GRANITE CONSTRUCTION INC
Form 10-Q
July 31, 2008

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to ___________

Commission File Number: 1-12911

GRANITE CONSTRUCTION INCORPORATED

State of Incorporation:	I.R.S. Employer Identification Number:
Delaware	77-0239383

Corporate Administration:
585 W. Beach Street
Watsonville, California 95076
(831) 724-1011

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 18, 2008.

Class	Outstanding

Common Stock, $0.01 par value	38,280,565 shares

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PART I. FINANCIAL INFORMATION

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Item 1. FINANCIAL STATEMENTS (unaudited)

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

	June 30, 2008	December 31, 2007	June 30, 2007
ASSETS			
Current assets			
Cash and cash equivalents	$ 286,648	$ 352,434	$ 246,278
Short-term marketable securities	88,230	77,758	98,199
Accounts receivable, net	418,657	397,097	489,435
Costs and estimated earnings in excess of billings	51,047	17,957	39,710
Inventories	63,930	55,557	53,320
Real estate held for development and sale	50,308	51,688	54,722
Deferred income taxes	44,887	43,713	36,015
Equity in construction joint ventures	42,844	34,340	32,400
Other current assets	66,297	96,969	57,811
Total current assets	1,112,848	1,127,513	1,107,890
Property and equipment, net	526,383	502,901	490,328
Long-term marketable securities	29,706	55,156	61,582
Investments in affiliates	30,502	26,475	24,816
Other assets	73,455	74,373	72,490
Total assets	$ 1,772,894	$ 1,786,418	$ 1,757,106
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current maturities of long-term debt	$ 35,039	$ 28,696	$ 35,040
Accounts payable	237,561	213,135	268,054
Billings in excess of costs and estimated earnings	226,213	275,849	242,469
Accrued expenses and other current liabilities	211,907	212,265	223,311
Total current liabilities	710,720	729,945	768,874
Long-term debt	246,493	268,417	139,715
Other long-term liabilities	46,956	46,441	67,378
Deferred income taxes	18,228	17,945	19,478
Commitments and contingencies			
Minority interest in consolidated subsidiaries	61,172	23,471	30,675
Shareholders' equity			
Preferred stock, $0.01 par value, authorized 3,000,000 shares, none outstanding	-	-	-
Common stock, $0.01 par value, authorized 150,000,000 shares; issued and outstanding 38,274,588 shares as of June 30, 2008, 39,450,923 shares as of December 31, 2007	383	395	419

and 41,947,610 as of June 30, 2007			
Additional paid-in capital	81,358	79,007	81,293
Retained earnings	608,525	619,699	645,448
Accumulated other comprehensive (loss) income	(941)	1,098	3,826
Total shareholders’ equity	689,325	700,199	730,986
Total liabilities and shareholders’ equity	$ 1,772,894	$ 1,786,418	$ 1,757,106

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

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GRANITE CONSTRUCTION INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited - in thousands, except per share data)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenue				
Construction	$ 580,943	$ 660,384	$ 983,516	$ 1,077,016
Material sales	107,289	100,091	158,843	166,202
Real estate	6,100	10,401	6,773	15,318
Total revenue	694,332	770,876	1,149,132	1,258,536
Cost of revenue				
Construction	486,716	557,926	793,562	942,080
Material sales	89,835	78,878	138,891	132,986
Real estate	8,755	6,438	8,959	7,800
Total cost of revenue	585,306	643,242	941,412	1,082,866
Gross profit	109,026	127,634	207,720	175,670
General and administrative expenses	65,760	65,130	126,411	119,467
Gain on sales of property and equipment	2,155	4,346	2,556	5,059
Operating income	45,421	66,850	83,865	61,262
Other income (expense)				
Interest income	3,593	6,439	9,648	13,282
Interest expense	(3,058)	(2,028)	(7,568)	(3,114)
Equity in income (loss) of affiliates	528	(29)	(179)	322
Other, net	184	(433)	8,647	(666)
Total other income	1,247	3,949	10,548	9,824
Income before provision for income taxes and minority interest	46,668	70,799	94,413	71,086
Provision for income taxes	13,081	22,154	25,208	22,243
Income before minority interest	33,587	48,645	69,205	48,843
Minority interest in consolidated subsidiaries	(7,969)	(4,799)	(30,464)	(7,246)
Net income	$ 25,618	$ 43,846	$ 38,741	$ 41,597
Net income per share				
Basic	$ 0.68	$ 1.07	$ 1.03	$ 1.01
Diluted	$ 0.68	$ 1.05	$ 1.01	$ 1.00
Weighted average shares of common stock				
Basic	37,426	41,096	37,782	41,044
Diluted	37,929	41,631	38,221	41,560
Dividends per share	$ 0.13	$ 0.10	$ 0.26	$ 0.20

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

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

Six Months Ended June 30,	2008	2007
Operating Activities		
Net income	$ 38,741	$ 41,597
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	42,428	38,825
Provision for doubtful accounts	1,383	1,156
Gain on sales of property and equipment	(2,556)	(5,059)
Change in deferred income taxes	419	(321)
Stock-based compensation	3,427	3,451
Excess tax benefit on stock-based compensation	(746)	(2,700)
Minority interest in consolidated subsidiaries	30,464	7,246
Equity in loss (income) of affiliates	179	(322)
Acquisition of minority interest	(16,616)	-
Changes in assets and liabilities:		
Accounts receivable	(17,021)	11,315
Inventories	(6,671)	(7,676)
Real estate held for development and sale	(1,272)	(1,619)
Equity in construction joint ventures	(8,504)	(488)
Other assets	32,203	4,831
Accounts payable	25,939	10,442
Billings in excess of costs and estimated earnings, net	(82,726)	(69,287)
Accrued expenses and other liabilities	4,725	41,821
Net cash provided by operating activities	43,796	73,212
Investing Activities		
Purchases of marketable securities	(28,620)	(78,554)
Maturities of marketable securities	40,250	100,225
Release of funds for acquisition of minority interest	28,332	-
Additions to property and equipment	(62,528)	(62,265)
Proceeds from sales of property and equipment	8,115	7,546
Acquisition of businesses	(14,022)	(74,197)
Contributions to affiliates	(4,420)	(3,574)
Collection of notes receivable	676	3,683
Net cash used in investing activities	(32,217)	(107,136)
Financing Activities		
Proceeds from long-term debt	2,103	96,945
Repayments of long-term debt	(15,032)	(26,641)
Dividends paid	(10,103)	(8,378)
Repurchases of common stock	(45,468)	(4,860)
Contributions from minority partners	4,744	23,954
Distributions to minority partners	(2,639)	(8,660)
Acquisition of minority interest	(11,716)	-
Excess tax benefit on stock-based compensation	746	2,700
Other	-	249
Net cash (used in) provided by financing activities	(77,365)	75,309

(Decrease) increase in cash and cash equivalents		(65,786)		41,385
Cash and cash equivalents at beginning of period		352,434		204,893
Cash and cash equivalents at end of period	$	286,648	$	246,278
Supplementary Information				
Cash paid during the period for:				
Interest	$	7,668	$	2,299
Income taxes		6,852		738
Non-cash investing and financing activity:				
Restricted stock issued for services	$	6,835	$	11,870
Restricted stock units issued		3,208		-
Dividends accrued but not paid		4,976		4,195
Financed acquisition of assets		-		1,492
Debt repayments from sale of assets		2,652		4,277

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

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GRANITE CONSTRUCTION INCORPORATED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation:

The condensed consolidated financial statements included herein have been prepared by Granite Construction Incorporated (“we”, “us”, “our” or “Granite”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, although we believe the disclosures which are made are adequate to make the information presented not misleading. Further, the condensed consolidated financial statements reflect, in the opinion of management, all normal recurring adjustments necessary to present fairly our financial position at June 30, 2008 and 2007 and the results of our operations and cash flows for the periods presented. The December 31, 2007 condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Interim results are subject to significant seasonal variations and the results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year.

2. Recently Issued Accounting Pronouncements:

FSP 142-3

In April 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position 142-3, Determination of the Useful Life of Intangible Assets, (“FSP 142-3”). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for us in 2009. We are currently assessing the impact of FSP 142-3 on our consolidated financial statements.

SFAS 160

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (“SFAS 160”). Under SFAS 160, the ownership interests in subsidiaries held by parties other than the parent must be clearly identified, labeled, and presented in the consolidated balance sheets within equity, but separate from the parent’s equity and the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary should be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment. Lastly, SFAS 160 requires entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 is effective for us in 2009. We are currently assessing the impact of SFAS 160 on our consolidated financial statements.

SFAS 141-R

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141-R, Business Combinations (“SFAS 141-R”) which revised SFAS 141, Business Combinations (“SFAS 141”). Under SFAS 141, organizations

utilized the announcement date as the measurement date for the purchase price of the acquired entity. SFAS 141-R requires measurement at the date the acquirer obtains control of the acquiree, generally referred to as the acquisition date. SFAS 141-R will have a significant impact on the accounting for transaction costs, restructuring costs and the initial recognition of contingent assets and liabilities assumed during a business combination. Under SFAS 141-R, adjustments to the acquired entity's deferred tax assets and uncertain tax position balances occurring outside the measurement period are recorded as a component of income tax expense, rather than goodwill. This pronouncement is effective for us in 2009. As the provisions of SFAS 141-R are applied prospectively, the impact on us cannot be determined until the transactions occur.

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GRANITE CONSTRUCTION INCORPORATED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. Change in Accounting Estimates:

Our gross profit in the three and six months ended June 30, 2008 and 2007 include the effects of significant changes in the estimates of the profitability of certain of our projects.

Granite East

The impact of significant changes in the estimates of the profitability on Granite East gross profit is summarized as follows:

Granite East Change in Accounting Estimates (dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Increase in gross profit	$ 12.1	$ 26.3	$ 56.6	$ 34.9
Reduction in gross profit	(3.5)	(24.0)	(10.0)	(48.1)
Net change to gross profit	$ 8.6	$ 2.3	$ 46.6	$ (13.2)
Number of projects with significant upward estimate changes*	4	7	5	6
Range of net increase to gross profit from each project	1.6 - $ 3.0	1.0 - $ 12.2	1.3 - $ 30.3	1.1 - $ 17.3
Number of projects with significant downward estimate changes*	2	4	3	8
Range of net reduction to gross profit from each project	1.2 - $ 1.3	1.2 - $ 15.7	1.4 - $ 2.4	1.0 - $ 25.7

* Significant is defined as a change with a net impact of $1.0 million or greater

During the three and six months ended June 30, 2008, Granite East recognized a net increase in gross profit from the net effect of changes in the estimates of project profitability of approximately $8.6 million and $46.6 million, respectively. The increases were primarily due to improved productivity estimates, settlement of outstanding revenue issues with the contract owners and the resolution of project uncertainties. The changes in estimates for the six months ended June 30, 2008 included the first quarter negotiated settlement of our claims on the SR 22 project in Southern California which increased gross profit by approximately $28.6 million. Several of the projects with improved profitability estimates had recognized significant margin deterioration in prior periods.

This compares with a net increase in gross profit of approximately $2.3 million in the three months ended June 30, 2007 and a net decrease in gross profit of approximately $13.2 million in the six months ended June 30, 2007 from changes in project profitability estimates.

Granite West

During the three and six months ended June 30, 2008, Granite West recognized an increase in gross profit from the net effects of changes in the estimates of project profitability of approximately $21.8 million and $34.5 million, respectively. This compares with an increase in gross profit of approximately $9.0 million and $13.9 million during the three and six months ended June 30, 2007, respectively. The increased Granite West profitability estimates during

the three and six months ended June 30, 2008 were due primarily to the resolution of project uncertainties, higher productivity than originally estimated and the settlement of outstanding revenue and other issues with contract owners.

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GRANITE CONSTRUCTION INCORPORATED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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4. Fair Value Measurement:

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 introduces a framework for measuring fair value and expands required disclosure about fair value measurements of certain assets and liabilities. We adopted SFAS 157 as of January 1, 2008, and the impact of adoption was not significant. The FASB has deferred the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. We are currently assessing the impact on our financial statements of SFAS 157 as it pertains to non-financial assets and liabilities measured on a non-recurring basis.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

We utilize the active market approach to measure fair value for our financial assets and liabilities.

Assets measured at fair value on a recurring basis are summarized below. We have no financial liabilities measured at fair value on a recurring basis.

June 30, 2008	Level 1	Level 2	Level 3	Total
(in thousands)				
Available-for-sale securities	$ 31,219	$ -	$ -	$ 31,219

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GRANITE CONSTRUCTION INCORPORATED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

5. Inventories:

Inventories consist primarily of quarry products valued at the lower of average cost or market.

6. Real Estate Entities and Investment in Affiliates:

We are participants in real estate entities through our Granite Land Company subsidiary (“GLC”). Generally, each entity is formed to accomplish a specific real estate development project. We have determined that certain of these entities are variable interest entities as defined by FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (“FIN 46”). Accordingly, we have consolidated those entities for which we have determined that we are the primary beneficiary. At June 30, 2008, the entities we have consolidated were engaged in development projects with total assets ranging from approximately $0.2 million to $26.9 million. At June 30, 2008 we had $50.3 million classified as real estate held for development and sale and an additional $15.4 million included in property and equipment on our condensed consolidated balance sheet related to GLC. Of these amounts, approximately $56.7 million was pledged as collateral for the obligations of consolidated real estate entities. Our proportionate share of the results of these entities varies depending on the ultimate profitability of the entities.

We account for our share of the operations of real estate entities in which we have determined we are not the primary beneficiary in “investments in affiliates” in our condensed consolidated balance sheets and in “other income (expense)” in our condensed consolidated statements of income. At June 30, 2008, these entities were engaged in development projects with total assets ranging from approximately $5.7 million to $50.1 million. Our proportionate share of the results of these entities varies depending on the ultimate profitability of the entities. At June 30, 2008 we had approximately $22.0 million recorded on our condensed consolidated balance sheet related to our investment in these real estate entities.

Included in the $50.3 million balance of real estate held for development and sale and the $22.0 million in investment in affiliates at June 30, 2008 is approximately $56.8 million related to residential housing projects. These projects are located in Washington, California, Texas, and Oregon. The amount in each state is summarized below:

(in millions)		
Washington	$	32.0
California		12.6
Texas		7.3
Oregon		4.9
Total residential housing projects	$	56.8

Due to the downturn in the residential housing market, most notably in California, we assessed whether our investments related to these projects were impaired. The carrying amounts of such real estate development assets are evaluated for recoverability in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (“SFAS 144”). A real estate development asset is considered impaired when its carrying amount is greater than the undiscounted future net cash flows the asset is expected to generate. Impaired real estate development assets are written down to fair value, which is generally determined based on the sum of the discounted cash flows expected to result from the eventual disposal of the asset. Based on our evaluations, we recognized a pretax, non-cash impairment charge of $4.5 million in the three months ended June 30, 2008 on assets classified as real estate held for development and sale. We recorded the charge in cost of revenue in

our consolidated statements of income in our Granite Land Company operating segment.

Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs, holding periods or other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions we used in testing for impairment are reasonable, significant changes in any one of our assumptions could produce a significantly different result.

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GRANITE CONSTRUCTION INCORPORATED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

7. Construction Joint Ventures:

We participate in various construction joint ventures. Generally, each construction joint venture is formed to accomplish a specific project and is jointly controlled by the joint venture partners. The joint venture agreements typically provide that our interest in any profits and assets, and our respective share in any losses and liabilities that may result from the performance of the contract are limited to our stated percentage interest in the project. Although each venture's contract with the project owner typically requires joint and several liability among the joint venture partners, our agreements with our joint venture partners provide that each partner will assume and pay its full proportionate share of any losses resulting from a project.

We have determined that certain of these joint ventures are variable interest entities as defined by FIN 46. Accordingly, we have consolidated those joint ventures where we have determined that we are the primary beneficiary. At June 30, 2008, the joint ventures we have consolidated were engaged in construction projects with total contract values ranging from approximately $11.3 million to $487.6 million. Our proportionate share of the consolidated joint ventures ranges from 40% to 99%.

Consistent with Emerging Issues Task Force Issue 00-01, Investor Balance Sheet and Income Statement Display under the Equity Method for Investments in Certain Partnerships and Other Ventures, we account for our share of the operations of construction joint ventures in which we have determined we are not the primary beneficiary on a pro rata basis in the condensed consolidated statements of income and as a single line item in the condensed consolidated balance sheets. At June 30, 2008, the joint ventures in which we hold a significant interest but are not the primary beneficiary were engaged in construction projects with total individual contract values ranging from approximately $165.0 million to $717.2 million. Our proportionate share of these joint ventures ranges from 20% to 40%.

We also participate in various "line item" joint venture agreements under which each partner is responsible for performing certain discrete items of the total scope of contracted work. The revenue for these discrete items is defined in the contract with the project owner and each partner assumes the profitability risk associated with its own work. All partners in a line item joint venture are jointly and severally liable for completion of the total project under the terms of the contract with the project owner. There is not a single set of books and records for a line item joint venture. Each partner accounts for its items of work individually as it would for any self-performed contract. We account for our portion of these contracts as a project in our accounting system and include receivables and payables associated with our work on our condensed consolidated balance sheets.

Although our agreements with our joint venture partners for both construction joint ventures and line item joint ventures provide that each partner will assume and pay its share of any losses resulting from a project, if one of our partners is unable to make its required contribution, we would be fully liable under our contract with the project owner. Circumstances that could lead to a loss under our joint venture arrangements beyond our proportionate share include a partner's inability to contribute additional funds to the venture in the event the project incurs a loss, or additional costs that we could incur should a partner fail to provide the services and resources toward project completion that had been committed to in the joint venture agreement. At June 30, 2008, approximately $501.1 million of work representing our partners' share of unconsolidated and line item joint venture contracts in progress had yet to be completed.

8. Property and Equipment, Net:

(in thousands)	June 30, 2008	December 31, 2007	June 30, 2007
Equipment and vehicles	$ 848,044	$ 843,570	$ 849,506
Quarry property	143,185	135,749	126,876
Land and land improvements	110,592	93,862	72,566
Buildings and leasehold improvements	86,151	79,663	73,597
Office furniture and equipment	32,188	28,889	29,530
Gross property and equipment	1,220,160	1,181,733	1,152,075
Less: accumulated depreciation, depletion and amortization	693,777	678,832	661,747
Net property and equipment	$ 526,383	$ 502,901	$ 490,328

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GRANITE CONSTRUCTION INCORPORATED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

9. Intangible Assets:

The following intangible assets from our Granite West segment are included in other assets on our condensed consolidated balance sheets at carrying value:

(in thousands)	June 30, 2008	December 31, 2007	June 30, 2007
Unamortized intangible assets:			
Goodwill	$ 9,900	$ 9,900	$ 9,900
Use rights	2,954	-	-
Total unamortized intangible assets	$ 12,854	$ 9,900	$ 9,900

	June 30, 2008		
(in thousands)	Gross Value	Accumulated Amortization	Net Value
Amortized intangible assets:			
Permits	$ 35,570	$ (2,807)	$ 32,763
Trade names	1,583	(1,160)	423
Covenants not to compete	1,587	(490)	1,097
Other	3,725	(1,220)	2,505
Total amortized intangible assets	$ 42,465	$ (5,677)	$ 36,788

	December 31, 2007		
(in thousands)	Gross Value	Accumulated Amortization	Net Value
Amortized intangible assets:			
Permits	$ 36,362	$ (1,953)	$ 34,409
Trade names	1,425	(972)	453
Covenants not to compete	1,661	(410)	1,251
Other	1,712	(671)	1,041
Total amortized intangible assets	$ 41,160	$ (4,006)	$ 37,154

	June 30, 2007		
(in thousands)	Gross Value	Accumulated Amortization	Net Value
Amortized intangible assets:			
Permits	$ 32,105	$ (1,166)	$ 30,939
Trade names	1,425	(870)	555
Covenants not to compete	1,436	(204)	1,232
Other	1,712	(386)	1,326
Total amortized intangible assets	$ 36,678	$ (2,626)	$ 34,052

Amortization expense related to intangible assets was approximately $1.0 million and $1.7 million for the three and six months ended June 30, 2008, respectively, and approximately $0.7 million and $0.8 million for the three and six months ended June 30, 2007, respectively. Amortization expense expected to be recorded in the future is as follows: $1.8 million for the balance of 2008, $3.0 million in 2009, $2.5 million in 2010, $2.3 million in 2011, $2.2 million in

2012 and $25.0 million thereafter.

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10. Weighted Average Shares Outstanding:

(in thousands)	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007
Weighted average shares outstanding:				
Weighted average common stock outstanding	38,276	41,938	38,594	41,890
Less: weighted average non-vested restricted stock outstanding	850	842	812	846
Total basic weighted average shares outstanding	37,426	41,096	37,782	41,044
Diluted weighted average shares outstanding:				
Basic weighted average shares outstanding	37,426	41,096	37,782	41,044
Effect of dilutive securities:				
Common stock options and units	126	45	80	45
Restricted stock	377	490	359	471
Total weighted average shares outstanding assuming dilution	37,929	41,631	38,221	41,560

Restricted stock representing approximately 215,000 and 88,000 shares for the six months ended June 30, 2008 and June 30, 2007, respectively, has been excluded from the calculation of diluted shares because their impact would be anti-dilutive.

11. Comprehensive Income:

The components of comprehensive income in our condensed consolidated statements of income are as follows:

(in thousands)	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007
Net income	$ 25,618	$ 43,846	$ 38,741	$ 41,597
Other comprehensive (loss) income:				
Changes in unrealized gain (loss) on investments	(407)	1,382	(3,349)	1,955
Tax benefit (provision) on unrealized (loss) gain	159	(537)	1,310	(760)
Total comprehensive income	$ 25,370	$ 44,691	$ 36,702	$ 42,792

12. Legal Proceedings

Silica Litigation

Our wholly owned subsidiary Granite Construction Company (“GCCO”) is one of approximately 100 to 300 defendants in eight active California Superior Court lawsuits. Of the eight lawsuits, five were filed against GCCO in 2005 and three were filed against GCCO in 2006, in Alameda County (Molina vs. A-1 Aggregates, et al.; Dominguez vs. A-1 Aggregates, et al.; Cleveland vs. A. Teichert & Son.; Guido vs. A. Teichert & Son, Inc.; Williams vs. A. Teichert &

Son, Inc.; Horne vs. Teichert & Son, Inc.; Kammer vs.A-1 Aggregates, et al.; and Solis vs. The 3M Company et al.). Each lawsuit was brought by a single plaintiff who is seeking money damages by way of various causes of action, including strict product and market share liability, and alleges personal injuries caused by exposure to silica products and related materials during the plaintiffs' use or association with sand blasting or grinding concrete. The plaintiff in each lawsuit has categorized the defendants as equipment defendants, respirator defendants, premises defendants and sand defendants. We have been identified as a sand defendant, meaning a party that manufactured, supplied or distributed silica-containing products. Our preliminary investigation revealed that we have not knowingly sold or distributed abrasive silica sand for sandblasting, and therefore, we believe the probability of these lawsuits resulting in an incurrence of a material liability is remote. We have been dismissed from sixteen other similar lawsuits.

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Hiawatha Project DBE Issues

The Hiawatha Light Rail Transit (“HLRT”) project was performed by Minnesota Transit Constructors (“MnTC”), a joint venture (“JV”), that consisted of GCCO and other unrelated companies. GCCO was the managing partner of the JV, with a 56.5% interest. The Minnesota Department of Transportation (“MnDOT”) is the contracting agency for this federally funded project. MnDOT and the U.S. Department of Transportation Office of Inspector General (“OIG”) each conducted a review of the Disadvantaged Business Enterprise (“DBE”) program maintained by MnTC for the HLRT project. In addition, the U.S. Department of Justice (“USDOJ”) is conducting an investigation into compliance issues with respect to MnTC’s DBE Program for the HLRT project. MnDOT and the OIG (collectively, the “Agencies”) have initially identified certain compliance issues in connection with MnTC’s DBE Program and, as a result, have determined that MnTC failed to meet the DBE utilization criteria as represented by MnTC. Although there has been no formal administrative subpoena issued, nor has a civil complaint been filed in connection with the administrative reviews or the investigation, MnDOT has proposed a monetary sanction of $4.3 million against MnTC and specified DBE training for personnel from the members of the MnTC JV as a condition of awarding future projects to JV members of MnTC on MnDOT and Metropolitan Council work. The Metropolitan Council was the local agency conduit for providing federal funds to MnDOT for this HLRT project. MnTC is fully cooperating with the Agencies and the USDOJ and, on July 2, 2007, presented its detailed written response to the initial determinations of the Agencies as well as the investigation by the USDOJ. We have yet to receive a formal reply from the Agencies or the USDOJ, although informal discussions have been continuing. We have been informed by the USDOJ that the focus of its investigation is currently civil. However, we cannot rule out the possibility of a civil or criminal action being brought against MnTC or one or more of its members which could result in civil and/or criminal penalties.

I-494 Project DBE Issues

The I-494 project was performed by a JV that consisted of GCCO and another unrelated party. GCCO was the managing partner of the JV, with a 60% interest. MnDOT is the contracting agency for this federally funded project. MnDOT conducted a review of the DBE program maintained by the JV for the I-494 project. MnDOT has initially identified certain compliance issues in connection with the JV’s DBE program, and as a result, has determined that the JV failed to meet the DBE utilization criteria as represented by the JV. Although there has been no formal administrative subpoena, nor has a civil complaint been filed in connection with the administrative reviews, MnDOT has proposed a monetary sanction of $200,000 against the JV and specified DBE training for personnel from the members of the JV as a condition of future bidding on MnDOT work by members of the JV. The JV is fully cooperating with MnDOT and has the opportunity to present its response to MnDOT’s initial determinations. The JV is investigating MnDOT’s initial determinations. The JV and MnDOT have begun informal settlement negotiations in an attempt to resolve this matter. However, at this time, we cannot reasonably estimate the amount of any monetary sanction or what, if any, other sanction conditions might ultimately be imposed.

US Highway 20 Project

GCCO and our wholly-owned subsidiary, Granite Northwest, Inc., are the members of a JV known as Yaquina River Constructors (“YRC”) which is currently constructing a new road alignment of US Highway 20 near Eddyville, Oregon under contract with the Oregon Department of Transportation (“ODOT”). The project involves constructing seven miles of new road through steep and forested terrain in the Coast Range Mountains. During the fall and winter of 2006, extraordinary rain events produced runoff that overwhelmed erosion control measures installed at the project and resulted in discharges to surface water in alleged violations of the stormwater permit. The Oregon Department of

Environmental Quality ("DEQ") has issued notices of violation and fine of $240,000 to YRC for these alleged violations which have been settled by entering into a mutual agreement and final order. The Oregon Department of Justice is conducting a criminal investigation in connection with stormwater runoff from the project. YRC and its members are fully cooperating in the investigation, but YRC does not know whether criminal charges or civil lawsuit, if any, will be brought or against whom. Therefore, we cannot estimate what, if any, criminal or civil penalty or conditional assessment will result from this investigation.

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Other Legal Proceedings

We are a party to a number of other legal proceedings arising in the normal course of business which, from time to time, include inquiries from public agencies seeking information concerning our compliance with government construction contracting requirements and related laws and regulations. We believe that the nature and number of these proceedings and compliance inquiries are typical for a construction firm of our size and scope. Our litigation typically involves claims regarding public liability or contract related issues. While management currently believes, after consultation with counsel, that the ultimate outcome of such proceedings and compliance inquiries which are currently pending, individually and in the aggregate, will not have a material adverse effect on our financial position or overall trends in results of operations or cash flows, litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the results of operations, cash flows and/or financial position for the period in which the ruling occurs. While any one of our pending legal proceedings is subject to early resolution as a result of our ongoing efforts to settle, whether or when any legal proceeding will resolve through settlement is neither predictable nor guaranteed.

13. Business Segment Information:

We have three reportable segments: Granite West, Granite East and Granite Land Company.

Granite West is comprised of decentralized branch offices in the western United States that perform various heavy civil construction projects with a large portion of the work focused on new construction and improvement of streets, roads, highways and bridges as well as site preparation for residential and commercial development and sales of construction materials. Each branch reports under one of three operating groups: Northwest, Northern California and Southwest. Because the operating groups have similar economic characteristics as defined in Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (“SFAS 131”), we have aggregated them into the Granite West reportable segment. Although most Granite West projects are started and completed within a year, the division also has the capability of constructing larger projects and at June 30, 2008 had seven such active large projects, each with total contract revenue greater than $50.0 million. All of our revenue from the sale of construction materials is generated by Granite West which mines aggregates and operates plants that process aggregates into construction materials for internal use and for sale to others. These activities are vertically integrated into the Granite West business, providing both a source of profits and a competitive advantage to our construction business.

Granite East operates in the eastern portion of the United States with a focus on large, complex infrastructure projects, primarily east of the Rocky Mountains. With its division office in Lewisville, Texas, Granite East operates out of three regional offices: the Central Region, based in Lewisville, Texas; the Southeast Region, based in Tampa, Florida; and the Northeast Region, based in Tarrytown, New York. Because the regions have similar economic characteristics as defined in SFAS 131, we have aggregated them into the Granite East reportable segment. Granite East construction contracts are typically greater than two years in duration.

Additionally, we purchase, develop, operate, sell and otherwise invest in real estate through GLC, which also provides real estate services for other Granite operations. GLC’s portfolio of projects includes both commercial and residential development and is geographically diversified throughout the West and Texas.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies contained in our 2007 Annual Report on Form 10-K. We evaluate performance based on operating profit or loss (excluding gain on sales of property and equipment), and do not include income taxes, interest income, interest expense or other income (expense). Unallocated other corporate expenses principally comprise corporate general and administrative expenses.

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Summarized segment information is as follows:

	Three Months Ended June 30,			
(in thousands)	Granite West	Granite East	Granite Land Company	Total
2008				
Revenue from external customers	$ 517,160	$ 171,072	$ 6,100	$ 694,332
Intersegment revenue transfer	303	(303)	-	-
Net revenue	517,463	170,769	6,100	694,332
Depreciation, depletion and amortization	18,039	2,005	7	20,051
Operating income (loss)	57,117	12,006	(3,154)	65,969
2007				
Revenue from external customers	$ 540,533	$ 219,942	$ 10,401	$ 770,876
Intersegment revenue transfer	1,914	(1,914)	-	-
Net revenue	542,447	218,028	10,401	770,876
Depreciation, depletion and amortization	17,780	1,902	36	19,718
Operating income	75,747	7,072	2,978	85,797

	Six Months Ended June 30,			
(in thousands)	Granite West	Granite East	Granite Land Company	Total
2008				
Revenue from external customers	$ 755,130	$ 387,229	$ 6,773	$ 1,149,132
Intersegment revenue transfer	2,335	(2,335)	-	-
Net revenue	757,465	384,894	6,773	1,149,132
Depreciation, depletion and amortization	35,836	4,176	18	40,030
Operating income (loss)	61,880	64,142	(3,604)	122,418
Segment assets	462,825	22,467	65,664	550,956
2007				
Revenue from external customers	$ 836,844	$ 406,374	$ 15,318	$ 1,258,536
Intersegment revenue transfer	3,697	(3,697)	-	-
Net revenue	840,541	402,677	15,318	1,258,536
Depreciation, depletion and amortization	32,028	4,768	45	36,841
Operating income (loss)	96,721	(10,185)	5,879	92,415
Segment assets	427,105	30,388	59,205	516,698

A reconciliation of segment operating income to consolidated totals is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2008	2007	2008	2007
Total operating income for reportable segments	$ 65,969	$ 85,797	$ 122,418	$ 92,415
Other income, net	1,247	3,949	10,548	9,824
Gain on sales of property and equipment	2,155	4,346	2,556	5,059
Unallocated other corporate expense	(22,703)	(23,293)	(41,110)	(36,212)
Income before provision for income taxes and minority interest	$ 46,668	$ 70,799	$ 94,413	$ 71,086

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14. Acquisition:

In January 2008, we purchased certain assets and assumed certain liabilities of a construction materials supplier in Nevada for cash consideration of approximately $14.0 million. The results of the acquired business's operations are included in our condensed consolidated statements of income and cash flows from the date of acquisition and were not material. The estimated fair value of the assets acquired approximated the purchase price; therefore, no goodwill was recorded.

15. Common Stock Repurchase:

In 2007, our Board of Directors authorized us to repurchase, at management's discretion, up to $200.0 million of our common stock. During the six months ended June 30, 2008, we repurchased 1.4 million shares for a total of $43.2 million under this repurchase program. From the inception of this program through June 30, 2008, we have repurchased a total of 3.8 million shares for an aggregate cost of $135.9 million. All shares were retired upon acquisition. At June 30, 2008, $64.1 million of the $200.0 million authorization was available for future share repurchases.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Disclosure

From time to time, Granite makes certain comments and disclosures in reports and statements, including in this Quarterly Report on Form 10-Q, or statements made by its officers or directors that are not based on historical facts and which may be forward-looking in nature. Under the Private Securities Litigation Reform Act of 1995, a "safe harbor" may be provided to us for certain of these forward-looking statements. Words such as "outlook," "believes," "expects," "appears," "may," "will," "should," "anticipates" or the negative thereof or comparable terminology, are intended to identify such forward-looking statements. In addition, other written or oral statements which constitute forward-looking statements have been made and may in the future be made by or on behalf of Granite. These forward-looking statements are estimates reflecting the best judgment of senior management and are based on our current expectations and projections concerning future events, many of which are outside of our control, and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those more specifically described in our Annual Report on Form 10-K under "Item 1A. Risk Factors." Granite undertakes no obligation to publicly revise or update any forward-looking statements for any reason. As a result, the reader is cautioned not to rely on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q.

Overview

We are one of the largest heavy civil contractors in the United States and are engaged in the construction and improvement of streets, roads, highways and bridges as well as dams, airport infrastructure, mass transit facilities and other infrastructure-related projects. We have offices in Alaska, Arizona, California, Florida, Nevada, New York, Oregon, Texas, Utah and Washington.

Our construction contracts are obtained primarily through competitive bidding in response to advertisements by federal, state and local agencies and private parties and to a lesser extent through negotiation with private parties. Our bidding activity is affected by such factors as backlog, available personnel, current utilization of equipment and other resources, our ability to obtain necessary surety bonds and competitive considerations. Bidding activity, backlog and revenue resulting from the award of new contracts may vary significantly from period to period. We have three reportable business segments: Granite West, Granite East and Granite Land Company (see Note 13 to the condensed consolidated financial statements).

The two primary economic drivers of our business are (1) the overall health of the economy and (2) federal, state and local public funding levels, both nationally and locally. The level of demand for our services will have a direct correlation to these drivers. For example, a weak economy will generally result in a reduced demand for construction in the private sector. This reduced demand increases competition for fewer private sector projects and will ultimately also increase competition in the public sector as companies migrate from bidding on scarce private sector work to projects in the public sector. Greater competition can reduce revenue growth and/or increase pressure on gross profit margins. A weak economy also tends to produce less tax revenue, thereby decreasing the funds available for spending on public infrastructure improvements. There are funding sources that have been specifically earmarked for infrastructure spending, such as diesel and gasoline taxes, which are not as directly impacted by a weak economy. However, even these funds can be temporarily at risk as state and local governments struggle to balance their budgets. Additionally, high fuel prices can have the effect of reducing consumption, resulting in lower tax revenue. Conversely, higher public funding and/or a robust economy will generally increase demand for our services and provide opportunities for revenue growth and margin improvement.

Our general and administrative costs include salaries and related expenses, incentive compensation, discretionary profit sharing and other variable compensation, as well as other costs to support our business. In general, these costs will increase in response to the growth and the related increased complexity of our busin