bjork Director since 2006

Mr. Bjork retired in 2002 as Chief Executive Officer of Skanska AB, Sweden, one of the world’s largest construction companies, a position he had held since 1997. Prior to such time, Mr. Bjork held various executive and management positions within Skanska and served as Chairman of Scancem Cement. He is currently a member of the boards of directors of Consolidated Management Group and the Swedish American Chamber of Commerce, and he previously served on the board of Qlik Technologies, Inc. We believe that Mr. Bjork’s past experience as an executive with a major multi-national construction firm and his knowledge and understanding of the construction industry and Granite’s competitors and customers qualify him to serve on our Board. Mr. Bjork studied Civil Engineering in Sweden. Age 66.

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Continuing Directors with Terms Expiring at the 2014 Annual Meeting

Gary M. Cusumano Director since 2005

Mr. Cusumano retired in 2006 as Chairman of The Newhall Land and Farming Company, a developer of new towns and master-planned communities in North Los Angeles County, in which capacity he served after The Newhall Land and Farming Company was acquired by Lennar and LNR Properties in 2004. Prior to the acquisition, he served as Chief Executive Officer and a director of the Newhall Land and Farming Company, which was traded on the New York Stock Exchange ("NYSE"). He is currently also a member of the boards of directors of Forest Lawn Memorial Parks and Mortuaries, Simpson Manufacturing Co. and the J.G. Boswell Co. We believe that Mr. Cusumano's experience as chief executive officer and his expertise in the real estate development business qualify him to serve on our Board. Mr. Cusumano holds a B.S. degree in Economics from the University of California, Davis and is a graduate of the Sloan Program at the Stanford University Business School. Age 68.

James H. Roberts Director since 2011

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. We believe that Mr. Roberts' knowledge of the construction industry, as well as his intimate knowledge of our business, employees, culture, and competitors, his understanding of the challenges and issues facing the Company and his insider's perspective of the Company's day-to-day operations and the strategic direction of the Company, qualify him to serve on our Board. 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. Age 55.

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Retiring Director

Mr. Niebla has served as a director since 1999 and will be retiring effective as of our 2012 Annual Meeting of Shareholders. He has served as President of International Technology Partners L.L.C. since August 1998 and the Managing Partner of Siertina Development, LLC since September 2005. He is currently also a member of the boards of directors of Life Modeler Inc., Union Bank of California, Pacific LifeCorp and Integrated Healthcare Holdings, Inc. We believe that Mr. Niebla's business and technological expertise and his directorships on boards of both private and public companies qualify him to serve on our Board. Mr. Niebla holds a B.S. degree in Electrical Engineering from the University of Arizona and an M.S. QBA from the University of Southern California, and he has completed the Harvard Business School Executive Development Program. Age 72.

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Information About the Board of Directors and Corporate Governance

Committees of the Board

The following chart shows the standing committees of the Board of Directors, the current membership of the committees and the number of meetings held by each committee in 2011.

	Audit / Compliance	Compensation	Nominating and Corporate Governance	Strategic Planning	Executive
Claes G. Bjork (1)		X	Chair	X	X
James W. Bradford, Jr. (1)	X			Chair	X
Gary M. Cusumano (2)				X	
William G. Dorey				X	X
David H. Kelsey (1)	Chair		X		
Rebecca A. McDonald (1)	X	Chair (2)			X
J. Fernando Niebla (1)	X		X	X	
William H. Powell (1)(3)		X		X	Chair
James H. Roberts				X	X
Number of Meetings in 2011	8	5	5	4	1

(1) Independent directors.

(2) Mr. Cusumano was an independent director for a portion of 2010, until his daughter was named as a partner of PricewaterhouseCoopers LLP, our independent registered public accountant firm. Mr. Cusumano served as the Chair of the Compensation Committee and as a member of our Nominating and Corporate Governance Committee throughout 2010 and until March 4, 2011. Effective March 4, 2011, the Compensation Committee consisted of Mr. Bjork, Ms. McDonald and Mr. Powell, with Ms. McDonald as the acting Chair, and the Nominating and Corporate Governance Committee consisted of Mr. Kelsey, Ms. McDonald and Mr. Niebla. Effective May 20, 2011, the Compensation Committee consisted Mr. Bjork, Ms. McDonald and Mr. Powell, with Ms. McDonald as the Chair, and the Nominating and Corporate Governance Committee consisted of Mr. Bjork, Mr. Kelsey and Mr. Niebla.

(3) Chairman of the Board.

Audit/Compliance Committee

All members of the Audit/Compliance Committee are non-employee directors who are, and at all times during 2011 were, determined by the Board to be independent under the listing standards of the NYSE. Each member also satisfies the independence requirements for audit committee members of public companies established by the SEC. The Board has determined that Mr. Kelsey meets the criteria as an audit committee financial expert as defined by the SEC rules. The Board of Directors has also determined that all members of the Audit/Compliance Committee are financially literate as required by the listing standards of the NYSE. The Audit/Compliance Committee has direct responsibility for risk oversight related to accounting matters, financial reporting, and enterprise, legal and compliance risks. A more complete description of the risk responsibility, functions and activities of the Audit/Compliance Committee can be found under "Board Leadership Structure and its Role in Risk Oversight" on page 12 of this proxy statement and in "Report of the Audit/Compliance Committee" on page 42, as well as in the Audit/Compliance Committee charter. You can view and print the Audit/Compliance Committee charter on Granite's website. See "Granite Website" on page 16.

Compensation Committee

All current members of the Compensation Committee are non-employee directors who are, and at all times during 2011 were, determined by the Board to be independent under the listing standards of the NYSE. The Compensation Committee reviews and approves all aspects of compensation for our directors, our Chief Executive Officer and our other executive officers. In addition, the Compensation Committee is responsible for risks related to employment policies and our compensation and benefit systems, including consideration of whether any risks associated with such policies and systems are likely to have a material adverse effect on Granite. The Compensation Committee also reviews our overall compensation plans and strategies and makes recommendations to the Board for their consideration and approval. The Chief Executive Officer attends Compensation Committee meetings and recommends annual salary levels, incentive compensation and payouts for other executive officers for the Compensation Committee's approval. The Compensation Committee also administers the Amended and Restated 1999 Equity Incentive Plan, as amended (the "1999 Equity Plan"), with respect to persons subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In the case of awards intended to qualify for the performance-based compensation exemption under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), the 1999 Equity Plan is administered only by the Compensation Committee, which includes at least two "outside directors" within the meaning of Section 162(m). If you desire additional information concerning the Compensation Committee, you can read the Compensation Committee charter on Granite's website. See "Granite Website" on page 16.

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Nominating and Corporate Governance Committee

All current members of the Nominating and Corporate Governance Committee are non-employee directors who are, and at all times during 2011 were, determined by the Board to be independent under the listing standards of the NYSE. The Nominating and Corporate Governance Committee recommends and nominates persons to serve on the Board. The Nominating and Corporate Governance Committee also develops and recommends corporate governance principles and practices to the Board and annually reviews the Board's performance. Additionally, the Nominating and Corporate Governance Committee oversees risks associated with our Corporate Governance Guidelines and Policies and Code of Conduct. The Nominating and Corporate Governance Committee's policy for considering director candidates, including shareholder recommendations, is discussed in more detail below under the heading "Board of Directors' Nomination Policy." This policy and the Nominating and Corporate Governance Committee charter are available on Granite's website. See "Granite Website" on page 16.

Strategic Planning Committee

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

Executive Committee

The Executive Committee's responsibility is to carry out the powers and authority of the Board in the management of Granite's business within limits set by the Board. The Executive Committee also assesses and monitors ongoing risks and contingencies related to bidding decisions on large projects. The scope of the Executive Committee's authority is determined in accordance with the "Delegation of Authority and Policy" as adopted and revised from time to time by the Board.

Role of the Compensation Consultant

During 2011, the Compensation Committee directly retained the services of Mercer (US) Inc. ("Mercer"), a wholly-owned subsidiary of Marsh & McLennan Companies, Inc., to provide advice and recommendations to the Compensation Committee on executive officer and Board of Director compensation programs. Mercer's fees for executive compensation consulting to the Committee in 2011 were $241,377.

Mercer provided the following services to the Compensation Committee related to executive officer compensation:

- Attended meetings of the Compensation Committee as the Committee’s advisor.
- Evaluated the competitive positioning of Granite’s executive officers' base salaries, annual incentive and long-term incentive compensation relative to our peer companies;
- Advised on 2011 target award levels within the annual and long-term incentive program and, as needed, on actual compensation actions;
- Assessed the alignment of executive officer compensation levels relative to our performance against Granite's peer companies and relative to the Compensation Committee's articulated compensation philosophy;
- Provided advice on the design of Granite's 2011 annual and long-term incentive plans;

Advised on the 2011 performance measures and performance targets for the annual and long-term incentive programs;

Assisted with the preparation of the "Compensation Discussion and Analysis" for this proxy statement; and

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Assessed the potential for material risk within Granite's compensation policies and practices for all employees, including executive officers.

During the fiscal year, management approved the continued use of Mercer to provide compensation-related work for management, recordkeeping and trustee services for its 401(k) Plan, and services related to the ESOP. The aggregate fees paid for these other services in 2011 were $434,938. Granite paid $149,214 of these fees. The remaining fees were paid by 401(k) Participants or funds that serve the 401(k) Plan.

Because of the policies and procedures Mercer and the Compensation Committee have in place, the Compensation Committee believes that the advice it receives from the executive compensation consultant is objective and not influenced by Mercer's or its affiliates' relationships with Granite. These policies and procedures include:

The executive compensation consultant receives no incentive or other compensation based on the fees charged to Granite for other services provided by Mercer or any of its affiliates;

The executive compensation consultant is not responsible for selling other Mercer or affiliate services to Granite;

Mercer's professional standards prohibit the executive compensation consultant from considering any other relationships Mercer or any of its affiliates may have with Granite in rendering his or her advice and recommendations;

The Compensation Committee has the sole authority to retain and terminate the executive compensation consultant;

The executive compensation consultant has direct access to the Compensation Committee without management intervention;

The Compensation Committee evaluates the quality and objectivity of the services provided by the executive compensation consultant each year and determines whether to continue to retain the consultant; and

The protocols for the engagement (described below) limit how the executive compensation consultant may interact with management.

While it is necessary for the executive compensation consultant to interact with management to gather information, the Compensation Committee has adopted protocols governing if and when the executive compensation consultant's advice and recommendations can be shared with management. These protocols are included in the executive compensation consultant's engagement letter. The Compensation Committee also determines the appropriate forum for receiving the executive compensation consultant's recommendations. Where appropriate, management invitees are present to provide context for the recommendations.

The Lead Director and Executive Sessions

Our bylaws provide that in the event the Chairman of the Board does not meet the independence requirements of the rules and regulations of the SEC and the listing standards of the NYSE, the directors shall elect a Lead Director to serve for a two-year term or until such time, if earlier, at which an independent Chairman is elected. Because William H. Powell, the current Chairman of the Board, is an independent director, we currently do not have a Lead Director. In his capacity as Chairman, Mr. Powell chairs all Board meetings and presides over all executive sessions of the independent members of the Board.

Board Leadership Structure and Its Role in Risk Oversight

The Board of Directors has determined that having an independent director serve as the Chairman of the Board is in the best interest of Granite and its shareholders at this time. The Board believes that having a strong independent director serve as Chairman promotes greater oversight of Granite by the independent directors and provides for greater management accountability going forward. The structure ensures more active participation by the independent directors in setting the Board's agenda and establishing the Board's priorities. However, the Board, in accordance with its Corporate Governance Guidelines and Policies, retains the flexibility to decide, as new circumstances arise, whether or not to combine or separate the position of Chairman and Chief Executive Officer.

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As with all companies, we face a variety of risks in our business. Our Board of Directors is responsible for oversight of our Company's risks. The Board believes that having a system in place for risk management and implementing strategies responsive to our risk profile and exposures will adequately identify in a timely manner our material risks. In order to more efficiently manage these risks, the Board has designated certain risk management oversight responsibilities to relevant Board committees. The Audit/Compliance Committee has the direct responsibility for risk oversight relating to accounting matters, financial reporting and enterprise, legal and compliance risks. Our Chief Financial Officer (who is responsible for managing the risk management function), General Counsel (who serves as our Corporate Compliance Officer), Director of Internal Audit, management and independent registered public accounting firm, PricewaterhouseCoopers, LLP, all report directly to, and meet with, the Audit/Compliance Committee on a regular basis. The Audit/Compliance Committee also meets periodically with management to review Granite's major financial risk exposures and the steps that management has taken to monitor and control such exposures, which include Granite's risk assessment and risk management policies. The Executive Committee is responsible for overseeing management's efforts to assess risks related to the decision to bid on large projects and monitor ongoing risks and contingencies related to those projects. The Compensation Committee is responsible for overseeing risks related to employment policies and our compensation and benefits systems, and the Nominating and Corporate Governance Committee oversees risks associated with our Corporate Governance Guidelines and Policies and Code of Conduct, including compliance with listing standards for independent directors and committee assignments. The committee chairmen report on risk related matters to the full Board from time to time as appropriate.

Board of Directors' Nomination Policy

Evaluation Criteria and Procedures

Members of the Board of Directors of Granite are divided into three classes and are nominated for election for staggered three-year terms. The Board, its members, its committee structure, its governance performance and its overall performance are continuously reviewed. Included in this review is a careful evaluation of the diversity of skills and experience of Board members weighed against Granite's current and emerging operating and strategic challenges and opportunities. The Board of Directors makes every effort to nominate individuals who bring a variety of complementary skills and, as a group, possess the appropriate skills and experience to oversee our business. Accordingly, although diversity is a consideration in the nominating and evaluation process, the Nominating and Corporate Governance Committee and the Board of Directors do not have a formal policy with respect to the consideration of diversity. Evaluations are made on the basis of observations and interviews with management and with Board members conducted annually by the Nominating and Corporate Governance Committee.

Current Board members whose performance, capabilities, and experience meet Granite's expectations and needs are nominated for re-election in the year of their respective term's completion. In accordance with Granite's Corporate Governance Guidelines and Policies, Board members will not stand for re-nomination and no proposed candidate will be re-nominated if the nominee’s 72nd birthday occurs prior to the annual meeting of shareholders in the year of re-nomination or nomination. Moreover, Directors will retire no later than the first annual meeting of shareholders immediately following their 72nd birthday.

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

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

Normally, the search, review and interview process results in a single nominee to fill a specific vacancy. However, a given search may be aimed at producing more than one nominee and the search for a single nominee may result in multiple candidates of such capability and character that might be nominated and the Board may be expanded accordingly.

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

Shareholder Recommendation and Direct Nomination of Board Candidates

Consistent with our bylaws and the Nominating and Corporate Governance Committee charter, Granite will review and consider for nomination any candidate for membership to the Board recommended by a shareholder, utilizing the same evaluation criteria and selection process described above. The Committee will consider nominees to the Board recommended by shareholders so long as the shareholder gives timely notice in writing of his or her intent to nominate a director. To be timely, a shareholder nomination for a director to be elected at the 2013 Annual Meeting of Shareholders must be received at Granite's principal office, addressed to the Corporate Secretary, on or before December 12, 2012.

In addition, Granite's bylaws provide that any shareholder entitled to vote in the election of directors may directly nominate a candidate or candidates for election at a meeting provided that timely notice of his or her intention to make such nomination is given. To be timely, a shareholder nomination for a director to be elected at an annual meeting must be received at Granite's principal office, addressed to the Corporate Secretary, not less than 120 days prior to the first anniversary of the date the proxy statement for the preceding year's annual meeting of shareholders was released to shareholders and must contain the information specified in our bylaws. If no meeting was held in the previous year, the date of the annual meeting is changed by more than 30 calendar days from the previous year, or in the event of a special meeting, to be on time, the notice must be delivered by the close of business on the tenth day following the day on which notice of the date of the meeting was mailed or public announcement of the date of the meeting was made.

For further information, see "Shareholder Proposals to be Presented at the 2013 Annual Meeting of Shareholders" on page 57.

Director Independence

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

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

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

The following directors may not be deemed independent: (A) a director who is a current partner or employee of a firm that is Granite's internal or external auditor; (B) a director who has an immediate family member who is a current partner of such a firm; (C) a director who has an immediate family member who is a current employee of such a firm and who personally works on Granite's audit; or (D) a director or immediate family member who was within the last three years a partner or employee of such a firm and personally worked on Granite's audit within that time.

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

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

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

During 2011, the following non-employee directors who served on the Board for all or a part of the year were determined to be independent under the listing standards of the NYSE: Claes G. Bjork, James W. Bradford, Jr., David H. Kelsey, Rebecca A. McDonald, J. Fernando Niebla and William H. Powell. In addition to the foregoing, Gary M. Cusumano was independent for a portion of 2010. Mr. Cusumano ceased to be an independent director under the listing standards of the NYSE upon his daughter becoming a partner at PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm. Mr. Cusumano's daughter is not involved in our audit and is not considered a "covered person" with respect to us, as defined under the SEC's independence-related regulations for auditors. As a result, this relationship has no effect on PricewaterhouseCoopers LLP's independence as our independent registered public accounting firm. Mr. Cusumano served as the Chair of the Compensation Committee and as a member of the Nominating and Corporate Governance Committee throughout 2010 and until March 4, 2011. Effective March 4, 2011, the Compensation Committee consisted of Mr. Bjork, Ms. McDonald and Mr. Powell, with Ms. McDonald serving as the acting Chair, and the Nominating and Corporate Governance Committee consisted of Mr. Kelsey, Ms. McDonald and Mr. Niebla. Effective May 20, 2011, the Compensation Committee consisted Mr. Bjork, Ms. McDonald and Mr. Powell, with Ms. McDonald as the Chair, and the Nominating and Corporate Governance Committee consisted of Mr. Bjork, Mr. Kelsey and Mr. Niebla. As a result of these actions, the Compensation Committee and the Nominating and Corporate Governance Committee are comprised entirely of independent directors.

Board and Annual Shareholder Meeting Attendance

During 2011, the Board of Directors held six regular meetings. Each of the directors attended at least 75% of the aggregate of the total number of meetings of the Board and the total number of meetings of any committee(s) on which he or she served. Except for irreconcilable conflicts, directors are expected to attend the annual meeting of shareholders. The annual meeting attendance policy is a part of Granite's Board of Directors Corporate Governance Guidelines and Policies and is posted on Granite's website. See "Granite Website" on page 16. All nine directors attended Granite's 2011 Annual Meeting of Shareholders.

Communications with the Board

Any shareholder or other interested party wishing to communicate with the Board of Directors, or any particular director, including the Chairman of the Board or the Lead Director, if there is one, can do so by following the process described in the Communications with the Board of Directors Policy. The policy is posted on Granite's website. See "Granite Website" on page 16.

Corporate Governance Guidelines and Policies

Granite's Board of Directors is subject to the Board of Directors Corporate Governance Guidelines and Policies. The Board of Directors Corporate Governance Guidelines and Policies is available on our website. See "Granite Website" on page 16.

Code of Conduct

Granite's Code of Conduct applies to all Granite employees, including the Chief Executive Officer and the Chief Financial Officer, and to all directors, including the Chairman of the Board. The Code of Conduct is available on

Granite's website. We will also post any amendments to the Code of Conduct, or waivers of the application of provisions of the Code of Conduct to any of our directors or executive officers, on our website. See "Granite Website" on page 16.

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Granite Website

The following charters and policies are available on Granite's website at www.graniteconstruction.com at the at the "Corporate Governance" site under "Investors": the Audit/Compliance Committee Charter, the Nominating and Corporate Governance Committee Charter, the Compensation Committee Charter, the Board of Directors Corporate Governance Guidelines and Policies, the Board of Directors' Nomination Policy, and the Communication with the Board of Directors Policy. You can also obtain copies of these charters and policies, without charge, by contacting Granite's Investor Relations Department at 831.724.1011. The Code of Conduct is available on Granite's website at www.graniteconstruction.com at the "Our Company" site under "Code of Conduct." You can obtain a copy of the Code of Conduct and any amendments to the Code of Conduct, without charge, by contacting Granite's Human Resources Department at 831.724.1011.

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Executive and Director Compensation and Other Matters

Compensation Discussion and Analysis

Objective of the Compensation Program

The market for executive talent is highly competitive and the objective of our compensation program is to attract and retain talented, creative, and experienced executives with the skills and leadership qualities necessary to compete in the marketplace, deliver consistent financial performance and grow shareholder value. The Compensation Committee believes that an effective way to enhance Granite's performance is through variable compensation structured to align with the Company’s short and long-term performance objectives. Key elements of the program are as follows:

Market competitive base salaries, with the 50th percentile of comparable positions in the market as the starting point;

Actual pay levels reflecting market data, individual experience, tenure and ability to impact business and financial results;

Short-term and long-term goals aligned with the best interests of shareholders, with cash and stock-based incentives earned upon the attainment of pre-established financial and non-financial goals;

A comprehensive benefits program which is available to all salaried employees and includes: medical, dental, vision, life, accidental death and dismemberment insurance, short-term and long-term disability insurance, paid vacation, holiday pay, and a program offering periodic medical examinations; and

Eligibility, along with other management employees, to participate in our Non-Qualified Deferred Compensation ("NQDC") Program.

Executive Officer Compensation Program

During fiscal year 2011, we conducted our first “Say on Pay” shareholder advisory vote, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and Securities Exchange Commission (“SEC”) rules. This resulted in the approval of our 2010 compensation of the Named Executive Officers by more than 97% of the votes cast. In addition to this endorsement by our shareholders of our executive compensation programs and practices, management values the views of our largest institutional shareholders and proxy advisory firms on our compensation practices and disclosures. Both the voting results and the other expressions of views were taken into consideration in planning for fiscal year 2012 compensation.

The key components of the 2011 program for compensating our Named Executive Officers are as follows:

Adjustments to align total direct compensation closer with market median levels if deemed necessary by the Compensation Committee;

A stand-alone Annual Incentive Plan (“AIP”) with Return on Net Assets (“RONA”), Operating Cash Flow (“OCF”), Safety and Strategic Objectives as the key performance measures;

A Long-Term Incentive Plan (“LTIP”) that includes a performance-based component and a service-based component. For LTIP performance periods starting in 2011, the performance measures are Relative Total Shareholder Return (“TSR”) and Economic Profit (“EP”);

- Incentive compensation opportunity determined on the basis of three separate performance levels — threshold, target and maximum; and
- Stock ownership guidelines.

The specific provisions of the compensation opportunity, plan design, and performance objectives are described in greater detail in the remainder of this Compensation Discussion and Analysis.

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Role of the Compensation Committee and Chief Executive Officer in Determining Executive Compensation

The Compensation Committee is actively engaged in the design and approval of all elements of the compensation program for our executive officers. Compensation and potential payouts are determined with assistance and recommendations from the independent compensation consultant named below. The Compensation Committee determines the compensation of the Chief Executive Officer. The annual salary levels, incentive compensation targets and potential payouts of the other executive officers are determined by the Compensation Committee based on recommendations of the Chief Executive Officer and compensation consultant. See also "Information About the Board of Directors and Corporate Governance — Committees of the Board — Compensation Committee" on page 10.

Role of the Compensation Consultant

The Compensation Committee has retained Mercer as its compensation consultant to provide information, analysis, and advice with regard to executive officer compensation. Representatives of the compensation consultant attend Compensation Committee meetings and provide guidance and expertise on competitive pay practices and plan designs that are consistent with the key objectives of the compensation program. See also "Information About the Board of Directors and Corporate Governance — Role of the Compensation Consultant" on page 11.

Market Data Considered in Determining Executive Compensation

The Compensation Committee reviews available industry compensation data to establish competitive compensation levels which will reward our executive officers if performance targets are achieved. Benchmark data is obtained from the following three sources:

- A peer group of nine public companies representing the construction engineering and construction materials industries;
- Private company data for companies in the engineering and construction industries; and
- A broad industrial comparator group.

The data from the peer group of nine public companies is used by the Compensation Committee to establish base salary, target total cash and long-term incentive compensation levels.

The private company and broad industrial market data is used as an additional reference point in establishing compensation levels.

Peer Group of Nine Public Companies

The nine public companies selected for the peer group are in the construction, engineering and/or construction materials industries and compete for executive talent in the same market as Granite. The table below names each of the companies and its respective annual revenues and total assets for its 2011 fiscal year.

Company Name	Revenues ($ Millions)	Total Assets ($ Millions)
Chicago Bridge & Iron	$ 3,642	$ 2,910
Dycom Industries Inc.	$ 989	$ 680
Emcor Group Inc.	$ 5,121	$ 2,756
Martin Marietta Materials	$ 1,783	$ 3,075

McDermott International Inc.	$ 2,404	$ 2,599
Quanta Services Inc.	$ 3,931	$ 4,341
Texas Industries Inc.	$ 621	$ 1,532
Tutor Perini Corp.	$ 3,199	$ 2,779
Vulcan Materials Co.	$ 2,559	$ 8,338

Granite's fiscal 2011 revenues and total assets at December 31, 2011 were $2,010,000,000 and $1,548,000,000, respectively.

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Private Company Market Data

Private company market data was provided by Analytical/FMI, a compensation consulting firm that gathers extensive compensation data for companies in the engineering and construction industries. The companies participating in the survey are companies that compete with Granite for key engineering and construction talent. The Compensation Committee selected private companies with employee headcount and revenue similar to ours. Specifically, the companies used in the benchmarking were Gilbane Building Company, Peter Kiewit Sons, Inc., TIC Holdings, Inc. and Zachry Holdings, Inc.

Broad Industrial Market Data

The broad industrial market data consisted of 39 public companies with revenues between $1 billion and $5 billion from a broad industrials comparator group.

Compensation Elements

Base Salaries

The base salaries of Mr. Case and Mr. Franich were adjusted from $275,000 to $375,000. Mr. Donnino's base salary was increased from $300,000 to $400,000. The increases in salary effective January 1, 2011 were supported by comparable market data from Granite's 2010 peer groups and reflected increased tenure in the respective positions. No adjustments were made to the base salaries of Mr. Roberts or Ms. Krzeminski in 2011.

For amounts paid as base salary during 2011, see the Summary Compensation Table appearing on page 29.

Base Salary Positioning Chart

Named Executive Officer	Titles During 2011	2011 Base Salary	Peer Group Median	% Variance	
James H. Roberts	President & Chief Executive Officer (CEO)	$500,000	$976,000	-95	%
Laurel J. Krzeminski	Vice President & Chief Financial Officer (CFO)	$350,000	$488,000	-39	%
Michael F. Donnino	Senior Vice President & Group Manager	$400,000	$470,000	-15	%
Thomas S. Case	Vice President & Group Manager	$375,000	$470,000	-18	%
John A. Franich	Vice President & Group Manager	$375,000	$470,000	-18	%

Annual Incentive Compensation

Effective January 2011, it was determined that all of the Named Executive Officers would participate in the Corporate Annual Incentive Plan. Prior to this change, Mr. Donnino's, Mr. Case's and Mr. Franich's annual incentive compensation was determined by both Corporate and Group annual performance. These changes were implemented to incentivize and reward the Group Managers by emphasizing overall company performance versus Group performance. The weighting for Strategic Objectives was increased in 2011, it was the Compensation Committee's belief that these changes were aligned with Granite's focus on streamlining efficiency and resources utilization. Each Named Executive Officer's targeted annual incentive opportunity is payable in cash and is expressed as a percentage of base salary. Actual payouts can range between 0% and 200% of target opportunity based on performance as described in more detail below.

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Target Annual Incentive Opportunity

Named Executive Officer	2011 Base Salary	Target Annual Incentive Opportunity % of Base Salary	($)
James H. Roberts	$ 500,000	150 %	$ 750,000
Laurel J. Krzeminski	$ 350,000	60 %	$ 210,000
Michael F. Donnino	$ 400,000	75 %	$ 300,000
Thomas S. Case	$ 375,000	75 %	$ 281,250
John A. Franich	$ 375,000	75 %	$ 281,250

The following table illustrates the relative weightings of 2011 Annual Incentive Plan performance measures. Payout calculations exclude the impact of any extraordinary business activity during the incentive cycle (e.g., acquisition or restructuring).

Corporate AIP Metrics and Weightings	RONA (% of WACC) 20%	OCF Margin 30%	Strategic Metrics 40%	Corporate Safety 10%

Return on Net Assets

RONA is calculated by dividing the adjusted net income Granite earned in the year ended December 31, 2011, by its weighted average net assets, adjusted for the purpose of calculating incentive compensation (total weighted average assets less current liabilities, long-term debt, deferred income taxes, and restructuring expenses). In 2011 the RONA calculation was modified to include the estimated value of quarry property to be mined within the next five years in total weighted average assets.

RONA performance objectives for a given plan year are based on Granite's Weighted Average Cost of Capital ("WACC") which is defined as Granite's blended cost of debt and equity. The WACC, approved by the Compensation Committee for the purpose of calculating incentive compensation, was 8 % for 2011. The Corporate Annual Incentive Plan incorporates RONA and WACC because of the significant capital needs of the business. Granite's operations require sizable investment in capital equipment and aggregate reserves, which require periodic replacement. Accordingly, the Corporate Annual Incentive Plan is designed in part to reward high returns on the net assets employed.

In determining threshold, target and maximum RONA objectives, the Compensation Committee considers Granite's RONA history, industry comparisons, growth rate, new investments in the business, cost of capital, and current market conditions. The RONA objectives are reviewed and approved annually by the Compensation Committee, as is the amount of incentive compensation that can be earned by each executive officer.

Operating Cash Flow Margin

The Operating Cash Flow ("OCF") Margin is calculated by dividing net cash flow from operating activities (as adjusted for restructuring expenses) by annual revenue. The Corporate Annual Incentive Plan incorporates OCF Margin as one of the two financial metrics because it measures our ability to maintain the operating cash necessary to replace assets, purchase assets for growth, and generate fair dividend returns to the shareholders.

Like RONA, the threshold, target and maximum OCF Margin objectives are established at levels that the Compensation Committee considers appropriate given Granite's historical performance, industry comparisons, and current market conditions. The OCF Margin objectives and associated payout levels for executive officers are reviewed and approved annually by the Compensation Committee.

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Strategic Objectives

In addition to financial objectives, the Compensation Committee introduced a component to the Annual Incentive Plan that provides for payouts based on achievement of strategic objectives. Strategic objectives are reviewed and approved by the Compensation Committee on an annual basis and may change from year to year. The strategic objectives identified for each executive officer included a mix of quantitative and qualitative factors. For 2011 these included: expense reduction, new award attainment, Group level Adjusted Operating Income, leadership development and succession planning goals. The objectives may have different weighted values as agreed upon by the Compensation Committee and the CEO.

In the case of the executive officers other than the CEO, the Committee established strategic metrics and assessed their achievement based primarily on the CEO's judgment and recommendations. The establishment of strategic objectives for the CEO and assessment of his individual performance is determined by the Compensation Committee in consultation with other members of the Board of Directors.

Safety

It is our policy to honor our employees by minimizing accidents and striving to provide the safest working environment in the industry. In 2011 Granite changed from using three separate injury rate measures to determine safety to a single safety measure, the OSHA Recordable Incident Rate (“ORIR”). ORIR is a nationally recognized metric which enables Granite to benchmark its safety performance against the construction industry. The safety objectives are determined based on historical performance and management’s focus to continually reduce the number of accidents.

In addition to the ORIR performance metric, the Named Executive Officers are required to attend safety training classes and conduct jobsite safety inspections. The safety incentive may be adjusted downwards due to non-participation in safety training and failure to conduct jobsite inspections.

The ORIR target and payout levels are reviewed and approved annually by the Compensation Committee. No safety incentive is payable in the event of a Granite employee work-related fatality during the plan year.

ORIR tracks all injuries serious enough to require OSHA documentation (i.e., those that result in medical treatment, restricted duty or lost time) and represents the number of events per 100 full-time employees. It is calculated by multiplying the number of OSHA recordable injuries (total injuries or lost time injuries) by 200,000 (2,000 hours per employee per year x 100 employees) and dividing by the total number of hours of employee exposure.

For example, in 2011 there were 8,846,338 hours of employee exposure and there were 86 OSHA recordable injuries. The OSHA Recordable Incident Rate for 2011 was calculated as follows:

OSHA Recordable Incident Rate: 86 x 200,000 / 8,846,338 = 1.9

2011 Annual Incentive Plan Performance Objectives and Actual Payouts

Once threshold requirements below are met, Named Executive Officers can earn between 50% and 200% of their annual target opportunity, depending upon the level of performance for financial, strategic and safety measures. Payout is zero for performance below threshold levels. Performance objectives and actual payouts for 2011 are presented below:

Performance Level	RONA	OCF Margin	Corporate Safety

Maximum	9.60%	8.5%	1.4
Target	7.20%	6.0%	2.0
Threshold	4.80%	4.5%	2.6
Actual Payout (% of target)	77%	55%	117%

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Based on actual performance, individual incentives earned by the Named Executive Officers were paid on March 11, 2011, as follows:

Named Executive Officer	Target Annual Incentive	Actual Annual Incentive	Actual Annual Incentive (% of Target Opportunity)
James H. Roberts	$ 750,000	$ 636,379	85 %
Laurel J. Krzeminski	$ 210,000	$ 178,113	85 %
Michael F. Donnino	$ 300,000	$ 282,894	94 %
Thomas S. Case	$ 281,250	$ 205,154	73 %
John A. Franich	$ 281,250	$ 232,328	83 %

Long-Term Incentive Compensation

In order to emphasize sustained long-term performance, all Named Executive Officers participate in the 2011 Corporate Long-Term Incentive Compensation Plan ("2011 LTIP"). The Compensation Committee reviewed peer group compensation data for comparable positions and established incentive target opportunities which approximate peer group median compensation levels. The opportunities for the Named Executive Officers under the 2011 LTIP are presented below:

Named Executive Officer	2011 LTIP Incentive Target Opportunity
James H. Roberts	$ 1,500,000
Laurel J. Krzeminski	$ 500,000
Michael F. Donnino	$ 600,000
Thomas S. Case	$ 550,000
John A. Franich	$ 550,000

For the 2011 performance year, several changes were made to the LTIP program. Total Shareholder Return (“TSR”) and Economic Profit (“EP”) were designated as individual performance measures and a Service Award feature was added to the LTIP. The target LTIP is weighted equally between TSR, EP and the Service Award.

The table below reflects the components of the LTIP that are performance and service based with their respective weightings:

Performance Based LTIP Component	Service Based LTIP Component
2/3rds of Award Opportunity	1/3rd of Award Opportunity
Relative TSR – 50% weighting	
Economic Profit – 50% weighting	

TSR performance is measured in one, two and three year periods ending on December 31st of each year during the three-year performance period, with one third of the TSR award opportunity tied to performance in each of these performance periods. EP performance is measured based on the three-year average improvement of EP over the three-year performance period from January 1, 2011 through December 31, 2013. The Service Award component of any LTIP award is not performance-based and vests ratably over the three-year performance period.

The portion of any LTIP award relating to the TSR, EP and service component is awarded in the form of restricted stock units with time-based vesting. The LTIP provides that restricted stock unit awards are issued pursuant to the terms and conditions of the 1999 Equity Plan.

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Total Shareholder Return

The Compensation Committee believes that it is important to explicitly align executive incentives with shareholder value creation. Potential TSR payouts are based on Granite's TSR performance relative to companies in Standard & Poor's Construction Materials and Construction and Equipment classification. The TSR award is adjusted by a percentage based on the company's TSR rank relative to the companies in the Standard & Poor's Construction Materials and Construction Equipment classification. This adjustment is intended to reward executives when the shareholders' investment in Granite yields returns that are superior to comparable investments in one or more of the companies in the Standard & Poor's Construction Materials and Construction and Equipment classification. These companies are listed below:

Dycom Industries Inc.	Aegion Corporation (formerly Insituform Technologies)	Shaw Group Inc.
Emcor Group Inc.	Jacobs Engineering Group Inc.	Texas Industries Inc.
Fluor Corp.	Martin Marietta Materials	URS Corp.
Headwaters Inc.	Quanta Services Inc.	Vulcan Materials Co.

Total Shareholder Return - Funding Mechanism

Rank	Payout (% of Target)
1 -2 of 13	200%
3 of 13	180%
4 of 13	160%
5 of 13	140%
6 of 13	120%
7 of 13	100%
8 of 13	83.3%
9 of 13	66.7%
10 of 13	50%
11 -13 of 13	0%

Total Shareholder Return Performance Calculation

TSR is calculated by dividing (i) the sum of the closing price on the last trading day of the performance period and all dividends and per-share cash equivalents paid during the performance period, by (ii) the closing price on the day before the first day of the performance period. In establishing TSR as a separate performance metric, the Committee determined to measure TSR performance over one, two and three year periods starting in 2011. One third of the TSR award opportunity will be tied to performance in each of these performance periods. This provides for a payout opportunity under the 2011 TSR award in each of the following three years;

TSR Performance Period	Award Opportunity	Payout Timing (if award earned based on performance)
January 1, 2011 – December 31, 2011	1/3rd of 2011 TSR Award	Q1 2012
January 1, 2011 – December 31, 2012	1/3rd of 2011 TSR Award	Q1 2013
January 1, 2011 – December 31, 2013	1/3rd of 2011 TSR Award	Q1 2014

Economic Profit

In addition to TSR, the LTIP incorporates Economic Profit (“EP”) because of the significant capital needs of the business and the Compensation Committee's objective of creating long-term economic value for shareholders. Understanding how value is created is a key component to implementing an effective strategy and EP provides a framework for evaluating value creation across the portfolio, allocating capital across the portfolio, understanding and quantifying competitive advantage, understanding investor expectations, and developing value growth strategies. EP is based on the economic concept of earning a return on capital invested relative to Granite's cost of capital. The Compensation Committee approved the use of EP in the LTIP to focus our executives' long-term efforts on generating appropriate returns on the company assets which are a key driver of Granite's business. This is intended to ensure that executive efforts are aligned with the interests of shareholders.

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EP is to be measured on a forward looking basis for the performance period from January 1, 2011 through December 31, 2013. Payment at the end of the performance period will be determined on the three-year average improvement of EP over the performance period. The 2011 EP goals were determined based upon average improvement of EP with December 31, 2010 as the baseline (excluding restructuring costs) from which to measure average EP improvement over the three-year performance period.

Economic Performance – Funding Mechanism

Level	EP Improvement from (a) December 31, 2010 to (b) January 1, 2011 – December 31, 2013 (3-year average)	Payout (% of Target)
Maximum	+ $147 million and 2013 EP > 0	200%
Target	+ $123 million and 2013 EP > 0	100%
Threshold	+ $112 million and 2013 EP > 0	50%
Below	+ <$112 million or 2013 EP < 0	0%

In each year of the three-year performance period EP is calculated as follows:

EP = Net Income - (Average Net Assets x WACC)

For purposes of EP, Net Assets is defined as total assets less non-interest bearing liabilities and non-controlling interests. A four quarter average of the ending balance of each quarter's Net Assets is used to determine Average Net Assets.

Payout calculation for any long-term incentive cycle excludes the impact of any extraordinary business activity during an active long-term incentive cycle (e.g., acquisition or restructuring). The EP performance target for the long-term incentive cycle will be adjusted accordingly.

In determining threshold, target and maximum EP objectives, the Compensation Committee considers Granite's historical EP performance, financial forecasts, industry comparisons, cost of capital, and current market conditions. The EP targets are reviewed and approved annually by the Compensation Committee.

Service Award

A service award was added to the Long Term Incentive Plan based on the Compensation Committee's belief that granting of Restricted Stock Unit awards assist in maintaining competitive levels of compensation, encourages the continued retention of key management and aligns the interest of Named Executive Officers with that of the shareholders. Service Awards are not performance-based and vest ratably over three years.

2011 Long-Term Incentive Plan Payouts

Granite's one year TSR ranking as of December 31, 2011 was 6 out of 13 companies resulting in the earned awards presented in the table below.

Named Executive Officer	Target TSR Incentive	Actual TSR Incentive	Restricted Stock Units Awarded (1)
James H. Roberts	$ 167,000	$ 200,040	7,644

Laurel J. Krzeminski	$	56,000	$	66,661	2,547
Michael F. Donnino	$	67,000	$	80,002	3,057
Thomas S. Case	$	61,000	$	73,327	2,802
John A. Franich	$	61,000	$	73,327	2,802

(1) The number of restricted stock units awarded is calculated by dividing the actual long term incentive value by $26.17 which was the average stock price in January 2011.

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Service Awards Paid in 2011

Named Executive Officer	Service Award	Restricted Stock Units Awarded(1)
James H. Roberts	$ 500,000	17,749
Laurel J. Krzeminski	$ 166,700	5,918
Michael F. Donnino	$ 200,000	7,100
Thomas S. Case	$ 183,370	6,509
John A. Franich	$ 183,370	6,509

(1)The number of restricted stock units awarded is calculated by dividing the service award by the closing stock price of $28.17 on March 11, 2011.

Policy Regarding Recovery of Award if Basis Changes Because of Restatement

If the basis upon which a previous compensation award was made is determined to have been in error due to a restatement of a prior year's financial results, it is Granite's policy to either recover the amount overpaid or to hold the overpayment as an offset against future incentive compensation earned. There were no adjustments to calculations that affected incentive compensation calculated or paid in 2011.

Stock Ownership Guidelines

Our Board of Directors has adopted Stock Ownership Guidelines to align the interests of Granite's executive officers with the interest of shareholders and to promote Granite's commitment to sound corporate governance. Executive officers are expected to own and hold a minimum number of shares of Granite common stock based on relevant market standards. Stock ownership guidelines are determined as a multiple of the executive officer's base salary, and are as follows:

Chief Executive Officer: 3 x annual base salary

Other Executive Officers: 1.5 x annual base salary

Minimum stock ownership levels are to be achieved within five years following the later of the May 13, 2009 adoption of the Stock Ownership Guidelines and the date an individual becomes an executive officer. Compliance with the guidelines is reviewed by the Compensation Committee on an annual basis. Shares that count toward the satisfaction of the guidelines include:

Shares owned outright by the executive officer or his or her immediate family members residing in the same household, whether held individually or jointly;

Shares represented by restricted stock awards or units where the restrictions have lapsed;

Shares held for the executive officer's account in the Employee Stock Ownership Plan (“ESOP”); and

Shares held in trust for the benefit of the executive officer or his or her family.

Until the applicable guideline is achieved, the executive officer is required to retain an amount equal to 25% of net shares received as a result of the vesting of restricted stock or restricted stock units through Granite's stock incentive plans.

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Non-Qualified Deferred Compensation (NQDC)

Granite offers its executive officers and other key executives participation in the Granite Construction Key Management Deferred Compensation Plan II (the "NQDC"), which:

Allows key executives to defer incentive compensation and ESOP dividends. Executive officers can defer up to 100% of their annual cash bonus and ESOP dividends.

Allows participants to choose from a menu of investment options. Granite determines the investment options for the NQDC menu and may add or remove investment options based on a review of the performance of the particular investment.

Includes a Rabbi Trust funded with historical deferrals over a four-year period beginning October 2008. All new deferrals will be held in the Trust. By holding the assets within a trust, participants have a measure of added security that future benefit obligations will be satisfied.

Includes an option under which participants can voluntarily direct Granite to purchase life insurance on their behalf and are eligible for a survivor benefit equal to one year's base salary payable in the event of death. The survivor benefit is payable only while the participant is employed with Granite.

Other Compensation

Our Named Executive Officers (“NEOs”) are eligible to participate in the 401(k) Plan. In 2011, Granite’s policy of matching contributions of up to 6% of IRS qualified compensation was suspended. Prior to September 15, 2011, the Named Executive Officers were provided insurance for personal and auto liability, as well as auto physical damage and umbrella liability. To reduce exposure to insurance risk, insurance coverage was cancelled effective September 15, 2011. NEOs are required to maintain a $5,000,000 personal umbrella liability insurance policy to guarantee adequate coverage while conducting company business. To offset the loss of the additional liability insurance benefit and reimburse the NEOs for the costs incurred to purchase and maintain the required personal umbrella liability insurance policy, an increase to the NEOs vehicle allowance from $1,000 per month to $1,417 per month was approved by the Compensation Committee.

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

Granite provides certain stock-based compensation under the 1999 Equity Plan, which is accounted for under FASB Accounting Standard Codification Topic 718 (revised 2004), "Share-Based Payment." Restricted stock compensation cost is measured as the stock's fair value based on the market price at the date of grant. Restricted stock compensation cost is recognized on a prorated basis over the vesting period or the period from the grant date to the first maturity date after the holder reaches age 62 and has completed certain specified years of service, at which time all restricted shares become fully vested.

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

In connection with its determination of the various elements of compensation for our executive officers, the Compensation Committee takes into account the impact of Section 162(m) of the Internal Revenue Code on the deductibility of compensation for federal income tax purposes. Section 162(m) limits the deductibility of "nonperformance-based" compensation paid to our principal executive officer and our next four highest paid individuals, other than our principal financial officer, to $1 million annually. Some of the elements of our executive compensation package, including certain payments under our Corporate Annual Incentive Plan, are intended to qualify as "performance-based" compensation, which is exempt from the limitation on deductibility under Section 162(m). The Compensation Committee has the discretion to design and implement elements of executive compensation that may not qualify as "performance based" compensation and to approve compensation packages for individual executive officers that may not be fully deductible.

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Change-in-Control Arrangements

All of our Named Executive Officers, along with seven key employees approved by the Compensation Committee, are participants in the Executive Retention and Severance Plan. The purpose of the plan is to:

Provide an incentive to the existing management to remain with Granite during a potential change in control in order to obtain the best terms for the shareholders or to assure Granite's viability in executing its strategy if Granite remains independent; and

Attract and retain executives by reducing their concerns regarding future employment following a change incontrol.

The Executive Retention and Severance Plan provides that if a participant’s employment with Granite is terminated by Granite within three years after a "change in control" of Granite other than for cause, or if the participant resigns from such employment within three years after a “change in control” of Granite for "good reason," the participant will be entitled to the following benefits:

A lump sum payment equal to three times the participant’s annual base salary rate in effect immediately prior to the participant’s termination;

A lump sum payment equal to three times the average of the aggregate of all annual incentive bonuses earned by the participant for the three fiscal years immediately preceding the fiscal year of the change in control;

A lump sum payment equal to the average of the aggregate annual employer contribution, less applicable withholding, made on behalf of the participant for the three fiscal years preceding the fiscal year of the change in control to the ESOP, 401(k) Plan, and any other retirement plan in effect immediately prior to the change in control;

A lump sum payment equal to three times the average annual premium cost for group health, life, and long-term disability benefits, provided for the three fiscal years preceding the fiscal year of termination;

Accelerated vesting of equity awards in accordance with the provisions contained in such plans; and

Reasonable professional outplacement services for the participant until the earlier of two years following the date of termination or the date on which the participant obtains employment.

The amount of payment made to the terminated participant will not exceed, and will be reduced if required in order not to exceed, the "Safe Harbor" amount allowable under Section 4999 of the Internal Revenue Code.

The Compensation Committee has approved changes to the Executive Retention and Severance Plan that are believed to be in alignment with emerging best practices. The benefits provided to current participants under the Executive Retention and Severance Plan were not changed. Benefits to new participants will be dependent upon their level of responsibility within the organization and would have reduced severance multiples as follows:

Position	Severance Multiple
Chief Executive Officer	2.99x
Senior Vice President / Chief Financial Officer	2x
Other Officers	1x

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

"Good reason" means (i) a material diminution in the participant's authority, duties or responsibilities, causing the participant's position to be of materially lesser rank or responsibility within Granite or an equivalent business unit of its parent; (ii) a decrease in the participant's base salary rate; (iii) relocation of the participant's work place that increases the regular commute distance between the participant's residence and work place by more than 30 miles (one way); or (iv) any material breach of the plan by Granite with respect to the participant during a change-in-control period.

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

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the "Compensation Discussion and Analysis" contained in this proxy statement. Based on such review and discussions, the Committee recommended to the Board of Directors that the "Compensation Discussion and Analysis" be included in this proxy statement and incorporated by reference into Granite's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Members of the Compensation Committee:

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

This Report of the Compensation Committee does not constitute soliciting material and shall not be deemed filed or incorporated by reference into any other filing made by us under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate this Report of the Compensation Committee by reference therein.

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Summary Compensation Table
2011

The following table summarizes, for the years specified, the compensation for our Chief Executive Officer, our Chief Financial Officer and for the three other most highly compensated executive officers for the fiscal year ended December 31, 2011.

Named Executive Officer and Position (a)	Year (b)	Salary (c)	Stock Awards(1) (d)	Non-Equity Incentive Plan Compensation(2) (e)	All Other Compensation(3) (f)	Total (g)
James H. Roberts	2011	$500,000	$ 500,000	$ 636,379	$ 122,789	