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GRANITE™

2017 ANNUAL REPORT & 2018 PROXY STATEMENT

GRANITE™

Refinement and execution of our Strategic Plan guides Granite on the long-term path of stakeholder value creation.

Through its offices and subsidiaries nationwide, Granite (NYSE: GVA) is one of the nation's largest infrastructure contractors and construction materials producers. Granite specializes in complex infrastructure projects, including transportation, industrial and federal contracting, and is a proven leader in alternative procurement project delivery.

Granite is an award-winning firm in safety, quality and environmental stewardship. We have been named by the Ethisphere Institute as one of The World's Most Ethical Companies for nine consecutive years, to Forbes list of 100 Most Trustworthy Companies in America for three consecutive years, to Forbes Best Mid-Sized Employers list the past two years, and, last fall, we were very proud to be certified as a great workplace by the independent analysts at Great Place to Work®.

Granite is listed on the New York Stock Exchange and is part of the S&P MidCap 400 Index, the MSCI KLD 400 Social Index and the Russell 2000 Index. For more information, visit graniteconstruction.com.

TO OUR **SHAREHOLDERS**

We continued down the path of our five-year Building Value Together strategic platform...

2020 Strategic Plan Update – Building Value Together

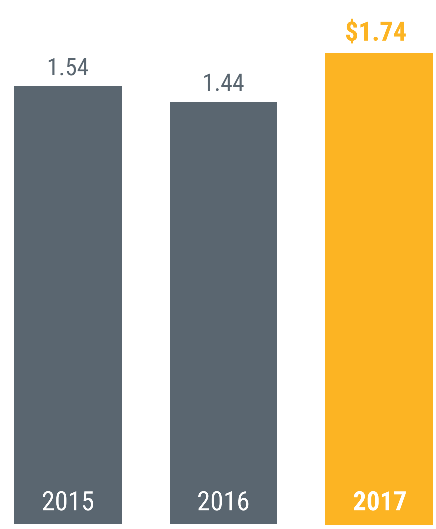
...in 2017, refining and executing on our three strategic themes to "Develop" our people, to "Execute" our work better every day, and to "Grow" our business organically and through acquisition. 2017 provided Granite teams opportunities to deliver on the "Grow" theme, balancing excellent organic growth with progress toward acquisition-led expansion. Investment in the "Develop" theme supports our commitment to employees and to creating an even more sustainable business enterprise, while the "Execute" theme highlights opportunities for flawless end-to-end project delivery, asset optimization, customer focus, and an improved balance of risk and returns. We continue to focus on opportunities to expand the Granite value proposition with and for all stakeholders, from shareholders and our employees to our partners and customers.

2017 – Solid Results, Improving Trends

At Granite, our business has been built over more than nine decades by our people and their unwavering commitment to live and display our Core Values every day. We are extraordinarily proud to once again highlight Granite's recognition as one of the World's Most Ethical Companies® for the ninth year in a row by Ethisphere Institute[1]. In 2017, we were named to the Forbes 100 Most Trustworthy Companies in America list for a third straight year, to Forbes Best Mid-

Earnings Per Share

(on a fully diluted basis)



Sized Employers list two straight years, and Granite was certified as a great workplace in late 2017 by the independent analysts at Great Place to Work®. We deeply appreciate the work and dedication of our employees who make these recognitions possible.

We continue on the path to reach our ultimate goal of zero injuries. Granite's commitment to the safety of our employees and the teams who work with our employees remains unwavering, reflected in consistent improvement of our Occupational Safety & Health Administration Recordable Incident Rate[2] since 2000. We continue to lead the industry as a top safety performer in the Construction Sector (2016 Construction Sector Incident Rate was 3.23[3], compared to Granite's 2017 incident rate of 1.23).

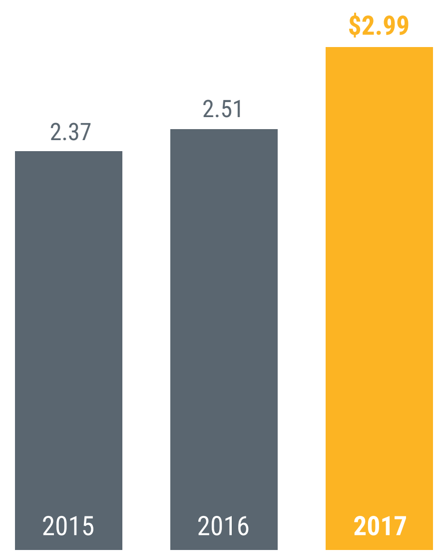
We reported net income of $69.1 million in 2017, compared with $57.1 million in 2016. Earnings per share on a diluted basis were $1.71 in 2017, a 20.5 percent increase from $1.42 the prior year. Revenues increased 18.9 percent to $2.99 billion in 2017, driven by the steady performance and consistent demand in each of our reportable business segments. Improving demand helped Company backlog finish at a year-end record $3.72 billion in 2017, an increase of 6.7 percent from 2016's record level of $3.48 billion.

The Construction segment led the way with nearly 22 percent revenue growth in 2017. Our diverse Large Project Construction segment grew 16.2 percent, and the Construction Materials segment posted a revenue increase of 12.1 percent. Total Company gross profit increased 4.5 percent year-over-year in 2017 to $314.9 million, driven by strong gross profit growth in the Construction and Construction Materials segments. Total Company gross profit margin was 10.5 percent in 2017, down from 12.0 percent in 2016. Construction segment gross profit margin was 14.8 percent, down modestly from 15.3 percent in 2016. Large Project Construction segment gross profit margin declined to 2.9 percent in 2017. The Construction Materials segment gross profit margin finished 2017 at 13.0 percent, a solid increase from 10.7 percent in 2016.

After a solid performance by our vertically integrated Construction and Construction Materials operations in 2017, demand continues to improve, but it remains far below the levels created by the strong, cyclical demand we experienced more than a decade ago. With improving demand now coming into focus, we expect this part of our business to deliver considerable leverage as utilization increases and excess industry capacity diminishes. Again in 2017, the Large Project Construction segment produced results well below our expectations driven primarily by performance, design, and owner-related issues at projects nearing completion in 2017 and 2018. We continue to believe that mid-teens gross profit margins in this portion of our business are both necessary and achievable. Our teams have refocused their attention on improved execution at the bidding, design and construction phases of these complex projects, emphasizing sole-Granite and Granite-led projects and de-emphasizing mega-project bidding opportunities. We are improving, but our teams still have considerable work to do, as we

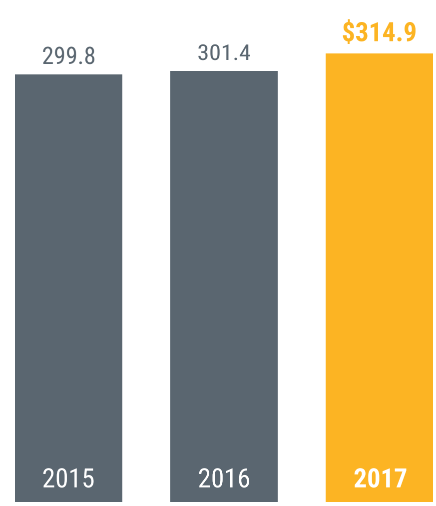
Total Company Revenue

($ in billions)



Total Company Gross Profit

($ in millions)



focus on delivering appropriate returns for the risk inherent in this portion of our portfolio. We expect recent wins in our project portfolio will provide an increasingly positive influence on results beginning late in 2018 with expected steady improvement across 2019 and 2020.

Platform for Growth – Inside Granite

Over the past couple of years, we regularly have discussed the trend and cadence of improving demand environments across geographies and end markets. Investments in our people are critical to capturing a growing share of increasing private market demand and improved public market demand.

To improve the benefit from these growth opportunities, Granite has adopted a formal, rigorous Continuous Improvement program to perpetually improve our operational efficiency and effectiveness, while promoting a more collaborative culture and providing bottom-line returns. Our program focuses on incremental productivity and quality improvement, with training emphasizing typical Lean Six Sigma practices primarily with operations employees. Identification and removal of non-value-added activities ultimately improves project efficiency and value for Granite and for our clients.

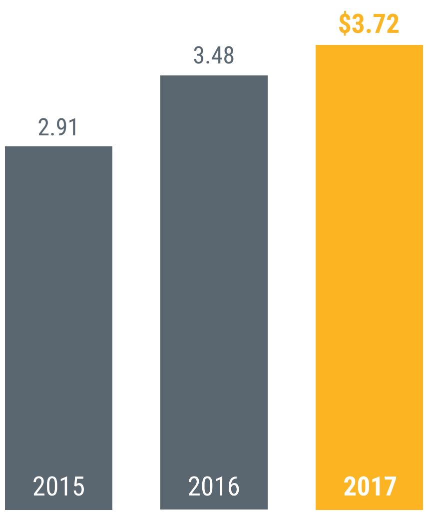
From a recruiting, talent retention, and growth perspective, Granite is investing in building the next generations of

GROW

GREAT PLACE TO WORK® CERTIFIED
NOV 2017 - NOV 2018
USA

Total Company Backlog

($ in billions)



diverse construction and infrastructure leaders. In September of 2017, 12 women from across Granite came together to launch Granite Resources and Opportunities for Women (GROW), a formal group and forum to advocate for and to support women at Granite through mentorship, networking and career development. We are proud and supportive of this critical engagement that we believe helps establish Granite as an employer of choice for women. In 2018 and beyond, while supporting recruiting, career development and networking across the company, Granite and GROW will hold quarterly nationwide events and will have an increased presence at national construction conferences. We are confident that Granite stakeholders will benefit both from this advocacy and by improving women's career development across the Granite enterprise.

Platform for Growth – Positive Funding, Demand Trends Fuel Long-Term Growth Opportunities

We are now seeing critical, long-term public investment commitment, the most in nearly two decades. At the federal level, the passage in early 2018 of a two-year federal budget agreement was the most significant action since the December 2015 passage of the five-year, Fixing America's Surface Transportation Act (FAST Act). Incremental commitments for public investment across the West and across the country are beginning to reach local, regional, and state markets, which provide an exciting balance to healthy private market demand.

These dynamics point to a lengthy investment cycle over the next five to 10 years, with a significant improvement in funding and demand in key public markets for Granite. California's SB 1, the Road Repair and Accountability Act of 2017, was passed in April 2017, and the 10-year, $52.4 billion bill began collecting revenue in November 2017. This investment bolsters the nearly $190 billion of local measures approved by voters in Washington state and California in November 2016.

We believe we are now well on our way to becoming ***America's Infrastructure Company,*** as we deliver future generations of high-value, world-class transportation, water, and power infrastructure solutions for our clients and for the communities we serve. Granite teams are expected to deliver steady top- and bottom-line growth, with a strong safety and ethical focus to guide our success in 2018 and beyond.

We sincerely thank our shareholders for your interest, engagement, and your confidence. And, of course, we thank our employees for your commitment, focus, and for exhibiting Granite's Core Values every single day.

James H. Roberts
President and Chief Executive Officer

William H. Powell
Chairman of the Board

[1] *The Ethisphere® Institute is the global leader in defining and advancing the standards of ethical business practices that fuel corporate character, marketplace trust and business success. Ethisphere has deep expertise in measuring and defining core ethics standards using data-driven insights that help companies enhance corporate character. Ethisphere honors superior achievement through its World's Most Ethical Companies® recognition program, provides a community of industry experts with the Business Ethics Leadership Alliance (BELA) and showcases trends and best practices in ethics with the publication of Ethisphere magazine. More information about Ethisphere can be found at: http://ethisphere.com.*

[2] *The OSHA Recordable Incident Rate (or Incident Rate) is calculated by multiplying the number of recordable cases by 200,000, and then dividing that number by the number of labor hours at the company.*

[3] *According to the U.S. Bureau of Labor Statistics data for the Construction Sector, NAICS 23.*

BALANCE
OPPORTUNITY
SUSTAINABILITY
GROWTH
STRATEGY

GRANITE™

2018 PROXY STATEMENT

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GRANITE

GRANITE CONSTRUCTION INCORPORATED
585 West Beach Street
Watsonville, California 95076

Notice of Annual Meeting of Shareholders
April 13, 2018

Date: Thursday, June 7, 2018

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

Place: Monterey Plaza Hotel
400 Cannery Row
Monterey, CA 93940

Purposes of the Meeting:

- To elect three (3) directors for the ensuing three-year term;
- To hold an advisory vote on executive compensation for the Named Executive Officers;
- 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, 2018; 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, you will need to bring proof of ownership of the shares.

Record Date:

The record date for the 2018 Annual Meeting of Shareholders is April 12, 2018. 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, 2017 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 related 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 online. 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 23, 2018, we will begin mailing a Notice of Internet Availability of Proxy Materials to all shareholders of record as of April 12, 2018, other than 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"). We will also post our proxy materials on the website referenced in the notice (https://www.proxyvote.com). All 401(k) Participants will receive a package in the mail that includes all proxy materials. The proxy materials will be mailed to all 401(k) Participants on or about April 23, 2018.

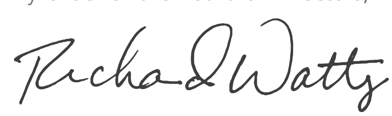
All shareholders may choose to access our proxy materials online or may request to receive a printed set of our proxy materials. In addition, the notice and website provide information regarding how you may request to receive proxy materials in printed form by mail on an ongoing basis.

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, can vote by Internet, telephone or mail. Shareholders, other than 401(k) Participants, may revoke a proxy and vote in person if attending the meeting.

To get directions to the 2018 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,



Richard A. Watts
Senior 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 2018 Annual Meeting of Shareholders, which will take place on June 7, 2018 at 10:30 a.m., Pacific Time, at the Monterey Plaza Hotel, 400 Cannery Row, Monterey, California. The Notice of Internet Availability of Proxy Materials was mailed to all Granite shareholders of record, except 401(k) Participants, on or about April 23, 2018, 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 23, 2018. 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 on or about April 23, 2018.

Granite, on behalf of its Board of Directors, is soliciting your proxy to vote your shares at the 2018 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 April 12, 2018. 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 April 12, 2018, there were 40,047,483 shares of common stock issued and outstanding.

How Do I Vote and What Is the Deadline for Voting My Shares?

Shareholders, other than 401(k) 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 Time, on June 6, 2018;
- ***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 Time, on June 6, 2018; 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 Time, on June 6, 2018.

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*** 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 Time, on June 5, 2018;
- ***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 Time, on June 5, 2018; 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 Time, on June 5, 2018.

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 Voting Requirement To Approve the Proposals?

If there is a quorum, nominees for election to the Board who receive the affirmative vote of a majority of the votes cast will be elected as members of our Board of Directors for the upcoming three-year term and until his/her successor is elected and qualified or he/she resigns or until his/her death, retirement or removal, or other cause identified in Granite's bylaws. This means that a majority of votes cast "for" the election of a nominee must exceed the number of votes cast "against" the nominee's election.

Each of the other matters identified in the Notice of Meeting will be approved if it receives the affirmative vote of a majority of the votes cast affirmatively or negatively on such matter. 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 affirmatively or negatively, 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, 2018.

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 or any of the other matters, the abstention will not impact the outcome of these matters. In tabulating the voting results for the election of directors and such other matters, 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 affirmatively or negatively and therefore will have no effect on the outcome of the vote on any of these matters.

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 three (3) director nominees;
- ***For*** the approval of the compensation of the Named Executive Officers as disclosed in this proxy statement;
- ***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, 2018.

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, may change their vote by: (i) voting again by Internet at any time prior to 11:59 p.m., Eastern Time, on June 6, 2018, if you originally voted by Internet, (ii) voting again by telephone at any time prior to 11:59 p.m., Eastern Time, on June 6, 2018, if you originally voted by telephone, or (iii) returning a later dated proxy card such that it is received prior to 11:59 p.m., Eastern Time, on June 6, 2018, if you voted by mail. Shareholders, other than 401(k) 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 may change their vote by: (i) voting again by Internet at any time prior to 12:00 p.m. (noon), Eastern Time, on June 5, 2018, if you originally voted by Internet, (ii) voting again by telephone at any time prior to 12:00 p.m. (noon), Eastern Time, on June 5, 2018, if you originally voted by telephone, or (iii) returning a later dated proxy card such that it is received prior to 12:00 p.m. (noon), Eastern Time, on June 5, 2018, if you voted by mail. Except for 401(k) 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?

You may attend the annual meeting and, except for 401(k) Participants, 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 may attend the meeting, they cannot vote in person at the meeting.

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.

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 ten directors.

The terms of James W. Bradford, Jr., David H. Kelsey and Michael F. McNally will expire at the 2018 Annual Meeting. The Board has nominated James W. Bradford, Jr., David H. Kelsey and Michael F. McNally for new terms. If elected, each of the nominees will serve as a director until the 2021 Annual Meeting and until his successor is elected and qualified or he resigns or until his death, retirement or removal, or other cause identified in Granite's bylaws.

Claes G. Bjork was elected to his present term of office at the 2016 Annual Meeting. Pursuant to Granite's retirement policy, Mr. Bjork's service on the Board would normally conclude at this year's Annual Meeting. However, upon recommendation of the Nominating and Corporate Governance Committee, the Board, at its December 7, 2017 meeting, approved an amendment to its retirement policy that will allow Mr. Bjork to remain on the Board until 2020.

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.

BOARD OF DIRECTORS RECOMMENDATION

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 or her age, all positions he or she holds with Granite, his or her principal occupation and business experience for the past five years, and the names of other publicly-held companies of which he or 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 director nominee's specific experience, qualifications, attributes and skills that led our Board to the conclusion the he or she should serve as a director, the Board also believes that all of our directors and director 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.

Nominees for Director with Terms Expiring at the 2021 Annual Meeting

David H. Kelsey **Director since 2003**

Mr. Kelsey assumed the role of Chief Financial Officer of Verdezyne, Inc. in July 2016. Verdezyne is a privately-owned company that uses synthetic biology to produce high-value chemicals. Prior to joining Verdezyne, Mr. Kelsey was the Chief Financial Officer of Elevance Renewable Sciences, Inc., a privately-owned producer of high performance specialty chemicals. From January 2002 to August 2011, 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. 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 67.

James W. Bradford, Jr. **Director since 2006**

Mr. Bradford retired in June 2013 as Dean and Ralph Owen Professor for the Practice of Management at Vanderbilt University, Owen School of Management, in which capacities he served since 2005. Upon retirement from Vanderbilt, Mr. Bradford was awarded the title of Dean Emeritus. Between 2002 and March 2005, Mr. Bradford served as Acting Dean, Associate Dean Corporate Relations, Clinical Professor of Management and Adjunct Professor at Vanderbilt University, Owen School of Management. 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. 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 70.

Michael F. McNally **Director since 2016**

Mr. McNally retired in December 2014 as President and Chief Executive Officer of Skanska USA Inc., a subsidiary of Skanska AB, one of the world's largest construction companies, a position he had held since 2008. During that time, he also served as one of nine members of Skanska AB's senior executive team. Prior to his tenure at Skanska, Mr. McNally held various management positions over a 38 year career with Fluor, Marshall Contractors, Mobil Oil and J. Ray McDermott. Mr. McNally is also currently a member of the boards of directors of Limbach Holdings Inc., Terracon, the U.S. Green Building Council and the Rhode Island Commerce Corporation. We believe that Mr. McNally'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 customers qualify him to serve on our Board. Mr. McNally holds a B.S. degree in Civil Engineering from the University of Notre Dame and an M.B.A. from the University of Rhode Island. Age 63.

Continuing Directors with Terms Expiring at the 2019 Annual Meeting

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 also a former Chairman and a current member of the board of directors of the Swedish American Chamber of Commerce, and he previously served on the boards of Consolidated Management Group and 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 72.

Patricia D. Galloway **Director since 2017**

Dr. Galloway assumed the role of Chairman of Pegasus Global Holdings, Inc., a firm that performs risk management, management consulting and strategic consulting business services in February 2018. From 2008 to 2018, Dr. Galloway served as Chief Executive Officer of Pegasus Global Holdings. Dr. Galloway served in various positions at The Nielsen-Wurster Group, Inc. including Chief Executive Officer and Principal, and President and Chief Financial Officer from 1981-2008. Dr. Galloway was the first woman President of the American Society of Civil Engineers and served from November 2003 to 2004. Dr. Galloway also serves as an arbitrator on construction and energy litigation cases. Dr. Galloway also serves as a director of the American Arbitration Association Board. She served on the National Science Board from 2006 to 2012. We believe that Dr. Galloway's experience in corporate risk management, combined with her executive-level and dispute resolution experiences, qualify her to serve on our Board. Dr. Galloway holds a Ph.D. in Infrastructure Systems Engineering (Civil) from Kochi University of Technology in Japan, an M.B.A. from the NY Institute of Technology and a Bachelor degree in Civil Engineering from Purdue University. Age 60.

Continuing Directors with Terms Expiring at the 2020 Annual Meeting

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 61.

Gaddi H. Vasquez **Director since 2012**

Mr. Vasquez has served as Senior Vice President of Government Affairs of Edison International and Southern California Edison, one of the nation's largest investor owned utility companies principally serving Southern California, since 2013. Prior to that, Mr. Vasquez served as Senior Vice President of Public Affairs and Vice President of Public Affairs of Edison International and Southern California Edison from 1995-2013. Mr. Vasquez also served as executive Director of the Annenberg Foundation Trust at Sunnylands in 2009, as U.S. Ambassador to the United Nations Agencies based in Rome, Italy from 2006-2009, and as Director of the U.S. Peace Corps from 2002-2006. Mr. Vasquez is currently a member of several national advisory boards, a member of the board of directors of the California Public Policy Institute, the National Advisory Board of the Salvation Army, the Pat Brown Policy Institute and a member of the board of governors of the California State University Foundation. We believe that Mr. Vasquez's executive level experience and his experience in public service, including leading major organizations involved in the development and construction of major public infrastructure and regional facilities, qualify him to serve on our Board. Mr. Vasquez holds a B.A. degree in Public Service Management from the University of Redlands. Age 63.

David C. Darnell **Director since 2017**

Mr. Darnell served as Vice Chairman of Global Wealth & Investment Management at Bank of America Corporation from September 2014 to December 2015 and served as its Co-Chief Operating Officer from September 2011 to September 2014. From July 2005 to September 2011, he served as the President of Global Commercial Banking at Bank of America Corporation. Mr. Darnell held various leadership positions at Bank of America since joining the company in 1979, including Middle Market Banking group president; Central Banking group president; and Midwest Region president. He also served as an Executive Vice President and Commercial Division Executive for Bank of America in Florida. Mr. Darnell brings significant operational, acquisition, governmental, financial, leadership-development capabilities and technology execution skills to our board. Mr. Darnell currently serves as a director of the Museum of the American Revolution board. Mr. Darnell holds an undergraduate degree from Wake Forest University and an M.B.A. from the University of North Carolina at Chapel Hill. Age 65.

Continuing Directors with Terms Expiring at the 2020 Annual Meeting

Celeste B. Mastin **Director since 2017**

Ms. Mastin assumed the role of Chief Executive Officer of PetroChoice Lubrication Solutions in March 2018. PetroChoice is one of the largest petroleum-based lubricant distributors in the United States for passenger and commercial vehicles and industrial applications. Prior to joining PetroChoice, Ms. Mastin was the Chief Executive Officer of Distribution International, Inc., a supplier of certain construction equipment and environmental products from February 2013 to April 2017. From 2007 to 2011, she served as chief executive officer and as chief operating officer of MMI Products, Inc., a manufacturer and distributor of certain building materials. From 2004 to 2007, Ms. Mastin held the role of vice president of color and glass performance materials and vice president of growth and development at Ferro Corporation. Ms. Mastin started her career in sales at Shell Chemical. She held European and later global sales management positions as well as a management position at Bostik, Inc. We believe that Ms. Mastin's global chemicals and building materials sectors experience, as well as her operating experience in sales and marketing and proven leadership ability qualify her to serve on our Board. Ms. Mastin holds a B.S. in Chemical Engineering from Washington State University and a M.B.A. from the University of Houston. Age 49.

Retiring Director

Mr. Powell has served as Chairman of our Board since September 2009. He retired in 2006 as Chairman and Chief Executive Officer of National Starch and Chemical Company, a position he had held since 1999. Mr. Powell is also currently a member of the boards of directors of PolyOne Inc. and FMC Corporation. Until June 2009, Mr. Powell was Chairman of the Board of Trustees of the 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 and an M.S. in Chemical Engineering from Case Western Reserve University and an M.A. in Business Administration from the University of North Dakota. Age 72.

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 2017.

	Audit / Compliance	Compensation	Nominating and Corporate Governance	Executive
Claes G. Bjork[1]		✓	Chair	✓
James W. Bradford, Jr.[1]	✓	Chair		✓
David C. Darnell[1]	✓			✓
William G. Dorey[1][2]				✓
Patricia D. Galloway[1]	✓			✓
David H. Kelsey[1]	Chair		✓	
Celeste B. Mastin[1]		✓	✓	
Michael F. McNally[1]	✓	✓		✓
William H. Powell[1][3]		✓	✓	Chair
James H. Roberts				✓
Gaddi H. Vasquez[1]		✓	✓	
Number of Meetings in 2017	**9**	**7**	**5**	**11**

(1) Independent directors pursuant to the listing standards of the NYSE.
(2) Mr. Dorey retired from the Board effective June 9, 2017.
(3) Chairman of the Board.

Audit/Compliance Committee

All members of the Audit/Compliance Committee are non-employee directors who are 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 17 of this proxy statement and in "Report of the Audit/Compliance Committee" on page 48 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" below.

Compensation Committee

All members of the Compensation Committee are non-employee directors who are 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 2012 Equity Incentive Plan and 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"). The Compensation Committee may delegate any of its responsibilities to a subcommittee composed of one or more members of the Committee. If you desire additional information concerning the Compensation Committee, you can read the Compensation Committee charter on Granite's website. See "Granite Website" below.

Nominating and Corporate Governance Committee

All members of the Nominating and Corporate Governance Committee are non-employee directors who are 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 oversees the annual evaluations of the Board and certain senior executive officers of the Company. 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" below.

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 meets regularly to consider the approval of certain large project bidding decisions, as well as to assess and monitor ongoing risks and contingencies related to 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

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 through September 30, 2017. Mercer's fees paid for executive compensation consulting to the Committee in 2017 were $228,045.

During 2017, 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 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 annual and long-term incentive plans;
- Advised on the performance measures and performance targets for the annual and long-term incentive programs;
- Assisted with the preparation of the "Compensation Discussion and Analysis" for the 2018 proxy statement;
- Assessed the potential for material risk within Granite's compensation policies and practices for all employees, including executive officers.

During 2017, management retained the services of Mercer to provide compensation consulting, and employee total rewards communications. The fees paid for these services in 2017 were $210,300.

Based in part on 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, a Mercer representative, is objective and not influenced by Mercer's or its affiliates' relationships with Granite. These policies and procedures include:

- 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 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 only responsible for selling compensation consulting services to Granite, not any other services provided by Mercer or affiliate companies;
- 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 limit how the executive compensation consultant may interact with management.

In retaining Mercer, the Compensation Committee considered the six factors set forth in Exchange Act Rule 10C-1(b)(4)(i) through (vi), and concluded that no conflict of interest existed that would prevent Mercer from serving as an independent compensation consultant to the Compensation Committee.

Effective September 22, 2017, the Compensation Committee retained the services of Frederic W. Cook & Co., Inc. ("FW Cook") to provide advice and recommendations to the Compensation Committee on executive officer and Board of Director compensation programs on a forward-looking basis.

From September through December 2017, FW Cook's work primarily focused on compensation planning considerations for 2018; no input was provided as it related to the design of the executive compensation program for 2017. In the future, FW Cook will conduct substantially similar services to the Committee as previously conducted by Mercer, which are noted above. FW Cook provides no other services to the Company.

In retaining FW Cook, the Compensation Committee considered the six factors set forth in Exchange Act Rule 10C-1(b)(4)(i) through (vi) of the Exchange Act, and concluded that no conflict of interest exists that would prevent FW Cook from serving as an independent compensation consultant to the Compensation Committee. Prior to retaining FW Cook, the Committee also reviewed FW Cook's conflict of interest policy.

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 Compensation Committee's engagement letters with Mercer and FW Cook. 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 non-employee members of the Board. As Mr. Powell will retire at our Annual Meeting of Shareholders this year, the Board elected Mr. Claes G. Bjork Chairman of the Board effective June 7, 2018.

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. 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.

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 and effective risk management is a top priority of the Board and management. 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 delegated certain risk management oversight responsibilities to relevant Board committees, as follows below.

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 and the Board also meet 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 chairs 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. Mr. Powell is retiring at the 2018 Annual Meeting as required by Granite's Corporate Governance Guidelines and Policies.

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.

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.

The Board used the evaluation criteria and procedures listed in this section to nominate and appoint Mr. Bradford, Mr. Kelsey and Mr. McNally for election at the Annual Meeting.

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 in "Evaluation Criteria and Procedures" above. The Committee will consider nominees to the Board recommended by shareholders. Shareholders wishing to recommend a candidate for consideration in connection with an election at a specific annual meeting should notify Granite well in advance of the meeting date to allow adequate time for the review process and preparation of the proxy statement, and in no event later than December 24, 2018 with respect to direct nominations.

In addition, Granite's bylaws provide that any shareholder entitled to vote in the election of directors may directly nominate a candidate or candidates for election at a meeting provided that timely notice of his or her intention to make such nomination is given. To be timely, a shareholder nomination for a director to be elected at an annual meeting must be received 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.

To be timely, a shareholder nomination for a director to be elected at the 2019 Annual Meeting of Shareholders must be received at Granite's principal office, addressed to the Corporate Secretary, on or before December 24, 2018. For further information, see "Shareholder Proposals to be Presented at the 2019 Annual Meeting of Shareholders."

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 executive officer and compensation received by an immediate family member for service as an employee of Granite (other than an executive officer) will not be considered in determining independence under this test.
- The following directors may not be deemed independent: (a) a director who is 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.

The following non-employee directors are independent under the listing standards of the NYSE: Claes G. Bjork, James W. Bradford, Jr., David C. Darnell, Patricia D. Galloway, David H. Kelsey, Celeste B. Mastin, Michael F. McNally, William H. Powell and Gaddi H. Vasquez.

Board and Annual Shareholder Meeting Attendance

During 2017, 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" below. All nine directors then in office attended Granite's 2017 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" below.

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" below.

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" below.

Granite Website

The following charters and policies are available on Granite's website at www.graniteconstruction.com at the "Investors" site, then under "Corporate Governance": 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.

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 executive 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 our executives' interests with the Company's short and long-term performance objectives. Key elements of the program are as follows:

- Market competitive base salaries targeted at the 50th percentile of comparable positions in the market;
- 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 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 also 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
- Eligibility, along with other management employees, to participate in our Non-Qualified Deferred Compensation Program.

Executive Officer Compensation Program

During fiscal year 2017, we conducted our annual "Say on Pay" shareholder advisory vote, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and Securities and Exchange Commission ("SEC") rules. This resulted in the approval of the compensation of our Named Executive Officers for 2016 by approximately 96% of the votes cast. The Compensation Committee considers these voting results when planning compensation for subsequent years and believes the results affirm the Company's executive compensation program. Accordingly, the Compensation Committee did not adopt any changes to this program as a result of this vote, although the Compensation Committee is continually evaluating our executive compensation to further align the program with shareholders' interests. 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.

The key components of the 2017 program for compensating our Named Executive Officers as set forth in the table below are as follows:

- Adjustments to align total direct compensation closer with market median levels if deemed necessary by the Compensation Committee;
- An Annual Incentive Plan ("AIP") with Net Income, Operating Income and Safety as the key performance measures to reward our Named Executive Officers for attaining key performance measures during the current year (for a detailed explanation, please refer to "2017 Annual Incentive Plan Compensation"); and
- A Long-Term Incentive Plan ("LTIP") that includes a performance-based component that is based on Total Shareholder Return ("TSR") and a service-based component to reward and sustain long term performance (for a detailed explanation, please refer to "Long Term Incentive Compensation").

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.

The following table identifies our Named Executive Officers for 2017:

Named Executive Officer	Title During 2017
James H. Roberts	President & Chief Executive Officer (CEO)
Laurel J. Krzeminski	Executive Vice President & Chief Financial Officer (CFO)
Kyle T. Larkin[1]	Senior Vice President & California Group Manager
James D. Richards	Senior Vice President & Northwest Group Manager
Dale A. Swanberg[2]	Senior Vice President & Large Projects Group Manager
Christopher S. Miller[3]	Former Executive Vice President & Chief Operating Officer (COO)
Martin P. Matheson[4]	Former Senior Vice President & California Group Manager

(1) Mr. Larkin was appointed Senior Vice President & California Group Manager effective October 16, 2017.
(2) Mr. Swanberg was appointed Senior Vice President & Large Projects Group Manager effective January 1, 2017.
(3) Mr. Miller ceased to serve as an Executive Officer effective June 22, 2017.
(4) Mr. Matheson ceased to serve as an Executive Officer effective August 12, 2017.

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 compensation consultant as discussed 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 reviewed and approved by the Compensation Committee based on recommendations of the Chief Executive Officer and the compensation consultant. For a detailed explanation, please refer to "Information About the Board of Directors and Corporate Governance — Committees of the Board — Compensation Committee".

Role of the Compensation Consultant

The Compensation Committee retained the services of Mercer (US) Inc. ("Mercer") as its compensation consultant to provide information, analysis, and advice with regard to executive officer compensation through September 30, 2017. Effective October 2017, the Compensation Committee retained the services of Frederic W. Cook & Co., Inc. ("FW Cook") as its Compensation Consultant to provide advice and recommendations on executive officer and Board of Director compensation programs on a prospective basis. Representatives of the compensation consultants attended Compensation Committee meetings and provided guidance and expertise on competitive pay practices and plan designs that are consistent with the key objectives of the compensation program. For a detailed explanation, please refer to "Information About the Board of Directors and Corporate Governance — Role of the Compensation Consultant".

Annual Risk Assessment

The Compensation Committee annually reviews the balance between risk and reward in the design of the executive officer and employee incentive compensation programs. The AIP and LTIP utilize a portfolio of performance metrics across the company designed to balance short and long-term financial objectives and generate shareholder value. Performance goals are set as a range for each objective with a maximum payout opportunity assigned to each performance goal. The Compensation Committee carefully reviews incentive plan goals to ensure the appropriate levels of difficulty, and reviews Granite and its peer groups' financial performance to ensure performance goals and payout opportunities are appropriately calibrated. The performance measures, maximum payout opportunities and the calibration of achievability of incentive plan goals are all designed to help ensure that the incentive plans appropriately balance risk and reward, limiting excessive risk-taking and the potential for windfall payouts. Finally, the Company maintains several risk mitigating governance policies such as executive stock ownership guidelines, anti-hedging/pledging policies and an incentive compensation recoupment policy. As a result of the above, the Committee believes that the compensation program is not reasonably likely to have a material adverse effect on the Company.

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 a single peer group consisting of eleven public companies representing the construction, engineering and construction materials industries. The Compensation Committee believes that industry-specific companies are the most appropriate source of benchmark data as they are most representative of Granite's market for talent. The data from the peer group of eleven public companies is used by the Compensation Committee to establish base salary, target total cash and long-term incentive compensation levels and as the comparative group for measuring relative Total Shareholder Return performance. For a detailed explanation, please refer to "Long Term Incentive Compensation – Performance Awards".

Peer Group of Public Companies

The eleven 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 in the peer group for its 2017 fiscal year.

Company Name		
Aegion Corporation	Martin Marietta Materials, Inc.	Quanta Services, Inc.
Dycom Industries, Inc.	MasTec, Inc.	Tutor Perini Corporation
EMCOR Group, Inc.	MYR Group, Inc.	Vulcan Materials Company
Layne Christensen Company	Primoris Services Corporation	

Compensation Elements

Base Salaries

Effective January 1, 2017, Mr. Roberts's base salary increased from $800,000 to $850,000, Mr. Miller's base salary increased from $530,000 to $550,000, Ms. Krzeminski's base salary increased from $475,000 to $500,000 and Mr. Swanberg's salary increased from $365,000 to $400,000. These increases are based on individual performance and are supported by market data from Granite's peer group shown in the table above and by the peer group median in the following Base Salary Positioning Chart. Salary increases also reflect increased tenure and performance in respective positions. Effective October 16, 2017, Mr. Larkin was appointed from Vice President, Nevada Region to Senior Vice President & California Group Manager with a base salary increase to $350,000. No other changes to the base salaries of our Named Executive Officers were made for 2017.

For amounts paid as base salary during 2017, please refer to the Summary Compensation Table.

BASE SALARY POSITIONING CHART

Named Executive Officer	2017 Base Salary	Peer Group Median[1]	% Variance
James H. Roberts	$ 850,000	$ 925,000	-9%
Laurel J. Krzeminski	$ 500,000	$ 504,000	-0.8%
Kyle T. Larkin[2]	$ 350,000	$ 452,000	-29%
James D. Richards	$ 400,000	$ 452,000	-13%
Dale A. Swanberg[3]	$ 400,000	$ 452,000	-13%
Christopher S. Miller[4]	$ 550,000	$ 609,000	-11%
Martin P. Matheson[5]	$ 400,000	$ 452,000	-13%

(1) Peer Group median compensation data as used by the Compensation Committee in making 2017 compensation decisions was based on peer group data reported in 2016 proxy filings.

(2) Prior to his appointment to Senior Vice President & California Group Manager effective October 16, 2017, Mr. Larkin earned a base salary of $242,500 in his role as Vice President for the Nevada Region.

(3) Mr. Swanberg was appointed Senior Vice President & Large Projects Group Manager effective January 1, 2017.

(4) Mr. Miller ceased to serve as an Executive Officer effective June 22, 2017.

(5) Mr. Matheson ceased to serve as an Executive Officer effective August 12, 2017.

Annual Incentive Compensation

The Named Executive Officers participate in the AIP pursuant to which annual incentive compensation is determined by overall company performance and/or applicable group performance. As described in more detail below, each Named Executive Officer's targeted annual incentive opportunity is based on external benchmark data for similar positions and is expressed as a percentage of base salary. Maximum cash payouts cannot exceed the lesser of three times the target opportunity or $2,500,000.

ANNUAL INCENTIVE OPPORTUNITY

Named Executive Officer	2017 Base Salary	Annual Incentive Opportunity[1] % of Base Salary Target	Target	Maximum
James H. Roberts	$ 850,000	115%	$ 977,500	$ 2,500,000
Laurel J. Krzeminski	$ 500,000	75%	$ 375,000	$ 1,125,000
Kyle T. Larkin[2]	$ 350,000	n/a	n/a	n/a
James D. Richards	$ 400,000	75%	$ 300,000	$ 900,000
Dale A. Swanberg[3]	$ 400,000	75%	$ 300,000	$ 900,000
Christopher S. Miller[4]	$ 550,000	75%	$ 412,500	$ 1,237,500
Martin P. Matheson[5]	$ 400,000	75%	$ 300,000	$ 900,000

(1) The "target" annual incentive opportunity is competitive with those offered by peer group companies, and is the basis for establishing the maximum annual incentive.

(2) Mr. Larkin became an Executive Officer effective October 16, 2017 and was not eligible to participate in the AIP. For a detailed explanation of Mr. Larkin's incentive compensation program, please refer to the section "2017 Incentive Compensation Plan for Kyle T. Larkin."

(3) In connection with his appointment to Senior Vice President & Large Projects Group Manager, Mr. Swanberg was guaranteed a minimum award of $200,000, provided that if actual performance under the AIP resulted in a greater award, the award would be based on actual performance.

(4) Mr. Miller ceased to serve as an Executive Officer effective June 22, 2017 and as a result, his 2017 Annual Incentive Opportunity was forfeited.

(5) Mr. Matheson ceased to serve as an Executive Officer effective August 12, 2017 and in accordance with the terms of his AIP, he was eligible to receive a prorated award.

2017 Annual Incentive Plan

Named Executive Officer AIP awards incorporate two funding ratio levels. The initial funding ratio applies once Company Net Income and/or Group Operating Income achieve "threshold" performance levels. A higher funding ratio level is applied once financial performance is at or above "expectations" performance levels for Company Net Income and/or Group Operating Income. The "expectations" performance levels of Company Net Income and Group Operating Income are typically greater than budgeted amounts and are intended to encourage plan participants to deliver superior financial performance. No funding of individual bonuses will occur if the performance of the Company and/or Group is below the specified "threshold" level of performance.

Once threshold is achieved, then individual awards under the AIP are paid out/determined based on a pre-determined percentage (funding ratio) of Company Pre-Bonus Net Income and/or Group Operating Profit.

2017 Annual Incentive Plan Performance Measure Definitions

- **Company Net Income**
  Company Net Income is actual consolidated Net Income attributable to Granite Construction Incorporated calculated in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP");

- **Company Pre-Bonus Net Income**
  Company Pre-Bonus Net Income is defined as Company Net Income before the cost of annual incentive plan cash bonuses which are calculated based on Company performance;

- **Operating Income**
  Operating Income is actual operating income for the applicable Group calculated in accordance with U.S. GAAP, excluding allocated Selling, General and Administrative Expense ("SG&A");

- **Operating Profit**
  Operating Profit is defined as Operating Income after the cost of pre-bonus allocated SG&A and before the cost of annual incentive plan cash bonuses which are calculated based on the performance of the applicable Group;

- **Safety**
  Granite uses the OSHA Recordable Incident Rate ("ORIR"), a nationally recognized metric, to benchmark its safety performance against the construction industry. 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. The ORIR target and payout levels are reviewed and approved annually by the Compensation Committee.

2017 Annual Incentive Plan Performance Objectives

At the beginning of the annual performance period (January 1st – December 31st), the Compensation Committee approved the 2017 AIP financial performance goals. Named Executive Officer annual incentive bonuses are funded once threshold performance levels are achieved. Higher funding levels are applied once performance is at or above expectations. Bonus payouts are calculated as a percentage of Company Pre-Bonus Net Income and Group Operating Profit.

COMPANY PERFORMANCE

	Net Income Threshold	Net Income Expectations
Granite Construction Incorporated	$42.0M	$67.6M

GROUP PERFORMANCE

	Group Operating Income Threshold	Group Operating Income Expectations
Large Projects Group	$31.0M	$70.1M
Northwest Group	$38.7M	$71.5M
California Group	$41.7M	$85.6M

2017 Annual Incentive Plan Company and Group Funding Ratios

Funding ratios are individualized to account for the Named Executive Officer's respective roles and responsibilities. Mr. Roberts, Ms. Krzeminski, and Mr. Miller's bonus opportunities are based on Company financial performance. This is intended to relate the bonus opportunities for Mr. Roberts, Ms. Krzeminski, and Mr. Miller to the overall results of the Company for the current year. Mr. Richards, Mr. Swanberg, and Mr. Matheson have two funding ratios with a larger ratio tied to their Group's performance and a smaller ratio tied to overall Company performance. This is intended to relate bonus opportunities for Mr. Richards, Mr. Swanberg, and Mr. Matheson to both their Group's performance, as well as the overall results of the Company for the current year. For a detailed explanation of Mr. Larkin's incentive compensation program, please refer to the section "2017 Incentive Compensation Plan for Kyle T. Larkin." Bonuses are adjusted based on a safety multiplier from -10% to +10%, with safety at target performance resulting in no adjustment.

COMPANY BONUS FUNDING RATIOS
(Percentage of Company Pre-Bonus Net Income)

Named Executive Officer	At or Above Threshold	At or Above Expectations
James H. Roberts	1.100%	1.650%
Laurel J. Krzeminski	0.440%	0.660%
Kyle T. Larkin(1)	n/a	n/a
James D. Richards	0.100%	0.150%
Dale A. Swanberg	0.100%	0.150%
Christopher S. Miller(2)	0.520%	0.780%
Martin P. Matheson(3)	0.100%	0.150%

(1) Mr. Larkin became an Executive Officer effective October 16, 2017 and was not eligible to participate in the AIP.

(2) Mr. Miller ceased to serve as an Executive Officer effective June 22, 2017 and as a result, his 2017 Annual Incentive Opportunity was forfeited.

(3) Mr. Matheson ceased to serve as an Executive Officer effective August 12, 2017 and in accordance to the terms of his AIP, he was eligible to receive a prorated award.

GROUP BONUS FUNDING RATIOS
(Percentage of Group Operating Profit)

Named Executive Officer	At or Above Threshold	At or Above Expectations
Kyle T. Larkin(1)	n/a	n/a
James D. Richards	0.600%	0.900%
Dale A. Swanberg	0.600%	0.900%
Martin P. Matheson(2)	0.600%	0.900%

(1) Mr. Larkin became an Executive Officer effective October 16, 2017 and was not eligible to participate in the AIP. For a detailed explanation of Mr. Larkin's incentive compensation program, please refer to the section "2017 Incentive Compensation Plan for Kyle T. Larkin."

(2) Mr. Matheson ceased to serve as an Executive Officer effective August 12, 2017 and in accordance to the terms of his AIP, he was eligible to receive a prorated award.

Safety Multiplier

2017 Annual Incentive Plan bonus awards are subject to adjustment by a safety multiplier, which is calculated based on year-end safety results. Awards for Mr. Roberts and Ms. Krzeminski are subject to adjustment based on the overall safety results of the Company. Awards for Mr. Richards, Mr. Swanberg, and Mr. Matheson are subject to adjustment based upon both the overall safety results of the Company and of their assigned Groups. For a detailed explanation of Mr. Larkin's incentive compensation program, please refer to the section "2017 Incentive Compensation Plan for Kyle T. Larkin."

The values of the 2017 AIP awards are subject to adjustment based on safety results as follows:

- If Safety ORIR is 1.6 or more, or if an employee fatality occurred, the annual incentive performance award is multiplied by 90% and reduced accordingly.
- If Safety ORIR is at 1.0, the target level, no adjustment is made.
- If Safety ORIR is 0.8 or less, the annual incentive performance award is multiplied by 110% and increased accordingly.
- Linear interpolation is used to determine the magnitude of the adjustment for Safety ORIR falling between threshold/target and target/maximum performance levels.

2017 COMPANY AND GROUP SAFETY GOALS

2017	Threshold	Target	Maximum
Safety ORIR	1.6	1.0	0.8
Multiplier	90%	100%	110%

2017 Annual Incentive Plan Company and Group Performance Results and Bonus Payouts

2017 year-end Company and Group safety performance results were as follows:

2017 SAFETY PERFORMANCE RESULTS

Named Executive Officer	Company Safety ORIR Results	Company Safety Multiplier	Group Safety ORIR Results	Group Safety Multiplier
James H. Roberts	1.22	96.33%	—	—
Laurel J. Krzeminski	1.22	96.33%	—	—
Kyle T. Larkin(1)	n/a	n/a	n/a	n/a
James D. Richards	1.22	96.33%	1.04	99.33%
Dale A. Swanberg	1.22	96.33%	1.46	92.33%
Christopher S. Miller(2)	—	—	—	—
Martin P. Matheson(3)	1.22	96.33%	0.86	107.00%

(1) Mr. Larkin became an Executive Officer effective October 16, 2017 and was not eligible to participate in the AIP. For a detailed explanation of Mr. Larkin's incentive compensation program, please refer to the section "2017 Incentive Compensation Plan for Kyle T. Larkin."

(2) Mr. Miller ceased to serve as an Executive Officer effective June 22, 2017 and as a result, his 2017 Annual Incentive Opportunity was forfeited.

(3) Mr. Matheson ceased to serve as an Executive Officer effective August 12, 2017 and in accordance to the terms of his AIP, he was eligible to receive a prorated award.

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

2017 AIP COMPANY BONUS PAYOUTS

Named Executive Officer	Company Bonus Payout at Threshold	Company Bonus Payout at Expectations	Company Bonus Payout (before Safety Multiplier)	Company Safety Multiplier	Actual Company Payout
James H. Roberts	$488,000	$1,210,000	$736,874	96.33%	$709,831
Laurel J. Krzeminski	$195,000	$ 484,000	$294,750	96.33%	$283,933
Kyle T. Larkin(1)	n/a	n/a	n/a	n/a	n/a
James D. Richards	$ 44,000	$ 110,000	$ 66,989	96.33%	$ 64,531
Dale A. Swanberg(2)	$ 44,000	$ 110,000	$ 66,989	96.33%	$ 64,531
Christopher S. Miller(3)	$230,000	$ 572,000	—	—	—
Martin P. Matheson(4)	$ 44,000	$ 110,000	$ 44,659	96.33%	$ 43,020

(1) Mr. Larkin became an Executive Officer effective October 16, 2017 and was not eligible to participate in the AIP. For a detailed explanation of Mr. Larkin's incentive compensation program, please refer to the section "2017 Incentive Compensation Plan for Kyle T. Larkin."

(2) In connection with his appointment to Senior Vice President & Large Projects Group Manager, Mr. Swanberg was guaranteed a minimum award of $200,000, provided that if actual performance under the AIP resulted in a greater award, the award would be based on actual performance.

(3) Mr. Miller ceased to serve as an Executive Officer effective June 22, 2017 and as a result, his 2017 Annual Incentive Opportunity was forfeited.

(4) Mr. Matheson ceased to serve as an Executive Officer effective August 12, 2017 and in accordance to the terms of his AIP, he was eligible to receive a prorated award.

2017 AIP GROUP BONUS PAYOUTS

Named Executive Officer	Group Bonus Payout at Threshold	Group Bonus Payout at Expectations	Group Bonus Payout (before Safety Multiplier)	Group Safety Multiplier	Actual Group Payout
Kyle T. Larkin(1)	n/a	n/a	n/a	n/a	n/a
James D. Richards	$ 88,000	$446,000	$499,454	99.33%	$496,108
Dale A. Swanberg(2)	$ 39,000	$433,000	$ 0	92.33%	$ 0
Martin P. Matheson(3)	$102,000	$573,000	$392,656	107.0%	$420,142

(1) Mr. Larkin became an Executive Officer effective October 16, 2017 and was not eligible to participate in the AIP. For a detailed explanation of Mr. Larkin's incentive compensation program, please refer to the section "2017 Incentive Compensation Plan for Kyle T. Larkin."

(2) In connection with his appointment to Senior Vice President & Large Projects Group Manager, Mr. Swanberg was guaranteed a minimum award of $200,000, provided that if actual performance under the AIP resulted in a greater award, the award would be based on actual performance.

(3) Mr. Matheson ceased to serve as an Executive Officer of Granite effective August 12, 2017 and in accordance to the terms of his AIP, he was eligible to receive a prorated award.

2017 ACTUAL AIP TOTAL BONUS PAYOUTS(1)

Named Executive Officer	Actual Company Bonus Payout	Actual Group Bonus Payout	Other	Total Actual AIP Bonus Payout
James H. Roberts	$709,831	—	—	$709,831
Laurel J. Krzeminski	$283,933	—	—	$283,933
Kyle T. Larkin(2)	n/a	n/a	n/a	n/a
James D. Richards	$ 64,531	$496,108	—	$560,639
Dale A. Swanberg(3)	$ 64,531	$ 0	$135,469	$200,000
Christopher S. Miller(4)	—	—	—	—
Martin P. Matheson(5)	$ 43,020	$420,142	—	$463,162

(1) Represents the sum of 2017 Company bonus payouts and 2017 Group bonus payouts.

(2) Mr. Larkin became an Executive Officer effective October 16, 2017 and was not eligible to participate in the AIP. For a detailed explanation of Mr. Larkin's incentive compensation program, please refer to the section "2017 Incentive Compensation Plan for Kyle T. Larkin."

(3) In connection with his appointment to Senior Vice President & Large Projects Group Manager, Mr. Swanberg was guaranteed a minimum award of $200,000, provided that if actual performance under the AIP resulted in a greater award, the award would be based on actual performance. The amount included under "Other" reflects a payment to Mr. Swanberg as a result of his guaranteed minimum award.

(4) Mr. Miller ceased to serve as an Executive Officer effective June 22, 2017 and as a result, his 2017 Annual Incentive Opportunity was forfeited.

(5) Mr. Matheson ceased to serve as an Executive Officer effective August 12, 2017 and in accordance to the terms of his AIP, he was eligible to receive a prorated award.

Long Term Incentive Compensation

In order to emphasize and reward sustained long term performance, all Named Executive Officers participated in the 2017 LTIP. The Compensation Committee reviewed peer group compensation data for comparable positions and established incentive target opportunities which approximate peer group median compensation levels. Effective January 1, 2017, Mr. Miller's LTIP incentive target opportunity increased from $800,000 to $850,000. No other changes to the LTIP incentive target opportunity of our Named Executive Officers were made for 2017.

The LTIP incentive target opportunities for the Named Executive Officers under the 2017 LTIP are presented below:

Named Executive Officer	LTIP Incentive Target Opportunity
James H. Roberts	$2,000,000
Laurel J. Krzeminski	$ 650,000
Kyle T. Larkin(1)	n/a
James D. Richards	$ 450,000
Dale A. Swanberg	$ 450,000
Christopher S. Miller(2)	$ 850,000
Martin P. Matheson(3)	$ 450,000

(1) Mr. Larkin became an Executive Officer effective October 16, 2017 and was not eligible to participate in the LTIP. For a detailed explanation of Mr. Larkin's incentive compensation program, please refer to the section "2017 Incentive Compensation Plan for Kyle T. Larkin."

(2) Mr. Miller ceased to serve as an Executive Officer effective June 22, 2017 and as a result, his 2017 Long Term Incentive Opportunity was forfeited.

(3) Mr. Matheson ceased to serve as an Executive Officer effective August 12, 2017 and in accordance to the terms of his LTIP, he was eligible to receive a prorated award.

Each Named Executive Officer's target award is divided into two components – Performance Awards and Service Awards. The table below reflects the weighting of the two components

LTIP COMPONENTS WEIGHTING

	Weighting
Performance Award	80%
Service Award	20%
Total	100%

Performance Awards

The Compensation Committee set payouts for the 2017 – 2019 performance period to be calculated based on Granite's TSR rank relative to a peer group of companies in the Standard & Poor's Construction Materials and Construction Equipment classification. The higher Granite's overall performance ranking is, the greater the payout percentage. However, the Compensation Committee has the ability to reduce the payout percentage for the performance period in its sole discretion.

The following are the 2017 – 2019 peer group companies and funding mechanism.

2017 – 2019 TSR Peer Group (12 companies, including Granite)		
• Aegion Corporation	• Martin Marietta Materials Inc.	• Quanta Services Inc.
• Dycom Industries Inc.	• MasTec Inc.	• Tutor Perini Corporation
• EMCOR Group Inc.	• MYR Group Inc.	• Vulcan Materials Company
• Layne Christensen Company	• Primoris Services Corporation	

The TSR award calculation methodology will remove acquired peers from the measurement group.

2017 – 2019 TSR FUNDING MECHANISM

(Utilizes a Relative TSR Percentile Ranking System to determine payout as a percentage of Target.)

2017 – 2019 Relative TSR Percentile Rank	Payout (% of Target)
80th Percentile or better	200%
50th Percentile	100%
35th Percentile	50%
Below 35th Percentile	0%

Linear interpolation applies between performance levels.

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. The performance awards are calculated at the end of a three-year performance period. The 2014 performance awards were calculated for the three-year period ending December 31, 2016 with vesting and payment in 2017. The 2015 performance awards will be calculated for the three-year period ending December 31, 2017 with vesting and payment the following year. The 2016 performance awards will be calculated for the three-year period ending December 31, 2018 with vesting and payment the following year. The 2017 performance awards will be calculated for the three-year period ending December 31, 2019 with vesting and payment the following year.

TSR Performance Period	Award Opportunity	Payout Timing (if award earned based on performance)
January 1, 2014 – December 31, 2016	0% – 200% of 2014 Performance Award	Q1 2017
January 1, 2015 – December 31, 2017	0% – 200% of 2015 Performance Award	Q1 2018
January 1, 2016 – December 31, 2018	0% – 200% of 2016 Performance Award	Q1 2019
January 1, 2017 – December 31, 2019	0% – 200% of 2017 Performance Award	Q1 2020

2017 Performance Award Payouts

Payouts for the 2014 - 2016 TSR performance period are reflected in the 2017 Summary Compensation and 2017 Grant Plan Based Award tables. TSR was calculated on Granite's performance relative to the industry peer group of construction, engineering and construction materials used for benchmarking data as approved by the Compensation Committee effective January 1, 2014.

The following are the 2014 – 2016 peer group companies and funding mechanism.

2014 – 2016 TSR Peer Group (14 companies, including Granite)		
• AECOM Technology Corp	• Martin Marietta Materials Inc.	• Tutor Perini Corporation
• Aegion Corporation	• MasTec Inc.	• Vulcan Materials Company
• Dycom Industries	• MYR Group Inc.	• URS Corp
• EMCOR Group Inc.	• Primoris Services Corporation	
• Layne Christensen Company	• Quanta Services Inc.	

2014 – 2016 TSR FUNDING MECHANISM

(Utilizes a Discrete Number Ranking System to determine payout as a percentage of Target.)

2014 – 2016 Discrete Number Ranking	Payout (% of Target)
1 – 2 of 14	200%
3 of 14	180%
4 of 14	160%
5 of 14	140%
6 of 14	120%
7 of 14	100%
8 of 14	100%
9 of 14	83.3%
10 of 14	66.7%
11 of 14	50%
12 – 14 of 14	0%

Total Shareholder Return Awards Earned in 2014 – 2016 and Paid in 2017

Granite's three-year TSR ranking as of December 31, 2016 for the performance period from January 1, 2014 through December 31, 2016 was 5 out of 14 companies, or 140% of the TSR target opportunity. See "2014 – 2016 TSR Funding Mechanism" above. The earned awards for the performance period are presented in the following table.

TSR PERFORMANCE PERIOD JANUARY 1, 2014 – DECEMBER 31, 2016

Named Executive Officer	Target TSR Incentive	Actual TSR Incentive	Restricted Stock Units Awarded[1]
James H. Roberts	$1,133,333	$1,586,666	45,633
Laurel J. Krzeminski	$ 366,667	$ 513,334	14,764
Kyle T. Larkin[2]	n/a	n/a	n/a
James D. Richards	$ 283,333	$ 396,667	11,408
Dale A. Swanberg[3]	—	—	—
Christopher S. Miller[3]	—	—	—
Martin P. Matheson	$ 266,667	$ 373,333	10,737

(1) Awards are denominated as a cash value until earned based on performance. The number of restricted stock units awarded was calculated by dividing the actual long-term incentive value by $34.77, which was the average stock price over the first 30 days of January 2014.

(2) Mr. Larkin became an Executive Officer effective October 16, 2017 and therefore was not eligible to participate in the LTIP. For a detailed explanation of Mr. Larkin's incentive compensation program, please refer to the section "2017 Incentive Compensation Plan for Kyle T. Larkin."

(3) Due to the performance period beginning prior to their employment, Messrs. Swanberg and Miller were not eligible to participate in the 2014 – 2016 TSR program.

Service Awards

The Compensation Committee believes granting a portion of equity awards as Restricted Stock Units ("RSUs") assists 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 vest ratably over three years.

SERVICE AWARDS PAID IN 2017

Named Executive Officer	Service Award	RSUs Awarded[1]
James H. Roberts	$400,004	7,871
Laurel J. Krzeminski	$129,998	2,558
Kyle T. Larkin[2]	n/a	n/a
James D. Richards	$ 90,002	1,771
Dale A. Swanberg	$ 90,002	1,771
Christopher S. Miller[3]	$169,993	3,345
Martin P. Matheson	$ 90,002	1,771

(1) The number of RSUs awarded was calculated by dividing the service award by the closing stock price of $50.82 on March 14, 2017.

(2) Mr. Larkin was not eligible to participate in the LTIP.

(3) Mr. Miller ceased to serve as an Executive Officer effective June 22, 2017 and as a result, his 2017 Service Award RSUs were forfeited.

2017 Incentive Compensation Plan for Kyle T. Larkin

Mr. Kyle T. Larkin continued to participate in the Granite 2017 Regional Incentive Compensation Plan after his promotion to Senior Vice President, California Group Manager until December 31, 2017. As a result of Mr. Larkin's promotion, he began participating in the Named Executive Officer Compensation Program effective January 1, 2018.

In his role as a Region Vice President, in the Construction segment, Mr. Larkin was eligible to participate in the 2017 Regional Annual Incentive Plan based on applicable Operating Income and a 2017 Long Term Incentive Plan based on the performance of the Company's Return on Net Operating Assets ("RONA").

2017 Regional Annual Incentive Plan

In his role as Region Vice President, Mr. Larkin was eligible to receive an award for Regional AIP based on a fixed percentage of the Region's Operating Profit for performance at or above a threshold amount, and a higher fixed percentage at or above an expectations amount. The calculated bonus was subject to a safety multiplier from -10% to +10% based on the Region's safety performance (for a detailed explanation, please refer to "Safety Multiplier").

2017 Actual Performance

The Region's Operating Income performance was in excess of the expectations, and the Region safety performance multiplier was 110%. Mr. Larkin's actual AIP award is as follows:

2017 INCENTIVE COMPENSATION PLAN - REGION BONUS PAYOUTS

	Region Bonus Payout at Threshold	Region Bonus Payout at Expectations	Region Bonus Payout (before Safety Multiplier)	Region Safety Multiplier	Actual Region Payout
Kyle T. Larkin	$41,716	$170,348	$242,024	110%	$266,227

In addition, Mr. Larkin received a discretionary bonus award of $100,000 for his contributions to the 2017 California Group's performance (for a detailed explanation, please refer to "Flexible Bonus Policy").

Long Term Incentive Plan

In his role as Region Vice President, Mr. Larkin was eligible to participate in the 2017 LTIP with an established incentive target opportunity divided into two components – Performance Awards and Service Awards. The table below reflects the weighting of the two components:

LTIP COMPONENTS WEIGHTING

	Weighting
Performance Award	80%
Service Award	20%
Total	100%

Performance Award

Under the 2017 LTIP, a performance award is achieved if RONA performance exceeds a pre-established threshold goal for the year. Once the performance threshold is achieved, the first dollar of eligible RONA incentive is earned. For 2017, performance exceeded threshold and Mr. Larkin earned $229.

Service Award

Under the 2017 LTIP, Mr. Larkin received a service award that ratably vests over three years.

SERVICE AWARDS PAID IN 2017

	Service Award	Restricted Stock Units Awarded(1)
Kyle T. Larkin	$25,512	502

(1) The number of RSUs awarded was calculated by dividing the service award by the closing stock price of $50.82 on March 14, 2017.

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 offset the overpayment against future incentive compensation earned. This policy applies to AIP and LTIP awards. There were no adjustments to calculations that affected incentive compensation calculated or paid in 2017.

Stock Ownership Guidelines

Our Board of Directors has adopted Stock Ownership Guidelines to align the interests of Granite's Named Executive Officers with the interests of shareholders and to promote Granite's commitment to sound corporate governance. Named 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 Named Executive Officer's base salary, and are as follows:

- Chief Executive Officer: 3 x annual base salary
- Other Named Executive Officers: 2 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 a Named 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 Named Executive Officer or his or her immediate family members residing in the same household, whether held individually or jointly;
- Any vested and deferred Restricted Stock Units;
- Shares held for the Named Executive Officer's account in the Granite Construction Incorporated Profit Sharing and 401(k) Plan ("401(k) Plan"); and
- Shares held in trust for the benefit of the Named Executive Officer or his or her family.

Until the applicable guideline is achieved, the Named 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 RSUs through Granite's stock incentive plans.

STOCK OWNERSHIP

Named Executive Officer	2017 Base Salary	Stock Ownership as Multiple of Base	Required Value of Stock Ownership	Date to be Achieved[(1)]	# Vested Shares Owned[(2)]	Value of Shares Owned[(3)]	Percentage of Attainment
James H. Roberts	$850,000	3	$2,550,000	May 2014	149,407	$8,147,164	319%
Laurel J. Krzeminski	$500,000	2	$1,000,000	Nov. 2015	54,111	$2,950,673	295%
Kyle T. Larkin	$350,000	2	$ 700,000	April 2023	0	$ 0	0%
James D. Richards	$400,000	2	$ 800,000	April 2019	25,946	$1,414,835	177%
Dale A. Swanberg	$400,000	2	$ 800,000	April 2023	1,866	$ 101,753	13%

(1) To be achieved within five years after becoming a Named Executive Officer.

(2) As of January 1, 2018.

(3) Based on the 2017 annual average stock price of $54.53.

Anti-Hedging Policy

The Company's Insider Trading Policy, which applies to employees, officers and directors of the Company and their family members and affiliates, provides that such individuals are prohibited from engaging in hedging transactions involving the Company's securities.

Anti-Pledging Policy

In accordance with the Company's Insider Trading Policy, a transaction in which a holder of a security of the Company uses that security as collateral for a loan or other extension of credit (a "pledge") is prohibited.

Non-Qualified Deferred Compensation

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

- Allows executive officers to defer up to 50% of their base compensation and up to 100% of their incentive compensation (cash and equity);
- Allows non-employee directors to defer receipt of their annual cash retainer and RSU awards;
- 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, which provides participants a measure of added security that 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.

Flexible Bonus Policy

The Compensation Committee has the authority to award discretionary bonuses to employees of the Company. In 2013, our Compensation Committee determined that it would be beneficial to define and limit its authority to award discretionary bonuses and adopted the Flexible Bonus Policy pursuant to which employees of the Company, including our Named Executive Officers, are eligible to receive a discretionary bonus, which may be based on Company performance, individual performance or such other factors as our Compensation Committee may consider appropriate. In determining Company performance, our Compensation Committee may consider the achievement of corporate financial, strategic and operational objectives including, but not limited to, revenue, income, and backlog. In determining individual performance, our Compensation Committee may consider the achievement of personal objectives including, but not limited to, business targets, budgetary targets, succession planning, and safety targets. It is our intention that the discretionary bonuses be fixed and determinable as of year-end; this would require approval prior to year-end. The aggregate amount of any bonus or bonuses payable under the Flexible Bonus Policy to any one participant in any calendar year may not exceed $250,000. Our Compensation Committee believes that the flexible design of the Flexible Bonus Policy is necessary in order to consider the effects of unanticipated events and circumstances on the Company's business or on a participant's performance. A discretionary bonus award of $100,000 was approved by the Compensation Committee in recognition of Mr. Larkin's contributions to the California Group's performance in 2017.

Other Compensation

The Named Executive Officers are eligible to participate in the 401(k) Plan. Granite provides matching contributions up to 6% of an employee's gross pay at the discretion of the Board of Directors. Under the terms of a policy applicable to Mr. Roberts and Ms. Krzeminski each are required to maintain a $5,000,000 personal umbrella liability insurance policy to provide coverage while conducting company business. They are reimbursed for the costs incurred to purchase and maintain the required insurance. Mr. Roberts and Ms. Krzeminski receive a $1,417 per month vehicle allowance which includes reimbursement for the personal umbrella liability insurance. Messrs. Miller, Richards, and Swanberg receive a $1,000 per month vehicle allowance. Mr. Matheson was provided a company vehicle and received a $60 per month vehicle allowance. Prior to Mr. Larkin's promotion, he participated in a Vehicle Reimbursement Program where he received $410 per month. Beginning in November 2017, Mr. Larkin began to receive a $1,000 per month vehicle allowance.

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

In connection with its determination of the various elements of compensation for our executive officers, the Compensation Committee has taken 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 compensation paid to our Chief Executive Officer, our Chief Financial Officer (for years prior to 2018 our Chief Financial Officer is exempt from the limitation) and our next three highest paid individuals to $1 million annually. For years prior to 2018, some of the elements of our executive compensation package, including certain payments under our AIP and LTIP, were intended to qualify as "performance-based" compensation, which is exempt from the limitation on deductibility under Section 162(m). The performance-based compensation exemption under Section 162(m) has been repealed effective January 1, 2018, except for certain grandfathered arrangements in effect as of November 2, 2017; and we cannot guarantee that future compensation paid to our covered officers will qualify for grandfathered status. Therefore, to the extent that in 2018 or any later year, the aggregate amount of any covered officer's salary, bonus, and amounts realized from RSUs or other equity awards, including under our AIP and LTIP, and certain other compensation amounts that are recognized as taxable income by the officer exceeds $1 million in any year, we may not be entitled to a U.S. federal income tax deduction for the amount over $1 million in that year. The Compensation Committee has the discretion to design and implement elements of executive compensation that may not be fully deductible for income tax purposes.

Change-in-Control Arrangements

All of our Named Executive Officers are participants in the Executive Retention and Severance Plan. The purpose of the plan is to:

- Provide an incentive to the existing management to continue their employment with Granite during the pendency of a potential change-in-control transaction; and
- Attract and retain executives by reducing their concerns regarding future employment following a change-in-control.

The Executive Retention and Severance Plan originally provided that if a participant's employment with Granite is terminated by Granite within three years after a "change-in-control" (as defined below) 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," (as defined below) the participant would 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 three times 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 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.

Payments made to the terminated participant do not include tax gross-up payments, and are capped. The amount of the payment 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, but only if the reduction would increase the net after-tax amount received by the participant.

In August, 2010, the Compensation Committee approved changes to the Executive Retention and Severance Plan for future participants that the Compensation Committee believed to be in alignment with emerging best practices. Benefits to subsequent new participants will be dependent upon their level of responsibility within the organization and will include the following severance multiples:

Position	Severance Multiple
Chief Executive Officer	2.99 x
Chief Financial Officer	2 x
Chief Operating Officer	2 x
Senior Vice Presidents and Officers	1 x

Mr. Roberts and Ms. Krzeminski are entitled to a severance multiple of 3x under the Executive Retention and Severance Plan because they were participants in the plan before the changes were made to the plan in August 2010. Mr. Larkin, Mr. Richards, and Mr. Swanberg are entitled to a severance multiple of 1x under the Executive Retention and Severance Plan because they became participants in the plan after the changes were made to the plan in August 2010.

Change in control and good reason have the following meanings under the Executive Retention and Severance Plan:

- 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.

The 2012 Equity Incentive Plan authorizes the Compensation Committee to set the terms of any equity award to provide that there will be no acceleration of the exercisability, vesting or payment of such award upon the occurrence of a change-in-control unless the change-in-control is accompanied by the award recipient's involuntary termination without cause or the award recipient's resignation for good reason. However, under the Executive Retention and Severance Plan, restricted stock and restricted stock unit awards vest in full upon the consummation of a change-in-control, provided the award recipient remains an employee prior to the change-in-control. In addition, the Executive Retention and Severance Plan provides that if the surviving, successor or acquiring corporation does not either assume, continue or substitute outstanding option awards and the award recipient remains an employee prior to the change-in-control, then the vesting and exercisability of such option awards will be accelerated in full upon the consummation of the change-in-control.

2018 Annual Incentive Compensation

In February 2018, the Compensation Committee approved design changes to the 2018 Annual Incentive Program to be focused on goal attainment. For 2018, the CEO and CFO are to be rewarded based on Net Income attributable to Granite Construction Incorporated performance while the Named Executive Officers with financial accountability for the performance of an operating group are to be incentivized primarily on their individual group's operating income with a smaller incentive component tied to the Company's net income.

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, 2017.

Members of the Compensation Committee:

James W. Bradford, Jr., Chair	Celeste B. Mastin
Claes G. Bjork	William H. Powell
Michael F. McNally	Gaddi H. Vasquez

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.

Executive Compensation Tables

2017 Summary Compensation Table

The following table summarizes, for the fiscal years specified, the compensation for our Chief Executive Officer, our Chief Financial Officer and other Named Executive Officers.

Named Executive Officer and Position (a)	Year (b)	Salary (c)	Bonus[1] (d)	Stock Awards[2] (e)	Non-Equity Incentive Plan Compensation[3] (f)	All Other Compensation[4] (g)	Total (h)
James H. Roberts	2017	$850,000	—	$2,719,073	$709,831	$ 128,491	$4,407,395
President & CEO	2016	$800,000	—	$1,823,501	$659,271	$ 132,096	$3,414,868
(Principal Executive Officer)	2015	$750,000	—	$ 975,859	$980,422	$ 124,653	$2,830,934
Laurel J. Krzeminski	2017	$500,000	—	$ 880,304	$283,933	$ 51,409	$1,715,646
Executive Vice President & CFO	2016	$475,000	—	$ 590,960	$263,708	$ 52,247	$1,381,915
(Principal Financial Officer)	2015	$475,000	—	$ 333,342	$392,169	$ 44,212	$1,244,723
Kyle T. Larkin	2017	$260,346	$100,000	$ 25,512	$266,227	$ 40,288	$ 692,373
Senior Vice President &	—	—	—	—	—	—	—
California Group Manager	—	—	—	—	—	—	—
James D. Richards	2017	$400,000	—	$ 669,757	$560,639	$ 50,455	$1,680,851
Senior Vice President &	2016	$400,000	—	$ 422,187	$438,586	$ 50,927	$1,311,700
Northwest Group Manager	—	—	—	—	—	—	—
Dale A. Swanberg	2017	$400,000	$135,469	$ 190,025	$ 64,531	$ 46,273	$ 836,298
Senior Vice President &	—	—	—	—	—	—	—
Large Projects Group Manager	—	—	—	—	—	—	—
Christopher S. Miller	2017	$272,500	—	$ 169,993	—	$1,271,726	$1,714,219
Former Executive Vice President &	2016	$530,000	—	$ 266,654	$311,655	$ 55,082	$1,163,391
Chief Operating Officer	2015	$500,000	—	$ 216,671	$463,472	$ 42,862	$1,223,005
Martin P. Matheson	2017	$253,846	—	$ 635,656	$463,162	$ 77,991	$1,430,655
Former Senior Vice President &	2016	$400,000	$ 50,000	$ 150,014	$551,229	$ 37,737	$1,188,980
California Group Manager	2015	$375,000	—	$ 250,019	$467,499	$ 29,303	$1,121,821

(1) The amount in column (d) reflects a discretionary bonus award approved by the Compensation Committee in recognition of Mr. Larkin's contributions to the California Group in 2017. In connection with his appointment to Senior Vice President & Large Projects Group Manager, Mr. Swanberg was guaranteed a minimum award of $200,000, provided that if actual performance under the AIP resulted in a greater award, the award would be based on actual performance. The amount included reflects a payment to Mr. Swanberg as a result of his guaranteed minimum award.

(2) The awards in column (e) reflect the grant date fair value of stock awards granted pursuant to (i) service in the stated year based on the Service Award feature of the LTIP and (ii) the grant date fair value of stock awards granted in the stated year based on performance for the three-year performance period, including the prior year pursuant to the performance based component of the LTIP. Mr. Miller ceased to serve as an Executive Officer of Granite effective June 22, 2017 and forfeited all RSUs upon his separation from the company. For a detailed explanation, regarding RSUs granted during 2017 to the Named Executive Officers, please refer to the Grants of Plan-Based Awards table. The grant date fair value is determined in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 718, without regard to potential forfeitures and is determined using the fair value of the Company's common stock based on the market price at the date of grant. For additional information about the assumptions used in these calculations, see Note 13 of the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. For a detailed explanation, please refer to the "Compensation Discussion and Analysis — Compensation Elements — Long Term Incentive Compensation"

(3) The amounts in column (f) reflect the cash awards earned for performance in 2017 and paid in March 2018. For a detailed explanation of cash awards for performance in 2017, please refer to "Compensation Discussion and Analysis — Compensation Elements — Annual Incentive Compensation".

(4) Please refer to the Other Compensation Table below for details with respect to all other compensation.

2017 OTHER COMPENSATION TABLE

Named Executive Officer (a)	401(k) Match[1] (b)	Dividends[2] (c)	Vehicle Allowances[3] (d)	Insurance[4] (e)	Other[5] (f)	Total (g)
James H. Roberts	$16,200	$79,019	$17,004	$16,268	—	$ 128,491
Laurel J. Krzeminski	$16,200	$ 4,116	$17,004	$14,089	—	$ 51,409
Kyle T. Larkin	$16,200	$ 1,108	$ 6,912	$15,839	$ 229	$ 40,288
James D. Richards	$16,200	$ 6,168	$12,000	$16,087	—	$ 50,455
Dale A. Swanberg	$16,200	$ 3,697	$12,000	$14,376	—	$ 46,273
Christopher S. Miller	$16,200	$ 1,469	$ 6,000	$ 8,360	$1,239,697	$1,271,726
Martin P. Matheson	$16,200	$ 2,030	$ 450	$10,789	$ 48,522	$ 77,991

(1) The amounts in column (b) reflect the company matching contribution, not to exceed 6% on compensation deferred into the 401(k) Plan.

(2) The amounts in column (c) reflect Restricted Stock and Employee Stock Ownership Plan ("ESOP") dividends, and Restricted Stock dividend equivalent units.

(3) The amounts in column (d) reflect the vehicle allowances provided to the Named Executive Officers. Mr. Larkin's Vehicle Reimbursement amount includes $4,912 of taxable income. Beginning in November 2017, Mr. Larkin began to receive a $1,000 per month vehicle allowance. For a detailed explanation, please refer to "Other Compensation".

(4) The amounts in column (e) reflect the company expense for medical, dental, vision, life, short and long-term disability insurance, Accidental Death & Dismemberment, Executive Liability Insurance, and Employee Assistance Program.

(5) The amounts in column (f) include; (i) Under the 2017 LTIP Program, Mr. Larkin received an award that was converted in cash due to the nominal amount of the award, (ii) Mr. Miller ceased to serve as an Executive Officer effective June 22, 2017 and under his separation agreement received a payment by the Company for unused accrued vacation of $39,706, $7,803 of COBRA Insurance and $1,192,000 pursuant to the terms of his separation agreement, (iii) Mr. Matheson ceased to serve as an Executive Officer effective August 12, 2017 and upon his separation received a payment by the Company for unused accrued vacation of $48,212 and a gross up of withholding taxes paid by the Company of $310.

2017 Grants of Plan-Based Awards Table

The following table provides additional information about incentive plan awards and other equity awards granted to our Named Executive Officers during the year ended December 31, 2017.

		Estimated Future Payouts under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts under Equity Incentive Plan Awards[2]				
Named Executive Officer (a)	**Grant Date (b)**	**Threshold (c)**	**Target (d)**	**Maximum (e)**	**Threshold (f)**	**Target (g)**	**Maximum (h)**	**All Other Stock Awards: Number of Shares or Stock Units (i)**	**Grant Date Fair Value of Stock Awards[3] (j)**
James H. Roberts	—	$488,000	$977,500	$2,500,000	—	—	—	—	—
	—	—	—	—	—	$1,600,000	$3,200,000	—	—
	03/14/17	—	—	—	—	—	—	7,871[4]	$ 400,004
	03/14/17	—	—	—	—	—	—	45,633[5]	$2,319,069
Laurel J. Krzeminski	—	$195,000	$375,000	$1,125,000	—	—	—	—	—
	—	—	—	—	—	$ 520,000	$1,040,000	—	—
	03/14/17	—	—	—	—	—	—	2,558[4]	$ 129,998
	03/14/17	—	—	—	—	—	—	14,764[5]	$ 750,306
Kyle T. Larkin	—	$ 41,716	$ 97,000	—	—	—	—	—	—
	—	—	—	—	—	$ 106,700	$ 213,400	—	—
	03/14/17	—	—	—	—	—	—	502[4]	$ 25,512
James D. Richards	—	$132,000	$300,000	$ 900,000	—	—	—	—	—
	—	—	—	—	—	$ 360,000	$ 720,000	—	—
	03/14/17	—	—	—	—	—	—	1,771[4]	$ 90,002
	03/14/17	—	—	—	—	—	—	11,408[5]	$ 579,755

Named Executive Officer (a)	Grant Date (b)	Estimated Future Payouts under Non-Equity Incentive Plan Awards[1] Threshold (c)	Target (d)	Maximum (e)	Estimated Future Payouts under Equity Incentive Plan Awards[2] Threshold (f)	Target (g)	Maximum (h)	All Other Stock Awards: Number of Shares or Stock Units (i)	Grant Date Fair Value of Stock Awards[3] (j)
Dale A. Swanberg	—	$ 83,000	$300,000	$ 900,000	—	—	—	—	—
	—	—	—	—	—	$ 360,000	$ 720,000	—	—
	01/03/17	—	—	—	—	—	—	1,813[6]	$ 100,023
	03/14/17	—	—	—	—	—	—	1,771[4]	$ 90,002
Christopher S. Miller[7]	—	$230,000	$412,500	$1,237,500	—	—	—	—	—
	—	—	—	—	—	$ 680,000	$1,360,000	—	—
	03/14/17	—	—	—	—	—	—	3,345[4]	$ 169,993
		—	—	—	—	—	—	—	
Martin P. Matheson	—	$146,000	$300,000	$ 900,000	—	—	—	—	—
	—	—	—	—	—	$ 360,000	$ 720,000	—	—
	03/14/17	—	—	—	—	—	—	1,771[4]	$ 90,002
	03/14/17	—	—	—	—	—	—	10,737[5]	$ 545,654

(1) Amounts in columns (c) through (e) reflect threshold, target and maximum incentives, as applicable (subject to rounding), under the 2017 AIP. Under the 2017 AIP, each Named Executive Officer, except for Mr. Larkin, had the opportunity to earn up to 300% of their target annual incentive compensation based on achievement of performance goals (not to exceed a maximum award payout of $2,500,000). For a more detailed discussion of annual incentive compensation and the payout actually received by each Named Executive Officer under the 2017 AIP, please refer to "Compensation Discussion and Analysis — Compensation Elements — Annual Incentive Compensation" and "Compensation Discussion and Analysis — Compensation Elements — Annual Incentive Compensation — 2017 Annual Incentive Plan Company and Group Performance Results and Bonus Payouts" and "2017 Incentive Compensation Plan for Kyle T. Larkin".

(2) Amounts in columns (f) through (h) reflect the threshold, target and maximum award amounts applicable to the performance based (TSR) component of our 2017 LTIP. Each of our Named Executive Officers has the ability to earn from 0% to 200% of the TSR component of the LTIP target opportunity. Any payouts under the LTIP are made in the form of restricted stock units. Payouts on the TSR component of the LTIP are made after the end of the performance period. For more detailed discussion of the 2017 LTIP, please refer to "Compensation Discussion and Analysis — Compensation Elements — Long Term Incentive Compensation" and "2017 Incentive Compensation Plan for Kyle T. Larkin".

(3) Amounts in column (j) reflect all RSU awards granted on March 14, 2017 the grant date fair market value was calculated by multiplying the number of stock units awarded by the closing price of our common stock of $50.82 on the date of the grant.

(4) The RSUs granted on March 14, 2017 reflect the service awards granted under the LTIP. The number of RSUs granted for the service award was calculated by dividing the service award by the closing price of our common stock of $50.82 on the date of the grant. The RSUs granted as service awards vest in three equal annual installments beginning on March 14, 2017; unless retirement eligibility per the 2012 Equity Plan is met, in which case vesting is accelerated. The holders of restricted stock units are entitled to receive dividends equivalent units in lieu of cash dividends declared by the Board on the outstanding common stock of the Company.

(5) The RSUs granted on March 14, 2017 reflect the performance awards granted under the LTIP. The number of RSUs granted for the 2014 – 2016 Total Shareholder Return performance award was calculated by dividing the performance award by the average stock price over the first 30 days of January 2014 of $34.77 The RSUs granted as performance awards are fully vested on the date of grant. The holders of RSUs are entitled to receive dividends equivalent units in lieu of cash dividends declared by the Board on the outstanding common stock of the Company.

(6) The RSUs granted on January 3, 2017 reflect an award to Mr. Swanberg pursuant to the terms of his promotion to Senior Vice President and Large Projects Group Manager. The number of RSUs granted was determined by dividing $100,000 by $55.17, the fair market value of the Company's common stock on the date of grant. The RSUs granted to Mr. Swanberg will ratably vest over three years beginning on January 3, 2018 and are based on his continued performance of service to the Company. The holders of RSUs are entitled to receive dividends equivalent units in lieu of cash dividends declared by the Board on the outstanding common stock of the Company.

(7) Mr. Miller ceased to serve as an Executive Officer effective June 22, 2017 and forfeited all of his RSUs upon his separation from the company.

2017 Outstanding Equity Awards at Fiscal Year-End Table

The following table summarizes equity awards made to the Named Executive Officers that were outstanding as of December 31, 2017.

	Stock Awards	
Named Executive Officer (a)	**Number of Shares or RSUs That Have Not Vested[1][2] (b)**	**Market Value of Shares or RSUs That Have Not Vested[3] (c)**
James H. Roberts	24,466	$1,551,878
Laurel J. Krzeminski	7,944	$ 503,888
Kyle T. Larkin	2,138	$ 135,613
James D. Richards	5,745	$ 364,405
Dale A. Swanberg	6,681	$ 423,776

(1) Upon death or disability, all of the equity awards of a Named Executive Officer would vest immediately.

(2) Vesting dates for each outstanding RSU awards for the Named Executive Officers is set forth in the table below.

(3) The amounts shown in column (c) are based on the December 29, 2017 closing price of the Company's common stock of $63.43.

VESTING DATES FOR EACH OUTSTANDING RSU AWARDS FOR THE NAMED EXECUTIVE OFFICERS

		Number of RSUs Underlying Vesting Awards				
Vesting Date	**Award Type**	**James H. Roberts**	**Laurel J. Krzeminski**	**Kyle T. Larkin**	**James D. Richards**	**Dale A. Swanberg**
2018						
01/03/18	RSU	–	–	–	–	608
03/13/18	RSU	6,041	1,955	247	1,599	–
03/14/18	RSU	7,891	2,565	861	1,775	1,713
04/02/18	RSU	–	–	–	–	340
12/21/18	RSU	–	–	–	–	494
2019						
01/03/19	RSU	–	–	–	–	609
03/14/19	RSU	7,890	2,565	861	1,776	1,713
2020						
01/03/20	RSU	–	–	–	–	609
03/14/20	RSU	2,644	859	169	595	595

2017 Stock Vested Table

The following table reflects the number of shares our Named Executive Officers acquired upon the vesting of stock awards during 2017 and the value realized before payment of any applicable withholding tax and broker commissions.

	Stock Awards	
Named Executive Officer (a)	**Number of Shares Acquired on Vesting (b)**	**Value Realized Upon Vesting[1] (c)**
James H. Roberts	61,968	$2,958,417
Laurel J. Krzeminski	20,056	$ 957,527
Kyle T. Larkin	1,141	$ 58,073
James D. Richards	15,451	$ 737,530
Dale A. Swanberg	1,940	$ 104,869
Christopher S. Miller	4,376	$ 223,214
Martin P. Matheson	22,462	$1,108,617

(1) The amounts in column (c) are based on the fair market value of our common stock on the applicable vesting date.

2017 Nonqualified Deferred Compensation Table

The following table summarizes our Named Executive Officers' compensation under our NQDC plan for the year ended December 31, 2017, which is also reflected in the Summary Compensation Table.

Named Executive Officer (a)	Executive Contribution in Last Fiscal Year[(1)(2)] (b)	Registrant Contributions in Last Fiscal Year (c)	Aggregate Earnings in Last Fiscal Year[(3)] (d)	Aggregate Withdrawals/ Distributions (e)	Aggregate Balance at Last Fiscal Year End (f)
James H. Roberts	$235,735	–	$149,301	–	$1,064,302
Laurel J. Krzeminski	$ 52,742	–	$ 50,224	–	$ 358,422
Kyle T. Larkin[(4)]	–	–	–	–	–
James D. Richards[(4)]	–	–	–	–	–
Dale A. Swanberg[(4)]	–	–	–	–	–
Christopher S. Miller[(4)]	–	–	–	–	–
Martin P. Matheson[(4)]	–	–	$ 11,700	–	$ 87,192

(1) The NQDC Plan II allows Named Executive Officers to defer base salary and incentive compensation, which includes equity and cash awards. Participants are required to make an election each plan year with respect to the amount to be deferred, future distribution date, and form of distribution. A distribution election is irrevocable on the first day of each plan year. For a detailed explanation of the Key Management Deferred Compensation Plan II, please refer to "Compensation Discussion and Analysis — Non-Qualified Deferred Compensation".

(2) The amounts in column (b) include $169,808 of Mr. Roberts's base salary and $65,927 of Mr. Roberts's annual cash incentive award, and $52,742 of Ms. Krzeminski's annual cash incentive award.

(3) The amounts in column (d) do not include above market or preferential earnings (of which there were none) and, accordingly, such amounts are not reported in the Summary Compensation Table as above market or preferential earnings.

(4) Messrs. Larkin, Richards, Swanberg, Miller and Matheson elected to not participate in the NQDC Plan in 2017.

Potential Payments Upon Change-in-Control

Except in the case of a change-in-control, Granite is not obligated to pay severance or other enhanced benefits to any of the Named Executive Officers in connection with a termination of their employment. Upon death or disability, all of the equity awards of a Named Executive Officer would vest immediately.

The following table sets forth an example of the potential payments and benefits under Granite's compensation and benefit plans and arrangements to which the Named Executive Officers would be entitled upon termination of employment under certain circumstances within three years following a change-in-control of Granite. The amounts set forth in the table are based on the assumption that such termination event occurred on the last business day of fiscal year 2017.

Named Executive Officer (a)	Cash Severance Payment[(1)] (b)	Insurance Benefits[(2)] (c)	Other Compensation[(3)] (d)	Accelerated Equity Awards[(4)] (e)	Total (f)	Section 280G Safe Harbor Provision[(5)] (g)	Adjusted Total (h)
James H. Roberts	$4,502,630	$48,792	$31,650	$1,551,878	$6,134,950	$0	$6,134,950
Laurel J. Krzeminski	$2,281,052	$42,183	$31,650	$ 503,888	$2,858,773	$0	$2,858,773
Kyle T. Larkin	$ 469,134	$14,350	$ 9,557	$ 135,613	$ 628,654	$0	$ 628,654
James D. Richards	$ 655,623	$16,053	$ 9,915	$ 364,405	$1,045,996	$0	$1,045,996
Dale A. Swanberg	$ 422,360	$13,896	$ 9,027	$ 423,776	$ 869,059	$0	$ 869,059

(1) The amounts in column (b) for Mr. Roberts and Ms. Krzeminski reflect a lump sum payment equal to (i) three times the annual average of the aggregate annual incentive bonuses earned for the three fiscal years preceding the fiscal year of the change-in-control plus (ii) three times the annual base salary rate in effect immediately prior to the termination. The amounts in column (b) for Messrs. Larkin, Swanberg and Richards reflect a lump sum payment equal to one times the annual average of the aggregate annual incentive bonuses earned for the three fiscal years preceding the fiscal year of the change-in-control plus (ii) one times the current annual base salary rate in effect immediately prior to the termination. For a detailed explanation, please refer to "Change-in-Control Agreements."

(2) The amounts in column (c) for Mr. Roberts and Ms. Krzeminski reflect a lump sum payment equal to three times the average annual cost to Granite of the Named Executive Officer's group insurance benefits, such as life, health and long-term disability, for the three fiscal years ending before the date of termination. The amounts in column (c) for Messrs. Larkin, Swanberg and Richards reflect a lump sum payment equal to one times the annual average cost to Granite of their group insurance benefits. For a detailed explanation, please refer to "Change-in-Control Agreements."

(3) The amounts in column (d) for Mr. Roberts and Ms. Krzeminski reflect a lump sum payment equal to three times the annual average cash equivalent of contributions which were made on behalf of the Named Executive Officer for the three fiscal years ending before the date of termination to the 401(k) Plan and any other retirement plan provided by Granite and in effect as of the date of termination. The amounts in column (d) for Messrs. Larkin, Swanberg and Richards reflect a lump sum payment of one times the annual average cash equivalents of such contributions. These amounts do not include additional amounts that may be payable for reasonable professional outplacement services for the Named Executive Officer to which the Named Executive Officer is entitled under the plan until the earlier of (i) two years following the date of termination and (ii) the date on which the Named Executive Officer obtains other employment. For a detailed explanation, please refer to "Change-in-Control Agreements."

(4) In the event of a change-in-control, if the acquiring person does not assume or replace outstanding equity awards, all non-exercisable, unvested or unpaid portions of the outstanding equity awards would become immediately exercisable and fully vested. The amounts in column (e) reflect the outstanding equity awards valued at the December 29, 2017 closing price of our common stock of $63.43.

(5) Payments under the Executive Retention and Severance Plan are subject to reduction to the extent necessary not to exceed the "safe harbor" amount under Section 4999 of the Internal Revenue Code, but only if the reduction would increase the net after-tax amount received by the participant.

Director Compensation

Stock Ownership

All non-employee directors are required to own and maintain three times their Annual Board Cash Retainer from Granite in Granite common stock within five years after joining the Board. As of December 31, 2017, all non-employee directors with 5 or more years of service to the Board had achieved the stock ownership levels. For a detailed explanation, please refer to "Stock Ownership Guidelines".

Cash and Equity Compensation Policy

Granite's non-employee directors receive annual cash retainers and equity grants as set forth in the table below. Key highlights of the director compensation program are as follows:

1. Cash retainers are paid in quarterly installments. No additional fees are paid for attendance at meetings whether in person or telephonically;

2. The Chairman of the Board's retainer is inclusive of all Committee retainers; and

3. Directors, other than the Chairman of the Board, receive an annual grant of Restricted Stock Units valued at $100,000 on the date of grant. The Chairman of the Board receives an annual grant of Restricted Stock Units equal to $175,000 in value on the date of grant. All Restricted Stock Units vest in full on the first anniversary of the date of grant (typically May 20th of each year).

Annual Board Retainers	
Member	$ 70,000
Chairman of the Board	$175,000

Annual Committee Retainers	
Audit/Compliance	$10,000
Audit/Compliance Chair	$20,000
Nominating and Corporate Governance	$ 5,000
Nominating and Corporate Governance Chair	$15,000
Compensation	$ 5,000
Compensation Chair	$17,000
Executive	$ 5,000

Annual Equity Grants		
Member	$100,000	Restricted Stock Units
Chairman of the Board	$175,000	Restricted Stock Units

2017 Director Compensation Table

The following table presents the compensation provided by Granite to our directors for the year ended December 31, 2017.

Director (a)	Fees Earned or Paid in Cash[1] (b)	Unit Award[2] (c)	All Other Compensation[3] (d)	Total (e)
Claes G. Bjork[4]	$ 95,000	$100,000	$10,898	$205,898
James W. Bradford, Jr.[4]	$102,000	$100,000	$ 7,159	$209,159
David C. Darnell	$ 75,819	$133,333	$ 853	$210,005
William G. Dorey[4][5]	$ 32,928	$ 0	$ 4,124	$ 37,052
Patricia D. Galloway	$ 75,819	$133,333	$ 853	$210,005
David H. Kelsey[4]	$ 95,000	$100,000	$11,903	$206,903
Celeste B. Mastin	$ 71,370	$133,333	$ 853	$205,556
Michael F. McNally[4]	$ 90,000	$100,000	$ 1,072	$191,072
William H. Powell[4]	$175,000	$175,000	$ 1,876	$351,876
Gaddi H. Vasquez[4]	$ 80,000	$100,000	$ 6,189	$186,189

(1) The amounts in column (b) reflect the annual cash retainer paid to non-employee directors for the year ended December 31, 2017. In 2017 each non-employee director was paid an annual retainer as a member of the Board and additional retainers for service as a member of a Board committee. The cash retainer was paid quarterly in equal payments; no meeting fees were paid. Mr. Darnell, Dr. Galloway, and Ms. Mastin's annual retainer and retainers for services as a members of a Board committee were prorated to reflect their appointment to the Board of Directors effective February 8, 2017. In addition to their prorated retainers, Mr. Darnell, Dr. Galloway and Ms. Mastin also received a prorated annual equity award. Mr. Dorey's, retainer for service as a member of the Board of Directors was prorated to reflect his retirement effective June 9, 2017.

(2) The amounts in column (c) reflect the grant date fair market value of the 2017 RSU awards. The grant date fair value is determined in accordance with Financial Accounting Standards Code Topic 718, without regard to potential forfeitures and is determined using the fair value of the Company's common stock based on market price at the date of grant. For additional information about the assumptions used in these calculations, see Note 13 of the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. These awards have a one year vesting schedule. Mr. Darnell, Dr. Galloway, Ms. Mastin received a prorated equity award on March 7, 2017 for a partial year of service to the Board of Directors (February 8, 2017 to June 8, 2017). Each received a grant of 619 RSUs with a February 9, 2017 grant date fair market value of $53.87. On June 9, 2017, Dr. Galloway, Ms. Mastin and Messrs. Bjork, Bradford, Darnell, Kelsey, McNally and Vasquez received an annual grant of 1,977 RSUs with a grant date fair market value of $50.59 per share. As Chairman of the Board, Mr. Powell received a grant of 3,460 RSUs with a grant date fair market value of $50.59 per share. As of December 31, 2017: Dr. Galloway had an outstanding balance of 1,986 RSUs; Ms. Mastin had an outstanding balance of 1,986 RSUs; Mr. Bjork had an outstanding balance of 19,542 deferred units and 1,986 RSUs; Mr. Bradford had an outstanding balance of 12,349 deferred units and 1,986 RSUs; Mr. Darnell had an outstanding balance of 1,986 RSUs; Mr. Dorey had an outstanding balance of 7,960 deferred units; Mr. Kelsey had an outstanding balance of 21,483 deferred units and 1,986 RSUs; Mr. McNally had an outstanding balance of 1,986 RSUs; Mr. Powell had an outstanding balance of 3,477 RSUs; and Mr. Vasquez had an outstanding balance of 10,453 deferred units, and 1,986 RSUs.

(3) The amounts in column (d) include the cash value of dividend equivalents from deferred units in prior years and RSUs.

(4) Mr. Bjork deferred 100% of both his annual cash retainer and RSU awards into the NQDC Plan II. Mr. Bradford deferred 100% of his RSU award into the NQDC Plan II. Mr. Dorey deferred 100% of his annual cash retainer into the NQDC Plan II. Mr. Kelsey deferred 50% of his RSU award into the NQDC Plan II Mr. McNally deferred 100% of both his annual cash retainer and RSU awards into the NQDC Plan II. Mr. Vasquez deferred 70% of his annual cash retainer award and 100% of his RSU award into the NQDC Plan II. Messrs. Bradford, Kelsey, and Powell made no deferrals of their annual cash retainers into the NQDC Plan II. Mr. Darnell, Dr. Galloway, and Ms. Mastin were not eligible to participate in the NQDC Plan II in 2017. For a detailed explanation of the NQDC Plan II, please refer to "Non-Qualified Deferred Compensation".

(5) Mr. Dorey retired from the Board effective June 9, 2017. Board fees were prorated according to his retirement date and all outstanding RSUs vested on May 20, 2017.

CEO Pay Ratio Disclosure

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires we disclose the ratio of our CEO's total annual compensation to the median of the annual total compensation of all of our employees and those of our consolidated subsidiaries other than our CEO.

To determine our median employee, we made a direct determination from our total employee population (excluding the CEO). Using a consistently applied compensation measure, which included base pay, overtime, and short-term incentives, we ranked our employees from the highest paid to the lowest paid. We reasonably determined that the employee at the midpoint had anomalous characteristics (employed less than half of the year); therefore we selected a substitute employee near the median with substantially similar compensation (using our consistently applied compensation measure) to the originally identified employee. Our employee population was evaluated as of October 30, 2017, and reflects compensation paid from January 1, 2017 through October 30, 2017. Where allowed under the Dodd-Frank Act, we have annualized compensation through October 30, 2017 for employees hired in 2017.

Based on the above determination, our median employee's total annual compensation (calculated in accordance with Item 402(c)(2)(x) of Regulation S-K) was $93,176. Our CEO's total annual compensation (calculated in accordance with Item 402(c)(2)(x) of Regulation S-K and as reported in the Summary Compensation Table) was $4,407,395. The resulting ratio was 47:1. This ratio is a reasonable estimate calculated in a manner consistent with Item 402(u) of Regulation S-K using the data and assumptions summarized above.

The Dodd-Frank Act rules for identifying the median employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their compensation practices. As such, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies may have different employment and compensation practices and may utilize different methodologies, exclusions, estimates, and assumptions in calculating their own pay ratios.

Our pay ratio is not an element that the Compensation Committee considers in setting the compensation of our CEO, nor is our CEO's compensation a material element that management considers in making compensation decisions for non-officer employees. However, the compensation of our employees is periodically reviewed to ensure alignment with our compensation philosophy of paying at the market median.

STOCK OWNERSHIP OF BENEFICIAL OWNERS AND CERTAIN MANAGEMENT

The following table provides information regarding the ownership of our common stock as of February 28, 2018 by each person known to us to beneficially own 5% or more of our common stock, each of our directors and nominees, each of our Named Executive Officers who were employed by Granite on February 28, 2018, and all of our current directors and executive officers as a group.

Name	Amount and Nature Beneficial Ownership[1]	Percentage (%) of Common Stock Outstanding[2]
BlackRock, Inc[3]	4,100,245	10.3%
55 East 52nd Street New York, NY 10055		
The Vanguard Group[4]	3,362,216	8.4%
100 Vanguard Blvd. Malvern, PA 19355		
Dimensional Fund Advisors LP[5]	2,295,688	5.8%
Building One 6300 Bee Cave Road Austin, TX 78746		
Claes G. Bjork	28,192	*
James W. Bradford, Jr.	15,571	*
David C. Darnell	620	*
Patricia D. Galloway	820	*
David H. Kelsey	0	*
Celeste B. Mastin	620	*
Michael F. McNally	3,196	*
William H. Powell	46,716	*
Gaddi H. Vasquez[6]	1,950	*
Laurel J. Krzeminski[7]	69,900	*
Kyle T. Larkin[8]	1,110	*
James D. Richards[9]	38,554	*
James H. Roberts[10]	198,417	*
Dale A. Swanberg[11]	4,302	*
All Executive Officers and Directors As a Group (14 Persons)[6-11]	409,968	1.0%

* Less than 1%

(1) Except as indicated in the footnotes to this table, the persons named in the table have sole voting and dispositive power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable. Such shares do not include the individuals' NQDC shares, if any.

(2) Calculated on the basis of 39,890,468 shares of common stock issued and outstanding as of February 28, 2018. For all executive officers and directors as a group the percentage is calculated on the basis of the number of shares of common stock issued and outstanding as of February 28, 2018 and includes 80,320 shares of common stock issuable upon the vesting of restricted stock units within 60 days after February 28, 2018 that are deemed outstanding in accordance with the rules of the Securities and Exchange Commission.

(3) Based upon a Schedule 13G/A filed by BlackRock, Inc. ("BlackRock") with the SEC (i) the number of shares beneficially owned is as of December 31, 2017, and (ii) BlackRock has sole voting power with respect to 4,013,296 shares and sole dispositive power with respect to all 4,100,245 shares.

(4) Based on a Schedule 13G/A filed by The Vanguard Group ("Vanguard") with the SEC (i) the number of shares beneficially owned is as of December 31, 2017, and (ii) Vanguard has sole voting power with respect to 69,827 shares, shared voting power with respect to 5,580 shares, sole dispositive power with respect to 3,290,169 shares and shared dispositive power with respect to 72,047 shares.

(5) Based upon a Schedule 13G filed by Dimensional Fund Advisors LP ("Dimensional") with the SEC (i) the number of shares beneficially owned is as of December 31, 2017, and (ii) Dimensional has sole voting power with respect to 2,249,959 shares and shared dispositive power with respect to all 2,295,688 shares.

(6) The 1,950 shares of common stock are held in trust for the benefit of Mr. Vasquez and his wife as to which Mr. Vasquez and his wife share voting and investment power.

(7) Includes 15,789 shares of common stock issuable to Ms. Krzeminski upon the vesting of restricted stock units within 60 days after February 28, 2018.

(8) The 1,110 shares of common stock are issuable to Mr. Larkin upon the vesting of restricted stock units within 60 days after February 28, 2018.

(9) Includes 6,172 shares of Common Stock owned by the ESOP but allocated to Mr. Richards account as of February 28, 2018, 12,595 shares of common stock issuable upon the vesting of restricted stock units within 60 days after February 28, 2018 and 19,788 shares held jointly by Mr. Richards and his wife. Subject to continued employment by Granite, Mr. Richards will become eligible to make withdrawals of his ESOP shares when he attains age 55.

(10) Includes 127,828 shares of common stock owned by the ESOP but allocated to Mr. Roberts' account as of February 28, 2018, 48,768 shares of common stock issuable upon the vesting of restricted stock units within 60 days after February 28, 2018 and 21,822 shares of common stock held in trust for the benefit of Mr. Roberts' family as to which shares Mr. Roberts and his wife share voting and investment power. As a result of having attained age 55 and continuing to be employed by Granite, Mr. Roberts is currently eligible to make withdrawals of his ESOP shares.

(11) Includes 2,056 shares of Common Stock issuable to Mr. Swanberg upon vesting of restricted stock units within 60 days after February 28, 2018.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our executive officers, directors and any persons who beneficially own more than 10% of our common stock to report ownership of, and transactions in, Granite stock with the SEC. Our executive officers, directors and any persons who beneficially own more than 10% of our common stock are required by SEC regulation to furnish to Granite copies of all Section 16(a) reports they file.

Based solely on our review of these reports and written representations from all of our executive officers and directors that no other reports were required with respect to their beneficial ownership of our common stock during fiscal year 2017, we believe that all reporting requirements applicable to our executive officers, directors and any persons who beneficially own more than 10% of our common stock pursuant to Section 16(a) of the Exchange Act were satisfied except for an amendment to Mr. Swanberg's Form 3 that reported one transaction that was not reported on a timely basis.

EQUITY COMPENSATION PLAN INFORMATION

The following table contains information as of December 31, 2017 regarding stock authorized for issuance under the 1999 and 2012 Equity Incentive Plan:

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)[1]	Weighted average exercise price of outstanding options, warrants and rights (b)[2]	Number of Securities remaining available for future issuance under equity compensation plans (excluding stock reflected in column (a)) (c)
Equity Compensation Plans Approved by Shareholders	522,925	$0.00	1,072,750
Equity Compensation Plans Not Approved by Shareholders	—	—	—
Total	522,925	$0.00	1,072,750

(1) Reflects Restricted Stock Units covering 522,925 shares of common stock.

(2) Reflects the exercise price per share of common stock purchasable upon the exercise of stock options only. As of December 31, 2017, all stock options have been exercised.

TRANSACTIONS WITH RELATED PERSONS

Granite's legal staff is primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related person transactions (transactions involving an executive officer, director, director nominee or greater than 5% beneficial owner of Granite common stock or an immediate family member of, or anyone (other than a tenant or employee) residing in the home of, an executive officer, director, director nominee or greater than 5% beneficial owner of Granite common stock). They also determine, based on the facts and circumstances, whether a related person has a direct or indirect interest in the transaction. In addition, the Board of Directors has adopted a written policy and written procedures for review and approval or ratification of related party transactions involving Granite. The policy requires the Audit/Compliance Committee's review and approval or ratification of any related party transaction (as defined in the policy) in which Granite is a participant. This includes, among other things, any related party transaction that would be required to be disclosed under the rules and regulations of the SEC.

Under the policy, the Audit/Compliance Committee reviews the material facts of all related party transactions that require the Audit/Compliance Committee's approval and either approves or disapproves of the entry into the related party transaction. If advance Audit/Compliance Committee approval of a related party transaction is not feasible, the transaction may only be entered into subject to the Audit/Compliance Committee's later approval. Thereafter, the Audit/Compliance Committee will consider the transaction, and, if the Audit/Compliance Committee determines it to be appropriate, ratify it at the next regularly scheduled meeting of the Audit/Compliance Committee. In determining whether to approve or ratify a related party transaction, the Audit/Compliance Committee takes into account, among other factors it deems appropriate, whether the related party transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related person's interest in the transaction.

The Audit/Compliance Committee has determined that the following transactions shall be deemed to be pre-approved: (i) employment of an executive officer if (a) the executive officer's compensation is required to be reported in Granite's proxy statement or (b) the executive officer is not an immediate family member of another executive officer or director of Granite, the executive officer's compensation would be reported in Granite's proxy statement if the executive officer were a "named executive officer" and the Compensation Committee approved (or recommended that the Board approve) such compensation; (ii) compensation to a director required to be disclosed in Granite's proxy statement; (iii) any transaction with another company at which the related person's only relationship is as an employee (other than an executive officer), director or beneficial owner of less than 10% of that company's shares, if the aggregate amount involved does not exceed the greater of $1,000,000 or 2% of that company's annual revenues; (iv) any charitable contribution, grant or endowment by Granite to a charitable organization, foundation or university at which a related person's only relationship is as an employee (other than an executive officer) or a director, if the aggregate amount involved does not exceed the lesser of $100,000 or 2% of the charitable organization's total annual receipts; (v) any transaction where the related person's interest arises solely from the ownership of Granite common stock and all holders of Granite common stock receive the same benefit on a pro rata basis; and (vi) any transaction with a related person involving services as a bank depositary of funds, transfer agent, registrar or trustee under a trust indenture or similar services.

In addition, the Board has delegated to the Chair of the Audit/Compliance Committee the authority to pre-approve or ratify (as applicable) any related person transaction in which the aggregate amount involved is expected to be less than $100,000.

No director who has an interest in the transaction under consideration may participate in the approval process. All related party transactions approved by the Audit/Compliance Committee must be disclosed to the full Board of Directors.

REPORT OF THE AUDIT/COMPLIANCE COMMITTEE

The Audit/Compliance Committee is appointed by the Board of Directors and reports to the Board at each meeting. Its purpose is to (a) assist the Board in its oversight of (1) Granite's accounting and financial reporting principles and policies, and internal and disclosure controls and procedures, including the internal audit function, (2) Granite's system of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002, (3) the integrity of Granite's financial statements, (4) the qualifications and independence of Granite's independent registered public accounting firm, (5) Granite's compliance with legal and regulatory requirements, and (6) Granite's Corporate Compliance Program and Code of Conduct; and (b) serve as the Qualified Legal Compliance Committee of the Board of Directors as required. The Audit/Compliance Committee is solely responsible for selecting, evaluating, setting the compensation of, and, where deemed appropriate, replacing the independent registered public accounting firm.

Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls and the effectiveness of the internal control over financial reporting. In fulfilling its oversight responsibilities, the Audit/Compliance Committee reviewed and discussed with management the audited financial statements in the Annual Report on Form 10-K for fiscal year ended December 31, 2017, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Audit/Compliance Committee also oversees our Ethics and Compliance Program, participates in the annual evaluation of our Corporate Compliance Officer and the Director of Internal Audit, and provides a detailed Annual Report to the Board on the progress of the program and plans for future activities.

The Director of Internal Audit reports directly to the Chairman of the Audit/Compliance Committee and has direct access and meets regularly with the Audit/Compliance Committee to discuss the results of internal audits and the quality of internal controls. The Corporate Compliance Officer also reports directly to the Audit/Compliance Committee.

The Audit/Compliance Committee reviewed and discussed with the independent registered public accounting firm, who is responsible for expressing an opinion on the conformity of Granite's audited financial statements with generally accepted accounting principles, its judgments as to the quality of Granite's accounting principles, the clarity of disclosures in the financial statements and such other matters as are required to be discussed with the Committee under generally accepted auditing standards, including Auditing Standards No. 1301, as amended (AICPA, *Professional Standards*, Vol. 1, AU Section 380, as adopted by the Public Company Accounting Oversight Board in Rule 3200T). In addition, the Audit/Compliance Committee has discussed with the independent registered public accounting firm the auditor's independence from Granite and its management, and the matters in the written disclosures and the letter received by the Audit/Compliance Committee from the independent registered public accounting firm required by the Public Company Accounting Oversight Board.

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

Based on the review and discussions referred to above, the Audit/Compliance Committee recommended to Granite's Board of Directors that Granite's audited financial statements be included in Granite's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Members of the Audit/Compliance Committee:

David H. Kelsey, Chair
James W. Bradford, Jr.
David C. Darnell
Patricia D. Galloway
Michael F. McNally

This Report of the Audit/Compliance 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 Audit/Compliance Committee by reference therein.

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Principal Accountant Fees and Services

Aggregate fees for professional services provided to us by PricewaterhouseCoopers LLP for the years ended December 31, 2017 and December 31, 2016 were:

	2017	2016
Audit Fees[(1)]	$3,287,125	$2,880,000
Audit-Related Fees[(2)]	$ 53,000	$ 80,333
All Other Fees[(3)]	$ 7,100	$ 7,100
Total	$3,347,225	$2,967,433

(1) Audit Fees paid in 2016 and 2017 were for professional services rendered for the audits of Granite's consolidated financial statements, including audits of internal control over financial reporting, audits of subsidiary financial statements, quarterly financial reviews and audit related expenses.

(2) Audit-Related Fees paid in 2017 were for pre-qualifications. Audit-Related Fees paid in 2016 included professional services rendered in connection with pre-qualifications and the adoption of the new revenue recognition standard which was adopted by the Company in fiscal 2018.

(3) All Other Fees include software licenses and benchmark study paid in 2016 and 2017.

Audit/Compliance Committee Pre-Approval Policies and Procedures

The Audit/Compliance Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm. During 2017, no services were provided to us by PricewaterhouseCoopers LLP other than in accordance with the pre-approval policies and procedures.

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

PROPOSAL 2: ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Board of Directors is asking shareholders to approve an annual advisory resolution on executive compensation. The Board of Directors is providing such vote pursuant to Section 14A of the Exchange Act. The advisory vote is a non-binding vote on the compensation of our Named Executive Officers. The vote is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers and the philosophy, policies and practices described in this proxy statement. We received a favorable vote on a similar resolution at our 2017 Annual Meeting of Shareholders, with approximately 96% of our shareholders approving the resolution. The text of the resolution to be voted on at the annual meeting is as follows:

> **Resolved,** that the shareholders of Granite Construction Incorporated approve, on an advisory basis, the compensation of the Company's Named Executive Officers as disclosed in the proxy statement for the Company's 2018 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities Exchange Act of 1934, as amended (which disclosure includes the Compensation Discussion and Analysis section, the Summary Compensation Table for 2017 and the related compensation tables and narrative disclosure within the Executive and Director Compensation and Other Matters section of the proxy statement).

The Company urges you to read the disclosure under "Compensation Discussion and Analysis," which discusses how our compensation policies and procedures implement our pay-for-performance compensation philosophy. You should also read the Summary Compensation Table and other related compensation tables and narrative disclosure which provide additional details about the compensation of our Named Executive Officers. We have designed our executive compensation structure to attract, motivate and retain executives with the skills required to formulate and implement the Company's strategic objectives and create shareholder value. We believe that our executive compensation program is reasonable, competitive and strongly focused on pay for performance principles, and provides an appropriate balance between risk and incentives. In particular, key elements of our executive compensation program are:

- Market competitive base salaries targeted at the 50th percentile of comparable positions in the market;
- 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 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 also 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 and holiday pay; and
- Eligibility, along with other key management employees, to participate in our Non-Qualified Deferred Compensation Program.

The vote regarding the compensation of the Named Executive Officers described above, referred to as a "say-on-pay advisory vote," is advisory, and is therefore not binding on the Company, the Compensation Committee or the Board of Directors. Although non-binding, the Compensation Committee and the Board of Directors value the opinions that shareholders express in their votes and will review the voting results and take them into consideration when making future decisions regarding our executive compensation programs as they deem appropriate.

BOARD OF DIRECTORS RECOMMENDATION

The Board of Directors unanimously recommends a vote "FOR" the approval of the compensation of the Named Executive Officers as disclosed in this proxy statement and as described pursuant to the compensation disclosure rules of the Exchange Act.

PROPOSAL 3: RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit/Compliance Committee of the Board of Directors has appointed PricewaterhouseCoopers LLP to serve as Granite's independent registered public accounting firm to perform the audit of our financial statements for the fiscal year ending December 31, 2018. PricewaterhouseCoopers LLP and its predecessor, Coopers & Lybrand, have been our auditors since 1982.

A representative of PricewaterhouseCoopers LLP will be present at the annual meeting. He or she will be given the opportunity to make a statement if he or she desires and will be available to respond to appropriate shareholder questions.

Although ratification is not required by Granite's bylaws or otherwise, the Board is submitting the selection of PricewaterhouseCoopers LLP to our shareholders for ratification as a matter of good corporate practice. If shareholders do not ratify the appointment of PricewaterhouseCoopers LLP as Granite's independent registered public accounting firm, the Audit/Compliance Committee will reconsider the appointment. Even if the selection is ratified, the Audit/Compliance Committee, in its discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of Granite and our shareholders.

BOARD OF DIRECTORS RECOMMENDATION

The Board of Directors unanimously recommends a vote "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, 2018.

SHAREHOLDER PROPOSALS TO BE PRESENTED AT THE 2019 ANNUAL MEETING OF SHAREHOLDERS

Under Granite's bylaws, director nominations and proposals for other business to be presented at the annual shareholder meeting by a shareholder may be made only if that shareholder is entitled to vote at the meeting, timely gave the required notice, and was a shareholder of record at the time when he or she gave the required notice. The required notice must be in writing, must contain the information specified in our bylaws, and must be received at our principal executive offices, 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. 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.

Separate from the requirements in our bylaws, you may submit proposals on matters appropriate for shareholder action at our annual meeting of shareholders in accordance with Rule 14a-8 promulgated under the Exchange Act ("Rule 14a-8"). Rule 14a-8 entitles a shareholder to require us to include certain shareholder proposals in Granite's proxy materials if the shareholder meets certain eligibility and timing requirements set forth in Rule 14a-8.

Pursuant to Granite's bylaws and Rule 14a-8, to be considered for inclusion in Granite's proxy statement or otherwise presented at our 2019 annual meeting of shareholders, a shareholder nomination or proposal must be received by our Secretary at Granite's principal executive offices on or before Monday, December 24, 2018.

HOUSEHOLDING

As permitted by the Exchange Act, only one copy of the Notice of Internet Availability of Proxy Materials or proxy materials is being delivered to shareholders residing at the same address, unless any shareholder has notified us of its desire to receive multiple copies of the Notice of Internet Availability of Proxy Materials or proxy materials, as applicable. This is known as householding. We will promptly deliver, upon oral or written request, a separate copy of the Notice of Internet Availability of Proxy Materials or the proxy materials, as applicable, to any shareholder residing at a shared address to which only one copy was mailed. Requests for additional copies of the Notice of Internet Availability of Proxy Materials or proxy materials, or requests to receive multiple or single copies of the Notice of Internet Availability of Proxy Materials or proxy materials at a shared address in the future, should be directed to: Granite Construction Incorporated, 585 West Beach Street, Watsonville, California 95076, Attention: Investor Relations Department, Telephone: 831.724.1011.

FORM 10-K

Copies of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (excluding exhibits) filed with the SEC are available, without charge, upon written request to Granite Construction Incorporated, 585 West Beach Street, Watsonville, California 95076, Attention: Investor Relations Department. Exhibits to the Annual Report on Form 10-K will be furnished upon payment of a fee of $0.25 per page to cover our expenses in furnishing the exhibits.

OTHER MATTERS

As of the date of this proxy statement, the only matters that management intends to present or knows that others will present at the meeting have been included in this proxy statement. If any other matters are properly presented at the meeting, or any adjournment, your shares will be voted in the discretion of the persons named on your proxy card.

Dated: April 13, 2018

Richard A. Watts
Senior Vice President, General Counsel and Secretary

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BALANCE

OPPORTUNITY

SUSTAINABILITY

GROWTH

STRATEGY

GRANITE™

2017 FORM 10-K

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

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

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™

Granite Construction Incorporated
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: **(831) 724-1011**

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was $1.9 billion as of June 30, 2017, based upon the price at which the registrant's Common Stock was last sold as reported on the New York Stock Exchange on such date.

At February 13, 2018, 39,890,345 shares of Common Stock, par value $0.01, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Shareholders of Granite Construction Incorporated to be held on June 7, 2018, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2017.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

PART I

Item 1. Business

Introduction

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

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

Operating Structure

Our business is organized into three reportable business segments. These business segments are: Construction, Large Project Construction and Construction Materials. See Note 18 of "Notes to the Consolidated Financial Statements" for additional information about our reportable business segments.

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

Construction

Revenue from our Construction segment was $1.7 billion and $1.4 billion (55.7% and 54.3% of our total revenue) in 2017 and 2016, respectively. Revenue from our Construction segment is derived from both public and private sector clients. The Construction segment performs construction management, as well as various civil construction projects with a large portion of the work focused on new construction and improvement of streets, roads, highways, bridges, site work, underground, power-related facilities, water-related facilities, utilities and other infrastructure projects. These projects are typically bid-build projects completed within two years with a contract value of less than $75 million.

Large Project Construction

Revenue from our Large Project Construction segment was $1.0 billion and $0.9 billion (34.5% and 35.3% of our total revenue) in 2017 and 2016, respectively. The Large Project Construction segment focuses on large, complex infrastructure projects which typically have a longer duration than our Construction segment work. These projects include major highways, mass transit facilities, bridges, tunnels, waterway locks and dams, pipelines, canals, power-related facilities, water-related facilities, utilities and airport infrastructure. This segment primarily includes bid-build, design-build and construction management/general contractor contracts, together with various contract methods relating to public-private partnerships, generally with contract values in excess of $75 million.

We utilize design-build, construction management/general contractor, construction management at-risk, and other alternative procurement methods of project delivery. Unlike traditional bid-build projects where owners first hire a design firm or design a project themselves and then put the project out to bid for construction, design-build projects provide the owner with a single point of responsibility and a single contact for both final design and construction. Although design-build projects carry additional risk as compared to traditional bid-build projects, the profit potential can also be higher. Under the construction management/general contractor and construction management at-risk methods of delivery, we contract with owners to assist the owner during the design phase of the contract with constructability efficiencies, with the understanding that we will negotiate a contract on the construction phase when the design nears completion. Revenue from alternative procurement method projects represented 76.1% and 81.0% of Large Project Construction revenue in 2017 and 2016, respectively.

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

Construction Materials

Revenue from our Construction Materials segment to third parties was $292.8 million and $261.2 million (9.8% and 10.4% of our total revenue) in 2017 and 2016, respectively. The Construction Materials segment mines and processes aggregates and operates plants that produce construction materials, primarily asphalt, for internal use and for sale to third parties. We have significant aggregate reserves that we own or lease through long-term leases. Sales to our construction projects represented 37.3% of our combined internal and external Construction Materials sales during 2017, and ranged from 30.5% to 38.5% over the last five years. The remainder is sold to third parties.

Business Strategy

Our business strategy is to consistently deliver ideas, innovations, products and services to our clients to power today’s mobile society by executing entrepreneurial market strategies that leverage the benefits of our company-wide resources and our core values. Our most fundamental objective is to increase long-term shareholder value as measured by the appreciation of the value of our common stock over a period of time, as well as dividend payouts. In alphabetical order, the following are key factors in our ability to achieve this objective:

Aggregate Materials

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

Decentralized Profit Centers

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

Dedicated Construction Equipment

We own and lease a large fleet of well-maintained heavy construction equipment. Dedicated access to a large pool of construction equipment enables us to compete more effectively by ensuring availability and maximizing returns on investment of the equipment.

Diversification

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

Employee Development

We believe that our employees are the primary factor for the successful implementation of our business strategies. Significant resources are employed to attract, develop and retain extraordinary and diverse talent and fully promote each employee's capabilities.

Operational Excellence

We have a continual focus on Operational Excellence, which includes the following:

- Code of Conduct - We believe in maintaining high ethical standards through an established code of conduct and an effective company-wide compliance program, while being guided by our core values at all times.
- Environment - Our focus on sustainability encompasses many aspects of how we conduct ourselves and practice our Core Values. We believe sustainability is important to our clients, employees, shareholders, and communities, and is also a long-term business driver. By focusing on specific initiatives that address social, environmental and economic challenges, we can minimize risk and increase our competitive advantage.
- Productivity - We strive to use our resources efficiently to deliver work on time and on budget.
- Quality - We believe in satisfying our clients, preventing risk, and driving improvement by performing work right the first time.
- Safety - We believe the safety of our employees, the public and the environment is a moral obligation as well as good business. By identifying and concentrating resources to address jobsite hazards, we continually strive to eliminate our incident rates and the costs associated with accidents.

Performance-Based Incentives

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

Risk-Balanced Growth

We intend to grow our business by working on many types of infrastructure projects, as well as by expanding into new geographic areas and end markets organically and through acquisitions. Growth opportunities are evaluated relative to their incremental impact to the execution risk and profitability profile of our operating portfolio.

Selective Bidding

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

Raw Materials

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

Seasonality

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

Customers

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

During the year ended December 31, 2017, our largest volume customer, including both prime and subcontractor arrangements, was the California Department of Transportation ("Caltrans"). Revenue recognized from contracts with Caltrans during 2017 represented $281.7 million (9.4% of our total revenue), of which $219.9 million (13.2% of segment revenue) was in the Construction segment, $57.2 million (5.5% of segment revenue) was in the Large Project Construction segment and $4.6 million (1.6% of segment revenue) was in the Construction Materials segment. During the year ended December 31, 2016, our largest volume customer, including both prime and subcontractor arrangements, was Caltrans. Revenue recognized from contracts with Caltrans during 2016 represented $222.4 million (8.8% of our total revenue), of which $173.4 million (12.7% of segment revenue) was in the Construction segment and $48.7 million (5.5% of segment revenue) was in the Large Project Construction segment. During the year ended December 31, 2015, our largest volume customer, including both prime and subcontractor arrangements, was the New York State Department of Transportation ("NYSDOT"). Revenue recognized from contracts with NYSDOT during 2015 represented $199.0 million (8.4% of total revenue), all of which was in the Large Project Construction segment (24.5% of segment revenue).

Contract Backlog

Our contract backlog consists of the revenue we expect to record in the future on awarded contracts, including 100% of our consolidated joint venture contracts and our proportionate share of unconsolidated joint venture contracts. We generally include a project in our contract backlog at the time it is awarded and to the extent we believe funding is probable. Certain government contracts where funding is appropriated on a periodic basis are included in contract backlog at the time of the award when it is probable the contract value will be funded and executed. Certain contracts contain contract options that are exercisable at the option of our customers without requiring us to go through an additional competitive bidding process or contain task orders that are signed under master contracts under which we perform work only when the customer awards specific task orders to us. Awarded contracts that include unexercised contract options and unissued task orders are included in contract backlog to the extent options are exercised or task order issuance is probable.

Substantially all of the contracts in our contract backlog may be canceled or modified at the election of the customer; however, we have not been materially adversely affected by contract cancellations or modifications in the past (see "Contract Provisions and Subcontracting"). Many projects in our Construction segment are added to backlog and completed within the same fiscal year and, therefore, may not be reflected in our beginning or year-end contract backlog. Contract backlog by segment is presented in "Contract Backlog" under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Our contract backlog was $3.7 billion and $3.5 billion at December 31, 2017 and 2016, respectively. Approximately $2.0 billion of the December 31, 2017 contract backlog is expected to be completed during 2018.

Equipment

At December 31, 2017 and 2016, we owned the following number of construction equipment and vehicles:

December 31,	2017	2016
Heavy construction equipment	1,905	1,934
Trucks, truck-tractors, trailers and vehicles	3,618	3,503

Our portfolio of equipment includes backhoes, barges, bulldozers, cranes, excavators, loaders, motor graders, pavers, rollers, scrapers, trucks, special equipment for pipeline rehabilitation and tunnel boring machines that are used in our Construction, Large Project Construction and Construction Materials segments. We pool certain equipment to maximize utilization. We continually monitor and adjust our fleet size so that it is consistent with the size of our business, considering both existing contract backlog and expected future work. We lease or rent equipment to supplement our portfolio of equipment in response to construction activity cycles. In 2017 and 2016, we spent $43.6 million and $65.1 million, respectively, on purchases of construction equipment and vehicles.

Employees

On December 31, 2017, we employed approximately 1,900 salaried employees who work in project, functional and business unit management, estimating and clerical capacities, plus approximately 1,700 hourly employees. The total number of hourly personnel is subject to the volume of construction in progress and is seasonal. During 2017, the number of hourly employees ranged from approximately 1,700 to 3,700 and averaged approximately 2,900. Four of our wholly-owned subsidiaries, Granite Construction Company, Granite Construction Northeast, Inc., Granite Infrastructure Constructors, Inc., and Kenny Construction Company, are parties to craft collective bargaining agreements in many areas in which they operate.

We believe our employees are our most valuable resource, and our workforce possesses a strong dedication to and pride in our company. Our managerial and supervisory personnel have an average of approximately 10 years of service with Granite.

Competition

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

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

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

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

Factors influencing our competitiveness include price, estimating abilities, knowledge of local markets and conditions, project management, financial strength, reputation for quality, aggregate materials availability, and machinery and equipment. Historically, the construction business has not required large amounts of capital for the smaller size construction work pursued by our Construction segment, which can result in relative ease of market entry for companies possessing acceptable qualifications. By contrast, the construction work pursued and performed by our Large Project Construction segment typically requires large amounts of capital that may make entry into the market by future competitors more difficult. Historically, the required amount of capital has not had a significant impact on our ability to compete in the marketplace. Although the construction business is highly competitive, we believe we are well positioned to compete effectively in the markets in which we operate.

Contract Provisions and Subcontracting

Contracts with our customers are primarily "fixed unit price" or "fixed price." Under fixed unit price contracts, we are committed to providing materials or services at fixed unit prices (for example, dollars per cubic yard of concrete placed or cubic yard of earth excavated). While the fixed unit price contract shifts the risk of estimating the quantity of units required for a particular project to the customer, any increase in our unit cost over the expected unit cost in the bid, whether due to inflation, inefficiency, incorrect estimates or other factors, is borne by us unless otherwise provided in the contract. Fixed price contracts are priced on a lump-sum basis under which we bear the risk that we may not be able to perform the work for the specified contract amount. The percentage of fixed price contracts in our contract backlog was 66.9% at December 31, 2017 compared with 63.8% at December 31, 2016. The percentage of fixed unit price contracts in our contract backlog was 29.8% and 30.8% at December 31, 2017 and 2016, respectively. All other contract types represented 3.3% and 5.4% of our contract backlog at December 31, 2017 and 2016, respectively.

With the exception of contract change orders and affirmative claims, which are typically sole-source, our construction contracts are primarily obtained through competitive bidding in response to solicitations by both public agencies and private parties and on a negotiated basis as a result of solicitations from private parties. Project owners use a variety of methods to make contractors aware of new projects, including posting bidding opportunities on agency websites, disclosing long-term infrastructure plans, advertising and other general solicitations. Our bidding activity is affected by such factors as the nature and volume of advertising and other solicitations, contract backlog, available personnel, current utilization of equipment and other resources and competitive considerations. Our contract review process includes identifying risks and opportunities during the bidding process and managing these risks through mitigation efforts such as contract negotiation, bid/no bid decisions, insurance and pricing. Contracts fitting certain criteria of size and complexity are reviewed by various levels of management and, in some cases, by the Executive Committee of our Board of Directors. Bidding activity, contract backlog and revenue resulting from the award of new contracts may vary significantly from period to period.

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

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

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

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

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

Joint Ventures

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

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

We consolidate joint ventures where we have determined that through our participation we have a variable interest and are the primary beneficiary as defined by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, *Consolidation*, and related standards. Where we have determined we are not the primary beneficiary of a joint venture but do exercise significant influence, we account for our share of the operations of unconsolidated construction joint ventures on a pro rata basis in revenue and cost of revenue in the consolidated statements of operations and in equity in construction joint ventures in the consolidated balance sheets. We account for non-construction unconsolidated joint ventures under the equity method of accounting and include our share of the operations in equity in income of affiliates in the consolidated statements of operations and in investment in affiliates in the consolidated balance sheets. We have been divesting equity method investments in real estate affiliates as part of our 2010 Enterprise Improvement Plan.

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 joint venture partner bears the profitability risk associated only with its own work. There is not a single set of books and records for a line item joint venture. Each partner accounts for its items of work individually as it would for any self-performed contract. We account for our portion of these contracts as revenues and cost of revenue in the consolidated statements of operations and in relevant balances in the consolidated balance sheets.

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

At December 31, 2017, there was $4.6 billion of construction revenue to be recognized on unconsolidated and line item construction joint venture contracts, of which $1.5 billion represented our share and the remaining $3.1 billion represented our partners' share. See Note 6 of "Notes to the Consolidated Financial Statements" for more information.

Insurance and Bonding

We maintain general and excess liability, construction equipment, workers' compensation and medical insurance; all in amounts consistent with industry practice and as part of our overall risk management strategy. Further, our policies are held with financially stable coverage providers, often in a layered or quota share arrangement which reduces the likelihood of an interruption or impact to operations.

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

Environmental Regulations

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

The California Air Resource Board requires California equipment owners/operators to reduce diesel particulate and nitrogen oxide emissions from in-use off-road diesel equipment and to meet progressively more restrictive emission targets from 2010 to 2022 by retrofitting equipment with diesel emission control devices or replacing equipment with new engine technology as it becomes available. Since 2010, costs to prepare the Company for compliance have totaled $25.7 million and future costs are expected to be immaterial; however, it is not possible to determine the total future cost of compliance.

As is the case with other companies in our industry, some of our aggregate products contain varying amounts of crystalline silica, a common mineral. Also, some of our construction and material processing operations release, as dust, crystalline silica that is in the materials being handled. Excessive, prolonged inhalation of very small-sized particles of crystalline silica has allegedly been associated with respiratory disease (including Silicosis). During 2016, the Occupational Safety and Health Administration ("OSHA") implemented new and more stringent occupational exposure thresholds for crystalline silica exposure as respirable dust. In addition, the Mine Safety and Health Administration is proposing the identical rule as implemented by OSHA. We have implemented dust control procedures to measure compliance with requisite thresholds and to verify that respiratory protective equipment is made available as necessary. We also communicate, through safety data sheets and other means, what we believe to be appropriate warnings and cautions to employees and customers about the risks associated with excessive, prolonged inhalation of mineral dust in general and crystalline silica in particular (see "Item 1A. Risk Factors"). The scope of new exposure limits indicates that additional engineering controls, beyond providing respirators will be required to reduce potential exposure in response to the reduced exposure limits. The OSHA General Industry and Construction Standards were phased in during late 2017 and will be fully implemented by the end of June of 2018. Expenses related to this implementation were immaterial during the year ended December, 31, 2017 and are expected to be immaterial in 2018.

Website Access

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

Executive Officers of the Registrant

Information regarding our executive officers is set forth below.

Name	Age	Position
James H. Roberts	61	President and Chief Executive Officer
Laurel J. Krzeminski	63	Executive Vice President and Chief Financial Officer
Kyle T. Larkin	46	Senior Vice President and Group Manager
James D. Richards	54	Senior Vice President and Group Manager
Dale Swanberg	55	Senior Vice President and Group Manager

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

Ms. Krzeminski joined Granite in 2008 and has served as Chief Financial Officer since November 2010. She has served as Executive Vice President since December 2015, Senior Vice President from January 2013 through December 2015, Vice President from July 2008 through December 2012, Interim Chief Financial Officer from June 2010 to October 2010 and Corporate Controller from July 2008 through May 2010. From 1993 to 2007, she served in various corporate and operational finance positions with The Gillette Company (acquired by The Procter & Gamble Company in 2005), including Finance Director for the Duracell and Braun North American business units. Ms. Krzeminski also served as the Director of Gillette's Sarbanes-Oxley Section 404 Compliance program and as Gillette's Director of Corporate Financial Reporting. Ms. Krzeminski is currently a member of the board of directors of Terracon. Her experience also includes several years in public accounting with an international accounting firm. Ms. Krzeminski received a B.S. in Business Administration-Accounting from San Diego State University.

Mr. Larkin joined Granite in 1996 and has served as Senior Vice President and Group Manager since October 2017, Vice President and Regional Manager in Nevada from January 2014 to September 2017 and President of Granite's wholly-owned subsidiary, Intermountain Slurry Seal, Inc. from 2011 to 2014. He served as Manager of Construction at the Reno area office from 2008 to 2011 and Chief Estimator from 2004 to 2008. Mr. Larkin holds a B.S. in Construction Management from California Polytechnic State University, San Luis Obispo and an M.B.A. from the University of Massachusetts, Amherst.

Mr. Richards joined Granite in January 1992 and has served as Senior Vice President and Group Manager since January 2013. He also served as Arizona Region Manager from February 2006 through December 2012, Arizona Region Chief Estimator from January 2000 through January 2006 and in other positions at Granite's Arizona Branch between 1992 and 2000. Prior to joining Granite, he served as a U.S. Army Officer. Mr. Richards received a B.S. in Civil Engineering from New Mexico State University in 1987.

Mr. Swanberg joined Granite in 2015 and has served as Senior Vice President and Group Manager since January 2017 and as Vice President and Deputy Group Manager from April 2015 to December 2016. In 2013, Mr. Swanberg served as the Chief Operating Officer of Flatiron Construction. Prior to Flatiron Construction, he served in various positions for the Walsh Group from 1985 to 2012, including as the President of the Heavy Civil Group. Mr. Swanberg received a B.S. in Civil Engineering from Bradley University in 1984.

Item 1A. Risk Factors

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

- ***Unfavorable economic conditions may have an adverse impact on our business.*** Volatility in the global financial system, deterioration in general economic activity, and fiscal, monetary and other policies that the federal, state and local government(s) may enact, including infrastructure spending or deficit reduction measures, may have an adverse impact on our business, financial position, results of operations, cash flows and liquidity. In particular, low tax revenues, budget deficits, financing constraints, including timing of long-term federal, state and local funding releases, and competing priorities could negatively impact the ability of government agencies to fund existing or new infrastructure projects in the public sector. In addition, these factors could have a material adverse effect on the financial market and economic conditions in the United States as well as throughout the world, which may limit our ability and the ability of our customers to obtain financing and/or could impair our ability to execute our acquisition strategy. In addition, levels of new commercial and residential construction projects could be adversely affected by oversupply of existing inventories of commercial and residential properties, low property values and a restrictive financing environment.

- ***We work in a highly competitive marketplace.*** We have multiple competitors in all of the areas in which we work, and some of our competitors are larger than we are and may have greater resources than we do. Government funding for public works projects is limited, thus contributing to competition for the limited number of public projects available. This increased competition may result in a decrease in new awards at acceptable profit margins. In addition, should downturns in residential and commercial construction activity occur, the competition for available public sector work would intensify, which could impact our revenue, contract backlog and profit margins.

- ***Government contracts generally have strict regulatory requirements.*** Approximately 81.8% of our Construction and Large Project Construction revenue in 2017 was derived from contracts funded by federal, state and local government agencies and authorities. Government contracts are subject to specific procurement regulations, contract provisions and a variety of socioeconomic requirements relating to their formation, administration, performance and accounting and often include express or implied certifications of compliance. Claims for civil or criminal fraud may be brought for violations of regulations, requirements or statutes. We may also be subject to qui tam litigation brought by private individuals on behalf of the government under the Federal Civil False Claims Act, which could include claims for up to treble damages. Further, if we fail to comply with any of the regulations, requirements or statutes or if we have a substantial number of accumulated Occupational Safety and Health Administration, Mine Safety and Health Administration or other workplace safety violations, our existing government contracts could be terminated and we could be suspended from government contracting or subcontracting, including federally funded projects at the state level. Should one or more of these events occur, it could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.

- ***Government contractors are subject to suspension or debarment from government contracting.*** Our substantial dependence on government contracts exposes us to a variety of risks that differ from those associated with private sector contracts. Various statutes to which our operations are subject, including the Davis-Bacon Act (which regulates wages and benefits), the Walsh-Healy Act (which prescribes a minimum wage and regulates overtime and working conditions), Executive Order 11246 (which establishes equal employment opportunity and affirmative action requirements) and the Drug-Free Workplace Act, provide for mandatory suspension and/or debarment of contractors in certain circumstances involving statutory violations. In addition, the Federal Acquisition Regulation and various state statutes provide for discretionary suspension and/or debarment in certain circumstances that might call into question a contractor's willingness or ability to act responsibly, including as a result of being convicted of, or being found civilly liable for, fraud or a criminal offense in connection with obtaining, attempting to obtain or performing a public contract or subcontract. The scope and duration of any suspension or debarment may vary depending upon the facts and the statutory or regulatory grounds for debarment and could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.

- ***Our success depends on attracting and retaining qualified personnel, joint venture partners and subcontractors in a competitive environment.*** The success of our business is dependent on our ability to attract, develop and retain qualified personnel, joint venture partners, advisors and subcontractors. Changes in general or local economic conditions and the resulting impact on the labor market and on our joint venture partners may make it difficult to attract or retain qualified individuals in the geographic areas where we perform our work. If we are unable to provide competitive compensation packages, high-quality training programs and attractive work environments or to establish and maintain successful partnerships, our reputation, relationships and/or ability to profitably execute our work could be adversely impacted.

- ***Failure to maintain safe work sites could result in significant losses.*** Construction and maintenance sites are potentially dangerous workplaces and often put our employees and others in close proximity with mechanized equipment, moving vehicles, chemical and manufacturing processes, and highly regulated materials. On many sites, we are responsible for safety and, accordingly, must implement safety procedures. If we fail to implement these procedures or if the procedures we implement are ineffective, we may suffer the loss of or injury to our employees, as well as expose ourselves to possible litigation. Our failure to maintain adequate safety standards through our safety programs could result in reduced profitability or the loss of projects or clients, and could have a material adverse impact on our financial position, results of operations, cash flows and liquidity.

- ***As a part of our growth strategy we have made and may make future acquisitions, and acquisitions involve many risks.*** These risks include:
  - difficulties integrating the operations and personnel of the acquired companies;
  - diversion of management's attention from ongoing operations;
  - potential difficulties and increased costs associated with completion of any assumed construction projects;

- insufficient revenues to offset increased expenses associated with acquisitions and the potential loss of key employees or customers of the acquired companies;
- assumption of liabilities of an acquired business, including liabilities that were unknown at the time the acquisition was negotiated;
- difficulties relating to assimilating the personnel, services, and systems of an acquired business and to assimilating marketing and other operational capabilities;
- increased burdens on our staff and on our administrative, internal control and operating systems, which may hinder our legal and regulatory compliance activities;
- difficulties in applying and integrating our system of internal controls to an acquired business;
- if we issue additional equity securities, such issuances could have the effect of diluting our earnings per share as well as our existing shareholders' individual ownership percentages in the Company;
- the recording of goodwill or other non-amortizable intangible assets that will be subject to subsequent impairment testing and potential impairment charges, as well as amortization expenses related to certain other intangible assets; and
- while we often obtain indemnification rights from the sellers of acquired businesses, such rights may be difficult to enforce, the losses may exceed any dedicated escrow funds, and the indemnitors may not have the ability to financially support the indemnity.

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

- ***An inability to obtain bonding could have a negative impact on our operations and results.*** As more fully described in "Insurance and Bonding" under "Item 1. Business," we generally are required to provide surety bonds securing our performance under the majority of our public and private sector contracts. Our inability to obtain reasonably priced surety bonds in the future and, while we monitor the financial health of our insurers and the insurance market, catastrophic events could reduce available limits or the breadth of coverage both of which could significantly affect our ability to be awarded new contracts and could, therefore, have a material adverse effect on our financial position, results of operations, cash flows and liquidity.
- ***We may be unable to identify and contract with qualified Disadvantaged Business Enterprise ("DBE") contractors to perform as subcontractors.*** Certain of our government agency projects contain minimum DBE participation clauses. If we subsequently fail to complete these projects with the minimum DBE participation, we may be held responsible for breach of contract, which may include restrictions on our ability to bid on future projects as well as monetary damages. To the extent we are responsible for monetary damages, the total costs of the project could exceed our original estimates, we could experience reduced profits or a loss for that project and there could be a material adverse impact to our financial position, results of operations, cash flows and liquidity.
- ***Fixed price and fixed unit price contracts subject us to the risk of increased project cost.*** As more fully described in "Contract Provisions and Subcontracting" under "Item 1. Business," the profitability of our fixed price and fixed unit price contracts can be adversely affected by a number of factors that can cause our actual costs to materially exceed the costs estimated at the time of our original bid. This could result in reduced profits or a loss for that project and there could be a material adverse impact to our financial position, results of operations, cash flows and liquidity.
- ***Design-build contracts subject us to the risk of design errors and omissions.*** Design-build is increasingly being used as a method of project delivery as it provides the owner with a single point of responsibility for both design and construction. We generally subcontract design responsibility to architectural and engineering firms. However, in the event of a design error or omission causing damages, there is risk that the subcontractor or their errors and omissions insurance would not be able to absorb the liability. In this case we may be responsible, resulting in a potentially material adverse effect on our financial position, results of operations, cash flows and liquidity.
- ***Many of our contracts have penalties for late completion.*** In some instances, including many of our fixed price contracts, we guarantee that we will complete a project by a certain date. If we subsequently fail to complete the project as scheduled we may be held responsible for costs resulting from the delay, generally in the form of contractually agreed-upon liquidated damages. To the extent these events occur, the total cost of the project could exceed our original estimate and we could experience reduced profits or a loss on that project and there could be a material adverse impact to our financial position, results of operations, cash flows and liquidity.

- ***Strikes or work stoppages could have a negative impact on our operations and results.*** We are party to collective bargaining agreements covering a portion of our craft workforce. Although strikes or work stoppages have not had a significant impact on our operations or results in the past, such labor actions could have a significant impact on our operations and results if they occur in the future.

- ***Failure of our subcontractors to perform as anticipated could have a negative impact on our results.*** As further described in "Contract Provisions and Subcontracting" under "Item 1. Business," we subcontract portions of many of our contracts to specialty subcontractors, but we are ultimately responsible for the successful completion of their work. Although we seek to require bonding or other forms of guarantees, we are not always successful in obtaining those bonds or guarantees from our higher-risk subcontractors. In this case we may be responsible for the failures on the part of our subcontractors to perform as anticipated, resulting in a potentially adverse impact on our cash flows and liquidity. In addition, the total costs of a project could exceed our original estimates and we could experience reduced profits or a loss for that project, which could have an adverse impact on our financial position, results of operations, cash flows and liquidity.

- ***Our joint venture contracts subject us to risks and uncertainties, some of which are outside of our control.*** As further described in Note 1 of "Notes to the Consolidated Financial Statements" and under "Item 1. Business; Joint Ventures," we perform certain construction contracts as a limited member of joint ventures. Participating in these arrangements exposes us to risks and uncertainties, including the risk that if our partners fail to perform under joint and several liability contracts, we could be liable for completion of the entire contract. In addition, if our partners are not able or willing to provide their share of capital investment to fund the operations of the venture, there could be unanticipated costs to complete the projects, financial penalties or liquidated damages. These situations could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.

  To the extent we are not the controlling partner, we have limited control over many of the decisions made with respect to the related construction projects. These joint ventures may not be subject to the same compliance requirements, including those related to internal control over financial reporting. While we have controls to sufficiently mitigate the risks associated with reliance on their control environment and financial information, to the extent the controlling partner makes decisions that negatively impact the joint venture or internal control problems arise within the joint venture, it could have a material adverse impact on our business, financial position, results of operations, cash flows and liquidity.

- ***Our failure to adequately recover on affirmative claims brought by us against project owners or other project participants (e.g., back charges against subcontractors) for additional contract costs could have a negative impact on our liquidity and future operations***. In certain circumstances, we assert affirmative claims against project owners, engineers, consultants, subcontractors or others involved in a project for additional costs exceeding the contract price or for amounts not included in the original contract price. These types of affirmative claims occur due to matters such as delays or changes from the initial project scope, both of which may result in additional costs. Often, these affirmative claims can be the subject of lengthy arbitration or litigation proceedings, and it is difficult to accurately predict when and on what terms they will be fully resolved. The potential gross profit impact of recoveries for affirmative claims may be material in future periods when they, or a portion of them, become probable and estimable or are settled. When these types of events occur, we use working capital to cover cost overruns pending the resolution of the relevant affirmative claims and may incur additional costs when pursuing such potential recoveries. A failure to recover on these types of affirmative claims promptly and fully could have a negative impact on our financial position, results of operations, cash flows and liquidity. In addition, while clients and subcontractors may be obligated to indemnify us against certain liabilities, such third parties may refuse or be unable to pay us.

- ***Failure to remain in compliance with covenants under our debt and credit agreements, service our indebtedness, or fund our other liquidity needs could adversely impact our business.*** Our debt and credit agreements and related restrictive and financial covenants are more fully described in Note 11 of "Notes to the Consolidated Financial Statements." Our failure to comply with any of these covenants, or to pay principal, interest or other amounts when due thereunder, would constitute an event of default under the applicable agreements. Under certain circumstances, the occurrence of an event of default under one of our debt or credit agreements (or the acceleration of the maturity of the indebtedness under one of our agreements) may constitute an event of default under one or more of our other debt or credit agreements. Default under our debt and credit agreements could result in (i) us no longer being entitled to borrow under the agreements; (ii) termination of the agreements; (iii) the requirement that any letters of credit under the agreements be cash collateralized; (iv) acceleration of the maturity of outstanding indebtedness under the agreements; and/or (v) foreclosure on any collateral securing the obligations under the agreements. If we are unable to service our debt obligations or fund our other liquidity needs, we could be forced to curtail our operations, reorganize our capital structure (including through bankruptcy proceedings) or liquidate some or all of our assets in a manner that could cause holders of our securities to experience a partial or total loss of their investment in us.

- ***Unavailability of insurance coverage could have a negative effect on our operations and results.*** We maintain insurance coverage as part of our overall risk management strategy and pursuant to requirements to maintain specific coverage that are contained in our financing agreements and in most of our construction contracts. Although we have been able to obtain reasonably priced insurance coverage to meet our requirements in the past, there is no assurance that we will be able to do so in the future, and our inability to obtain such coverage could have an adverse impact on our ability to procure new work, which could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.

- ***Accounting for our revenues and costs involves significant estimates.*** As further described in "Critical Accounting Policies and Estimates" under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," accounting for our contract-related revenues and costs, as well as other expenses, requires management to make a variety of significant estimates and assumptions. Although we believe we have sufficient experience and processes to enable us to formulate appropriate assumptions and produce reasonably dependable estimates, these assumptions and estimates may change significantly in the future and could result in the reversal of previously recognized revenue and profit. Such changes could have a material adverse effect on our financial position and results of operations.

- ***We use certain commodity products that are subject to significant price fluctuations.*** Petroleum based products, such as fuels, lubricants, and liquid asphalt, are used to power or lubricate our equipment, operate our plants, and a significant ingredient in the asphaltic concrete we manufacture for sale to third parties and use in our asphalt paving construction projects. Although we are partially protected by asphalt or fuel price escalation clauses in some of our contracts, many contracts provide no such protection. We also use steel and other commodities in our construction projects that can be subject to significant price fluctuations. To mitigate these risks, we pre-purchase commodities, enter into supply agreements or enter into financial contracts to secure pricing. Although we have not been significantly adversely affected by price fluctuations in the past, there is no guarantee that we will not be in the future.

- ***We are subject to environmental and other regulation.*** As more fully described in "Environmental Regulations" under "Item 1. Business," we are subject to a number of federal, state and local laws and regulations relating to the environment, workplace safety and a variety of socioeconomic requirements. Noncompliance with such laws and regulations can result in substantial penalties, or termination or suspension of government contracts as well as civil and criminal liability. In addition, some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for contamination at such facilities and sites, without regard to causation or knowledge of contamination. We occasionally evaluate various alternatives with respect to our facilities, including possible dispositions or closures. Investigations undertaken in connection with these activities may lead to discoveries of contamination that must be remediated, and closures of facilities may trigger compliance requirements that are not applicable to operating facilities. While compliance with these laws and regulations has not materially adversely affected our operations in the past, there can be no assurance that these requirements will not change and that compliance will not adversely affect our operations in the future. Furthermore, we cannot provide assurance that existing or future circumstances or developments with respect to contamination will not require us to make significant remediation or restoration expenditures.

- ***Weather can significantly affect our revenues and profitability.*** Our ability to perform work is significantly affected by weather conditions such as precipitation and temperature. Changes in weather conditions can cause delays and otherwise significantly affect our project costs. The impact of weather conditions can result in variability in our quarterly revenues and profitability, particularly in the first and fourth quarters of the year.

- ***Increasing restrictions on securing aggregate reserves could negatively affect our future operations and results.*** Tighter regulations and the finite nature of property containing suitable aggregate reserves are making it increasingly challenging and costly to secure aggregate reserves. Although we have thus far been able to secure reserves to support our business, our financial position, results of operations, cash flows and liquidity may be adversely affected by an increasingly difficult permitting process.

- ***We may be required to contribute cash to meet our unfunded pension obligations in certain multi-employer plans.*** Four of our wholly-owned subsidiaries, Granite Construction Company, Granite Construction Northeast, Inc., Granite Industrial, Inc., and Kenny Construction Company, participate in various domestic multi-employer pension plans on behalf of union employees. Union employee benefits generally are based on a fixed amount for each year of service. We are required to make contributions to the plans in amounts established under collective bargaining agreements. Pension expense is recognized as contributions are made. The domestic pension plans are subject to the Employee Retirement

Income Security Act of 1974 ("ERISA"). Under ERISA, a contributor to a multi-employer plan may be liable, upon termination or withdrawal from a plan, for its proportionate share of a plan's unfunded vested liability. While we currently have no intention of withdrawing from a plan and unfunded pension obligations have not significantly affected our operations in the past, there can be no assurance that we will not be required to make material cash contributions to one or more of these plans to satisfy certain underfunded benefit obligations in the future.

- ***Force majeure events, including natural disasters and terrorists' actions, could negatively impact our business, which may affect our financial condition, results of operations or cash flows.*** Force majeure or extraordinary events beyond the control of the contracting parties, such as natural and man-made disasters, as well as terrorist actions, could negatively impact the economies in which we operate. We typically negotiate contract language where we are allowed certain relief from force majeure events in private client contracts and review and attempt to mitigate force majeure events in both public and private client contracts. We remain obligated to perform our services after most extraordinary events subject to relief that may be available pursuant to a force majeure clause. If we are not able to react quickly to force majeure events, our operations may be affected, which could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.

- ***Changes to our outsourced software or infrastructure vendors as well as any sudden loss, breach of security, disruption or unexpected data or vendor loss associated with our information technology systems could have a material adverse effect on our business.*** We rely on third-party software and infrastructure to run critical accounting, project management and financial information systems. If software or infrastructure vendors decide to discontinue further development, integration or long-term maintenance support for our information systems, or there is any system interruption, delay, breach of security, loss of data or loss of a vendor, we may need to migrate some or all of our accounting, project management and financial information to other systems. Despite business continuity plans, these disruptions could increase our operational expense as well as impact the management of our business operations, which could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.

- ***Cybersecurity attacks on or breaches of our information technology environment could result in business interruptions, remediation costs and/or legal claims.*** To protect confidential customer, vendor, financial and employee information, we employ information security measures that secure our information systems from cybersecurity attacks or breaches. Even with these measures, we may be subject to unauthorized access of digital data with the intent to misappropriate information, corrupt data or cause operational disruptions. If a failure of our safeguarding measures were to occur, it could have a negative impact to our business and result in business interruptions, remediation costs and/or legal claims, which could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.

- ***A change in tax laws or regulations of any federal, state or international jurisdiction in which we operate could increase our tax burden and otherwise adversely affect our financial position, results of operations, cash flows and liquidity.*** We continue to assess the impact of various U.S. federal, state, local and international legislative proposals that could result in a material increase to our U.S. federal, state, local and/or international taxes. We cannot predict whether any specific legislation will be enacted or the terms of any such legislation. However, if such proposals were to be enacted, or if modifications were to be made to certain existing regulations, the consequences could have a material adverse impact on us, including increasing our tax burden, increasing our cost of tax compliance or otherwise adversely affecting our financial position, results of operations, cash flows and liquidity.

- ***Our contract backlog is subject to unexpected adjustments and cancellations and could be an uncertain indicator of our future earnings.*** We cannot guarantee that the revenues projected in our contract backlog will be realized or, if realized, will be profitable. Projects reflected in our contract backlog may be affected by project cancellations, scope adjustments, time extensions or other changes. Such changes may adversely affect the revenue and profit we ultimately realize on these projects.

- ***Our business strategy includes growing our international operations, which are subject to a number of special risks.*** As part of our strategic diversification efforts, we may enter into more construction contracts in international locations, which may subject us to a number of special risks unique to foreign countries and/or operations. Due to the special risks associated with non-U.S. operations, our exposure to such risks may not be proportionate to the percentage of our revenues attributable to such operations.

- ***Rising inflation and/or interest rates could have an adverse effect on our business, financial condition and results of operations.*** Economic factors, including inflation and fluctuations in interest rates, could have a negative impact on our business. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could have a material adverse effect on our financial position, results of operations, cash flows and liquidity.

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

Item 1B. Unresolved Staff Comments

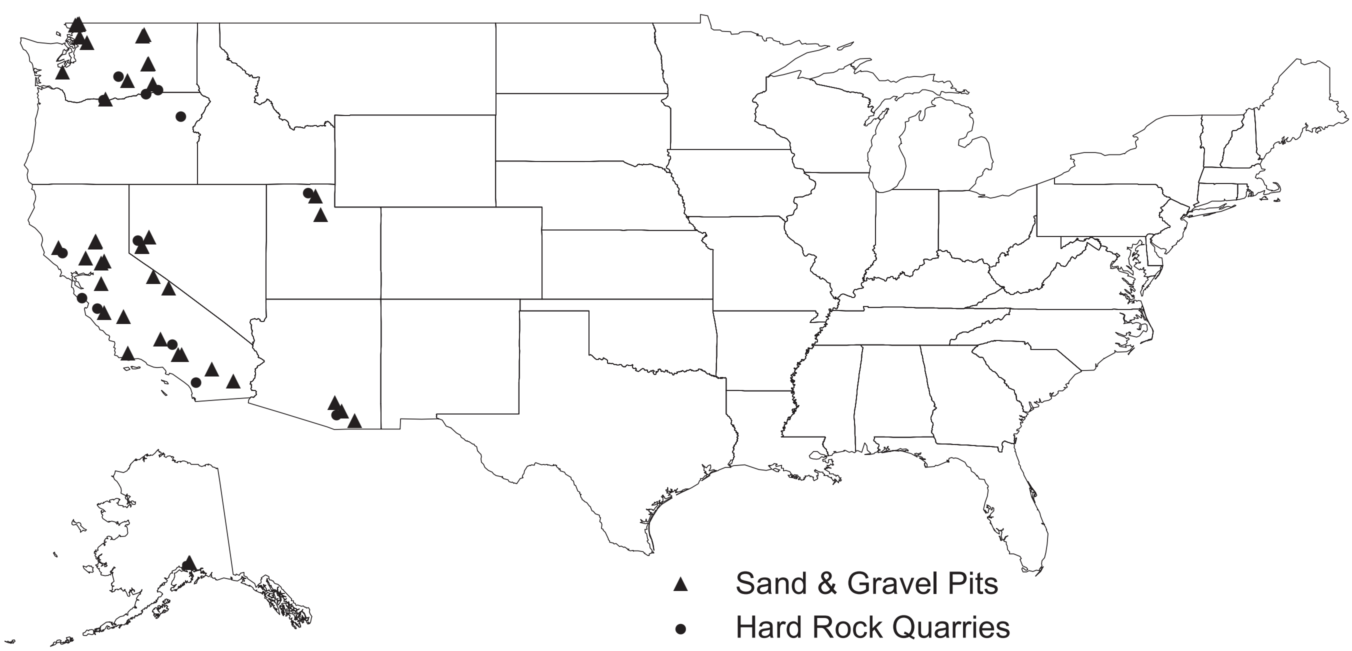
None.

Item 2. Properties

Quarry Properties

As of December 31, 2017, we had 46 active and 15 inactive permitted quarry properties available for the extraction of sand and gravel and hard rock, all of which are located in the western United States. All of our quarries are open-pit and are primarily accessible by road. We process aggregates into construction materials for internal use and for sale to third parties. Our plant equipment is powered mostly by electricity provided by local utility companies. The following map shows the approximate locations of our permitted quarry properties as of December 31, 2017.

SAND & GRAVEL AND HARD ROCK PRODUCTION FACILITIES



We estimate our permitted proven[1] and probable[2] aggregate reserves to be approximately 680.1 million tons with an average permitted life of approximately 54 years at present operating levels. Present operating levels are determined based on a three-year annual average aggregate production rate of 12.7 million tons. Reserve estimates were made by our geologists and engineers based primarily on drilling studies. Reserve estimates are based on various assumptions, and any material inaccuracies in these assumptions could have a material impact on the accuracy of our reserve estimates. These properties are primarily used by our Construction and Construction Materials segments.

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

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

The following tables present information about our quarry properties as of December 31, 2017 (tons in millions):

Quarry Properties	Type: Sand & Gravel	Type: Hard Rock	Permitted Aggregate Reserves (tons)	Unpermitted Aggregate Reserves (tons)	Three-Year Annual Average Production Rate (tons)	Average Reserve Life
Owned quarry properties	22	4	397.5	345.0	5.9	67
Leased quarry properties[1]	23	12	282.6	41.6	6.8	41

1 Our leases have terms which range from month-to-month to 45 years with most including an option to renew.

State	Number of Properties	Permitted Reserves for Each Product Type (tons)		Percentage of Permitted Reserves Owned and Leased	
		Sand & Gravel	Hard Rock	Owned	Leased
California	24	239.4	222.4	56%	44%
Non-California	37	127.9	90.4	64%	36%

Plant Properties

We operate plants at our quarry sites to process aggregates into construction materials. Some of our sites may have more than one crushing, concrete or asphalt processing plant. In an effort to continuously increase efficiencies based on external and internal demands, we sold or otherwise disposed of three plants during 2017 and several plants and the associated land in California during 2016. These sales or dispositions resulted in gains during 2017 and 2016 of approximately $0.2 million and $2.6 million, respectively, that were recorded to gain on sales of property and equipment in the consolidated statements of operations. At December 31, 2017 and 2016, we owned the following plants:

December 31,	2017	2016
Aggregate crushing plants	29	30
Asphalt concrete plants	49	50
Cement concrete batch plants	7	7
Asphalt rubber plants	6	6
Lime slurry plants	8	8

These plants are primarily used by our Construction and Construction Materials segments.

Other Properties

The following table provides our estimate of certain information about other properties as of December 31, 2017:

	Land Area (acres)	Building Square Feet
Office and shop space (owned and leased)	1,255	1,435,778

As of December 31, 2017, approximately 57% of our office and shop space was attributable to our Construction segment, 7% to our Large Project Construction segment and 4% to our Construction Materials segment. The remainder is primarily attributable to administration.

Item 3. Legal Proceedings

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

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

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

Liabilities relating to legal proceedings and government inquiries, to the extent that we have concluded such liabilities are probable and the amounts of such liabilities are reasonably estimable, are recorded in the consolidated balance sheets. The aggregate liabilities recorded as of December 31, 2017 and 2016 related to these matters were approximately $0.9 million and $4.3 million, respectively, and were primarily included in accounts payable and accrued expenses and other current liabilities in our consolidated balance sheets. The aggregate range of possible loss related to (i) matters considered reasonably possible, and (ii) reasonably possible amounts in excess of accrued losses recorded for probable loss contingencies, including those related to liquidated damages, could have a material impact on our consolidated financial statements if they become probable and the reasonably estimable amount is determined.

Item 4. Mine Safety Disclosures

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

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

As of February 13, 2018, there were 39,890,345 shares of our common stock outstanding held by 709 shareholders of record.

We have paid quarterly cash dividends since the second quarter of 1990, and we expect to continue to do so. However, declaration and payment of dividends is within the sole discretion of our Board of Directors, subject to limitations imposed by Delaware law and compliance with our credit agreements (which allow us to pay dividends so long as we have at least $150 million in unencumbered cash and cash equivalents and marketable securities), and will depend on our earnings, capital requirements, financial condition and such other factors as the Board of Directors deems relevant. As of December 31, 2017, we had unencumbered cash, cash equivalents and marketable securities that exceeded the aforementioned limitations.

MARKET PRICE AND DIVIDENDS OF COMMON STOCK

2017 Quarters Ended	December 31,	September 30,	June 30,	March 31,
High	$67.40	$59.36	$55.11	$59.99
Low	55.78	47.05	45.14	45.19
Dividends per share	0.13	0.13	0.13	0.13

2016 Quarters Ended	December 31,	September 30,	June 30,	March 31,
High	$62.18	$51.35	$48.59	$47.99
Low	42.59	44.35	40.16	35.69
Dividends per share	0.13	0.13	0.13	0.13

During the three months ended December 31, 2017, we did not sell any of our equity securities that were not registered under the Securities Act of 1933, as amended. The following table sets forth information regarding the repurchase of shares of our common stock during the three months ended December 31, 2017:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs[2]
October 1 through October 31, 2017	109	$58.43	—	$200,000,000
November 1 through November 30, 2017	810	$64.34	—	$200,000,000
December 1 through December 31, 2017	3,144	$65.34	—	$200,000,000
Total	4,063	$64.96	—	

1 The number of shares purchased is in connection with employee tax withholding for units vested under our 2012 Equity Incentive Plan.

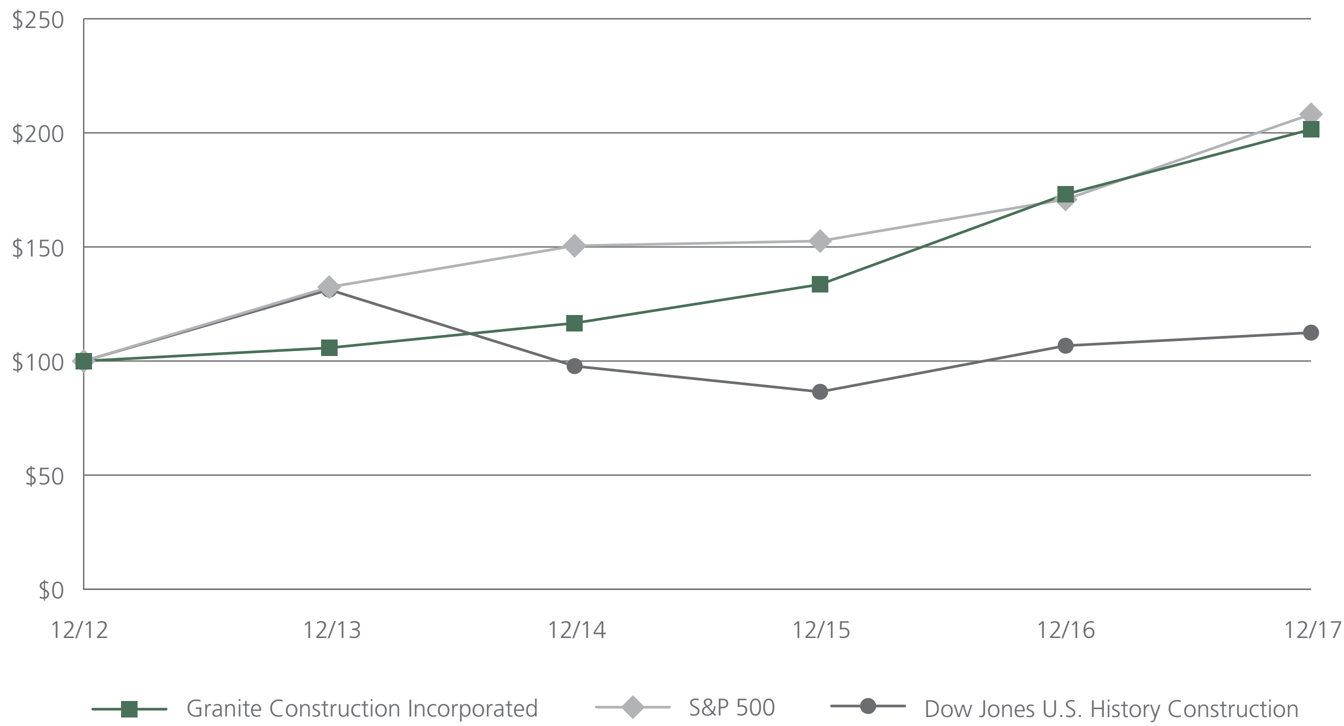
2 On April 7, 2016, the Board of Directors authorized us to purchase up to $200.0 million of our common stock at management's discretion, which replaced the former authorization including the amount available. We did not purchase shares under the share purchase plan in any of the periods presented. The specific timing and amount of any future purchases will vary based on market conditions, securities law limitations and other factors.

Performance Graph

The following graph compares the cumulative 5-year total return provided to shareholders on Granite Construction Incorporated's common stock relative to the cumulative total returns of the S&P 500 index and the Dow Jones U.S. Heavy Construction index. The Dow Jones U.S. Heavy Construction index includes the following companies: AECOM, Chicago Bridge & Iron Co NV, EMCOR Group Inc., Fluor Corp., Jacobs Engineering Group Inc., KBR Inc., Quanta Services Inc., and Valmont Industries Inc. Certain of these companies differ from Granite in that they derive revenue and profit from non-U.S. operations and have customers in different markets. The graph tracks the performance of a $100 investment in our common stock and in each (with the reinvestment of all dividends) from December 31, 2012 through December 31, 2017.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Granite Construction Incorporated, the S&P 500 Index
and the Dow Jones U.S. Heavy Construction Index



* $100 invested on 12/31/12 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

December 31,	2012	2013	2014	2015	2016	2017
Granite Construction Incorporated	$100.00	$105.77	$116.62	$133.57	$173.07	$201.52
S&P 500	100.00	132.39	150.51	152.59	170.84	208.14
Dow Jones U.S. Heavy Construction	100.00	131.28	97.77	86.51	106.71	112.44

Item 6. Selected Financial Data

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

SELECTED CONSOLIDATED FINANCIAL DATA

Years Ended December 31,	2017	2016	2015	2014	2013
Operating Summary	*(In Thousands, Except Per Share Data)*				
Revenue[1]	$2,989,713	$2,514,617	$2,371,029	$2,275,270	$2,266,901
Gross profit[1]	314,933	301,370	299,836	239,741	177,177
As a percent of revenue	10.5%	12.0%	12.6%	10.5%	7.8%
Selling, general and administrative expenses	222,811	219,299	203,817	193,256	191,860
As a percent of revenue	7.5%	8.7%	8.6%	8.5%	8.5%
Restructuring (gains) charges, net[2]	(2,411)	(1,925)	(6,003)	(2,643)	52,139
Net income (loss)	75,801	66,200	68,248	35,876	(44,766)
Amount attributable to non-controlling interests	(6,703)	(9,078)	(7,763)	(10,530)	8,343
Net income (loss) attributable to Granite[1]	69,098	57,122	60,485	25,346	(36,423)
As a percent of revenue	2.3%	2.3%	2.6%	1.1%	(1.6)%
Net income (loss) per share attributable to common shareholders:					
Basic	$ 1.74	$ 1.44	$ 1.54	$ 0.65	$ (0.94)
Diluted	$ 1.71	$ 1.42	$ 1.52	$ 0.64	$ (0.94)
Weighted average shares of common stock:					
Basic	39,795	39,557	39,337	39,096	38,803
Diluted	40,372	40,225	39,868	39,795	38,803
Dividends per common share	$ 0.52	$ 0.52	$ 0.52	$ 0.52	$ 0.52
Consolidated Balance Sheet					
Total assets	$1,871,978	$1,733,453	$1,626,878	$1,600,048	$1,609,362
Cash, cash equivalents and marketable securities	366,501	317,105	358,531	358,028	346,323
Working capital	576,804	559,058	519,177	454,121	396,759
Current maturities of long-term debt	46,048	14,796	14,800	1,247	1,247
Long-term debt	178,453	229,498	244,323	275,621	276,868
Other long-term liabilities	45,446	51,430	46,613	44,495	48,580
Granite shareholders' equity	945,108	885,988	839,237	794,385	781,940
Book value per share	23.70	22.36	21.29	20.27	20.09
Common shares outstanding	39,871	39,621	39,413	39,186	38,918
Contract backlog	$3,718,157	$3,484,405	$2,908,438	$2,718,873	$2,526,751

1 During the year ended December 31, 2017, we identified and corrected amounts related to revisions in estimates that should have been recorded during the year ended December, 31, 2016. These corrections resulted in a $4.9 million decrease to revenue and gross profit and a $1.6 million decrease in net income attributable to Granite Construction Incorporated for the year ended December 31, 2017 (see Note 2 of "Notes to the Consolidated Financial Statements").

2 During the years ended December 31, 2017, 2016, 2015 and 2014 we recorded restructuring gains of $2.4 million, $1.9 million, $6.0 million and $1.3 million, respectively, related to our 2010 Enterprise Improvement Plan ("EIP"). In addition, during 2014, we recorded $1.3 million in gains related to nonperforming quarry sites and during 2013, we recorded net restructuring charges of $49.0 million, including amounts attributable to non-controlling interests of $3.9 million, related to our EIP and $3.1 million in other impairment charges related to nonperforming quarry sites.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

We are one of the largest diversified heavy civil contractors and construction materials producers in the United States, engaged in the construction and improvement of streets, roads, highways, mass transit facilities, airport infrastructure, bridges, trenchless and underground utilities, power-related facilities, water-related facilities, utilities, tunnels, dams and other infrastructure-related projects. We own aggregate reserves and plant facilities to produce construction materials for use in our construction business and for sale to third parties. Our permanent offices are located in Alaska, Arizona, California, Florida, Illinois, Nevada, New York, Texas, Utah and Washington. We have three reportable business segments: Construction, Large Project Construction and Construction Materials (see Note 18 of "Notes to the Consolidated Financial Statements").

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

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

Critical Accounting Policies and Estimates

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

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

Revenue and Earnings Recognition for Construction Contracts

Revenue and earnings on construction contracts, including construction joint ventures, are recognized under the percentage of completion method using the ratio of costs incurred to estimated total costs.

Revenue from unapproved change orders is recognized to the extent the related costs have been incurred, the amount can be reliably estimated and recovery is probable.

On certain projects we have submitted and have pending unresolved contract modifications and affirmative claims ("affirmative claims") to recover additional costs to which the Company believes it is entitled under the terms of contracts with customers, subcontractors, vendors or others. The owners or their authorized representatives and/or other third parties may be in partial or full agreement with the modifications or affirmative claims, or may have rejected or disagree entirely or partially as to such entitlement.

Revenue related to affirmative claims with customers is recognized to the extent of costs incurred when it is probable that a claim settlement with a customer will result in additional revenue and the amount can be reasonably estimated. A reduction to costs related to affirmative claims with non-customers with whom we have a contractual arrangement ("back charges") is recognized when the estimated recovery is probable and the amount can be reasonably estimated. Except for contractual back charges, a reduction to cost related to affirmative claims against non-customers is recognized when the claims are settled. Recognizing affirmative claims and back charge recoveries requires significant judgments of certain factors including, but not limited to, dispute resolution developments and outcomes, anticipated negotiation results, and the cost of resolving such matters and estimates.

Provisions are recognized in the consolidated statements of operations for the full amount of estimated losses on uncompleted contracts whenever evidence indicates that the estimated total cost of a contract exceeds its estimated total revenue. All contract costs, including those associated with affirmative claims, change orders and back charges, are recorded as incurred and revisions to estimated total costs are reflected as soon as the obligation to perform is determined. Contract costs consist of direct costs on contracts, including labor and materials, amounts payable to subcontractors, direct overhead costs and equipment expense (primarily depreciation, fuel, maintenance and repairs). All state and federal government contracts and many of our other contracts provide for termination of the contract at the convenience of the party contracting with us, with provisions to pay us for work performed through the date of termination. Pre-contract costs are expensed as incurred.

The accuracy of our revenue and profit recognition in a given period depends on the accuracy of our estimates of the cost to complete each project. Cost estimates for all of our projects use a detailed "bottom up" approach and we believe our experience allows us to create materially reliable estimates. There are a number of factors that can contribute to changes in estimates of contract cost and profitability. The most significant of these include:

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

The foregoing factors, as well as the stage of completion of contracts in process and the mix of contracts at different margins may cause fluctuations in gross profit and gross profit margin from period to period. Significant changes in cost estimates, particularly in our larger, more complex projects have had, and can in future periods have, a significant effect on our profitability.

Goodwill

As of December 31, 2017 and 2016, we had five reporting units in which goodwill was recorded as follows:

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

The most significant goodwill balances reside in the reporting units associated with the Kenny Group. See Note 9 of "Notes to the Consolidated Financial Statements" for balances by reportable segment.

We perform impairment tests annually as of November 1 and more frequently when events and circumstances occur that indicate a possible impairment of goodwill. In addition, we evaluate goodwill for impairment if events or circumstances change between annual tests indicating a possible impairment. Examples of such events or circumstances include the following:

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

We elected to only perform the quantitative goodwill impairment tests for the 2017 annual test. In performing the quantitative goodwill impairment tests, we calculate the estimated fair value of the reporting unit in which the goodwill is recorded using the discounted cash flows and market multiple methods. Judgments inherent in these methods include the determination of appropriate discount rates, the amount and timing of expected future cash flows and growth rates, and appropriate benchmark companies. The cash flows used in our 2017 discounted cash flow model were based on five-year financial forecasts, which in turn were based on the 2018-2020 operating plan developed internally by management adjusted for market participant-based assumptions. Our discount rate assumptions are based on an assessment of the equity cost of capital and appropriate capital structure for our reporting units. In assessing the reasonableness of our determined fair values of our reporting units, we evaluate the reasonableness of our results against our current market capitalization.

The estimated fair value is compared to the net book value of the reporting unit, including goodwill. If the fair value of the reporting unit exceeds its net book value, goodwill of the reporting unit is considered not impaired. If the fair value of the reporting unit is less than its net book value, goodwill is impaired and the excess of the reporting unit's net book value over the fair value is recognized as an impairment loss.

The results of our annual goodwill impairment tests, performed in accordance with Accounting Standards Codification ("ASC") Topic 350, *Intangibles - Goodwill and Other*, indicated that the estimated fair values of our reporting units exceeded their net book values (i.e., cushion) by at least 20% for the reporting units with goodwill. Out of the five reporting units with goodwill, the Kenny Large Project Construction business is the most susceptible to fluctuations in results depending on awarded work given the large size and limited frequency of awards. While we believe the current cushion for the reporting unit is adequate to absorb these fluctuations, a material decline in job win rates could have a material impact to this reporting unit's estimated fair value.

Long-lived Assets

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

Insurance Estimates

We carry insurance policies to cover various risks, primarily general liability, automobile liability, workers compensation and employee medical expenses under which we are liable to reimburse the insurance company for a portion of each claim paid. Payment for general liability and workers compensation claim amounts generally range from the first $0.5 million to $1.0 million per occurrence. We accrue for probable losses, both reported and unreported, that are reasonably estimable using actuarial methods based on historic trends, modified, if necessary, by recent events. Changes in our loss assumptions caused by changes in actual experience would affect our assessment of the ultimate liability and could have an effect on our operating results and financial position up to $1.0 million per occurrence for general liability and workers compensation or $0.3 million for medical insurance.

Asset Retirement Obligations

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

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

Contingencies

We are currently involved in various claims and legal proceedings. Loss contingency provisions are recorded if the potential loss from any asserted or unasserted claim or legal proceeding is considered probable and the amount can be reasonably estimated. If a potential loss is considered probable but only a range of loss can be determined, the low-end of the range is recorded. These accruals represent management's best estimate of probable loss. Disclosure is also provided when it is reasonably possible and estimable that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the amount recorded. Significant judgment is required in both the determination of probability of loss and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to claims and litigation and may revise our estimates. See Note 17 of "Notes to the Consolidated Financial Statements" and "Item 3. Legal Proceedings" for additional information.

Current Economic Environment and Outlook

Steady demand across end markets and geographies enabled our teams to finish the 2017 fiscal year in a very solid position. Total Company backlog finished at $3.7 billion, a year-end record. Public and private markets remain highly competitive, as economic stability and steady-to-improving demand continue to provide broad growth opportunities for our businesses. Following decades of under-investment, state, regional, and local public infrastructure investment is poised to grow. We continue to emphasize pricing discipline, balancing a bottom-line focus in 2018 with significant, long-term revenue growth opportunities for our Construction and Construction Materials segments emanating from a significant step-up in public investment this year.

State and local infrastructure funding commitments across the country have improved significantly in the past few years. More than half of U.S. states have taken action over the past five years to stabilize maintenance and to reinvest in transportation infrastructure. Recent, long-term voter- and legislature-approved measures across the Western U.S. totaling more than $200 billion, comprise and are the resources for a long-overdue, long-term infrastructure investment, one that we expect will fuel increased near-term public demand in 2018. California's 10-year, $52.4 billion investment from Senate Bill 1 ("SB1"), The Road Repair and Accountability Act of 2017, passed in the second quarter of 2017, and spending is slated to accelerate meaningfully in 2018 and beyond. On the June 5, 2018 California ballot, voters will weigh in on Proposition 69, which amends the California Constitution to protect funds designated for transportation to only be used for that purpose. Recent polling appears to indicate broad support for this measure, which would protect the SB1 funds for their designated transportation use. Certain California groups are attempting to add a voter initiative to repeal SB1 to the November 2018 ballot; no such initiative has yet qualified. We are continuing to monitor progress on this initiative.

Congress recently passed and the President signed a two-year federal budget agreement, ending more than six years of funding by continuing resolution. This bolsters funding for the Fixing America's Surface Transportation ("FAST") Act, passed in December 2015, which has broadened and stabilized state and local visibility through 2020. Should the federal government approve substantive, incremental infrastructure investment in 2018, it would be an additional growth catalyst; however, it would be unlikely to create significant business impact before 2019 or 2020.

Managing risks and being compensated appropriately for the complex skills required to build tomorrow's great public infrastructure projects guides our Large Project Construction strategy. The market for these projects remains robust. As we prioritize and pursue billions of dollars worth of future North American projects, we are acutely focused on projects that provide appropriate returns relative to risks.

Results of Operations

COMPARATIVE FINANCIAL SUMMARY

Years Ended December 31,	2017	2016	2015
(in thousands)			
Total revenue	$2,989,713	$2,514,617	$2,371,029
Gross profit	314,933	301,370	299,836
Selling, general and administrative expenses	222,811	219,299	203,817
Operating income	98,715	92,354	110,308
Total other (income) expense	(5,748)	(4,008)	6,881
Amount attributable to non-controlling interests	(6,703)	(9,078)	(7,763)
Net income attributable to Granite Construction Incorporated	69,098	57,122	60,485

Revenue

TOTAL REVENUE BY SEGMENT

Years Ended December 31,	2017		2016		2015	
(dollars in thousands)						
Construction	$1,664,708	55.7%	$1,365,198	54.3%	$1,262,675	53.2%
Large Project Construction	1,032,229	34.5	888,193	35.3	812,720	34.3
Construction Materials	292,776	9.8	261,226	10.4	295,634	12.5
Total	$2,989,713	100.0%	$2,514,617	100.0%	$2,371,029	100.0%

CONSTRUCTION REVENUE

Years Ended December 31,	2017		2016		2015	
(dollars in thousands)						
California:						
Public sector	$ 442,374	26.5%	$ 370,397	27.1%	$ 403,904	32.0%
Private sector	181,351	10.9	191,000	14.0	127,338	10.1
Northwest:						
Public sector	568,137	34.1	462,529	34.0	415,787	32.9
Private sector	107,482	6.5	93,830	6.9	109,682	8.7
Heavy Civil:						
Public sector	53,346	3.2	23,829	1.7	29,505	2.3
Private sector	4,212	0.3	651	—	—	—
Kenny:						
Public sector	153,511	9.2	166,454	12.2	98,526	7.8
Private sector	154,295	9.3	56,508	4.1	77,933	6.2
Total	$1,664,708	100.0%	$1,365,198	100.0%	$1,262,675	100.0%

Construction revenue in 2017 increased $299.5 million, or 21.9%, compared to 2016 primarily due to increased volumes from entering the year with greater contract backlog in the Kenny, Northwest and Heavy Civil public sectors, from an improved success rate on bidding activity on power and airport related construction in the California public sector and on power work in the Kenny private sector. The increases were partially offset by declines in the California private sector from a reduction in solar construction and the Kenny public sector from the completion of projects in 2016 and a decrease in awards in 2017.

LARGE PROJECT CONSTRUCTION REVENUE

Years Ended December 31,	2017		2016		2015	
(dollars in thousands)						
Heavy Civil[1]	$ 778,068	75.4%	$691,151	77.8%	$615,070	75.7%
Kenny:						
Public sector	123,286	11.9	95,893	10.8	86,291	10.6
Private sector	43,141	4.2	24,470	2.8	42,055	5.2
California[1]	46,914	4.5	42,770	4.8	23,461	2.9
Northwest[1]	40,820	4.0	33,909	3.8	45,843	5.6
Total	$1,032,229	100.0%	$888,193	100.0%	$812,720	100.0%

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

Large Project Construction revenue in 2017 increased $144.0 million, or 16.2%, compared to 2016, primarily due to progress on new and existing projects partially offset by a net negative impact from revisions in estimates (see Note 2 of "Notes to the Consolidated Financial Statements" for more information).

CONSTRUCTION MATERIALS REVENUE

Years Ended December 31,	2017		2016		2015	
(dollars in thousands)						
California	$178,048	60.8%	$148,778	57.0%	$191,605	64.8%
Northwest	114,728	39.2	112,448	43.0	104,209	35.2
Total	$292,776	100.0%	$261,226	100.0%	$295,634	100.0%

Construction Materials revenue in 2017 increased $31.6 million, or 12.1%, compared to 2016 primarily due to a net increase in sales volume from improved demand and a net increase in sales prices from an improved market.

Contract Backlog

Our contract backlog consists of the revenue we expect to record in the future on awarded contracts, including 100% of our consolidated joint venture contracts and our proportionate share of unconsolidated joint venture contracts. We generally include a project in our contract backlog at the time it is awarded and to the extent we believe funding is probable. Certain government contracts where funding is appropriated on a periodic basis are included in contract backlog at the time of the award when it is probable the contract value will be funded and executed. Certain contracts contain contract options that are exercisable at the option of our customers without requiring us to go through an additional competitive bidding process or contain task orders that are signed under master contracts under which we perform work only when the customer awards specific task orders to us. Awarded contracts that include unexercised contract options and unissued task orders are included in contract backlog to the extent options are exercised or task order issuance is probable as further described in "Contract Backlog" under "Item 1. Business." Substantially all of the contracts in our contract backlog may be canceled or modified at the election of the customer; however, we have not been materially adversely affected by contract cancellations or modifications in the past.

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

TOTAL CONTRACT BACKLOG BY SEGMENT

December 31,	2017		2016	
(dollars in thousands)				
Construction	$ 896,955	24.1%	$ 1,030,487	29.6%
Large Project Construction	2,821,202	75.9	2,453,918	70.4
Total	$3,718,157	100.0%	$ 3,484,405	100.0%

CONSTRUCTION CONTRACT BACKLOG

December 31,	2017		2016	
(dollars in thousands)				
California:				
Public sector	$259,933	28.9%	$ 227,379	22.1%
Private sector	109,959	12.3	73,958	7.2
Northwest:				
Public sector	223,420	24.9	311,382	30.2
Private sector	38,697	4.3	27,582	2.7
Heavy Civil:				
Public sector	43,016	4.8	92,214	8.9
Private sector	—	—	4,195	0.4
Kenny:				
Public sector	141,469	15.8	235,298	22.8
Private sector	80,461	9.0	58,479	5.7
Total	$896,955	100.0%	$ 1,030,487	100.0%

Construction contract backlog of $897.0 million at December 31, 2017 was $133.5 million, or 13.0%, lower than at December 31, 2016 due to the progress and completion of existing projects in the Northwest, Heavy Civil and Kenny public sectors partially offset by improved success rate of bidding activity in the California operating group and Kenny and Northwest private sectors.

LARGE PROJECT CONSTRUCTION CONTRACT BACKLOG

December 31,	2017		2016	
(dollars in thousands)				
Heavy Civil[1]	$2,362,443	83.8%	$1,746,915	71.3%
California[1]	40,283	1.4	86,703	3.5
Northwest[1]	53,465	1.9	91,894	3.7
Kenny:				
Public sector	307,904	10.9	428,159	17.4
Private sector	57,107	2.0	100,247	4.1
Total	$2,821,202	100.0%	$2,453,918	100.0%

[1] For the periods presented, all Large Project Construction contract backlog is related to contracts with public agencies.

Large Project Construction contract backlog of $2.8 billion at December 31, 2017 was $367.3 million, or 15.0%, higher than December 31, 2016 primarily due an improved success rate of bidding activity in the Heavy Civil operating group. Our share of a highway construction project in Houston, our share of a bridge replacement project in Washington D.C., a bridge replacement project in New York, a military infrastructure project in Guam and an interstate improvement project in Virginia contributed to this backlog. These increases were partially offset by progress on existing projects in all other operating groups.

Non-controlling partners' share of Large Project Construction contract backlog as of December 31, 2017 and 2016 was $382.8 million and $141.5 million, respectively.

One Large Project Construction contract had forecasted losses with remaining revenue of $106.2 million, or 3.8%, of Large Project Construction contract backlog at December 31, 2017. At December 31, 2016, there were no loss contracts with material backlog. Provisions are recognized in the consolidated statements of operations for the full amount of estimated losses on uncompleted contracts whenever evidence indicates that the estimated total cost of a contract exceeds its estimated total revenue. Future revisions to these estimated losses will be recorded in the periods in which the revisions are estimated.

Gross Profit

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

Years Ended December 31,	2017	2016	2015
(dollars in thousands)			
Construction	$247,014	$209,215	$187,506
Percent of segment revenue	*14.8%*	*15.3%*	*14.8%*
Large Project Construction	29,793	64,137	79,467
Percent of segment revenue	*2.9*	*7.2*	*9.8*
Construction Materials	38,126	28,018	32,863
Percent of segment revenue	*13.0*	*10.7*	*11.1*
Total gross profit	$314,933	$301,370	$299,836
Percent of total revenue	*10.5%*	*12.0%*	*12.6%*

Construction gross profit in 2017 increased $37.8 million, or 18.1%, compared to 2016 primarily due to increased revenue volume. Construction gross margin as a percentage of segment revenue for 2017 decreased to 14.8% from 15.3% in 2016 primarily due to fewer positive revisions in estimates that individually had an impact of less than $1.0 million on gross profit partially offset by higher bid day margins.

Large Project Construction gross profit in 2017 decreased $34.3 million, or 53.5%, compared to 2016. Large Project Construction gross margin as a percentage of segment revenue for 2017 decreased to 2.9% from 7.2% in 2016. The decreases were primarily due to a net negative impact from revisions in estimates (see Note 2 of "Notes to the Consolidated Financial Statements").

As of December 31, 2017, there were three projects for which additional costs were reasonably possible in excess of the probable amounts included in the cost forecast. The reasonably possible aggregate range that has the potential to adversely impact gross profit during the year ended December 31, 2018 was zero to $44.0 million.

Construction Materials gross profit in 2017 increased $10.1 million, or 36.1%, compared to 2016. Construction Materials gross margin as a percentage of segment revenue for 2017 increased to 13.0% from 10.7% in 2016. The increase was primarily due to an increase in asphalt and aggregate sales volumes as well as an increase in aggregate sales prices.

Selling, General and Administrative Expenses

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

Years Ended December 31,	2017	2016	2015
(dollars in thousands)			
Selling			
Salaries and related expenses	$ 45,631	$ 46,015	$ 43,193
Incentive compensation	4,412	2,650	3,370
Restricted stock unit amortization	2,569	1,809	1,257
Other selling expenses	7,688	10,122	7,940
Total selling	60,300	60,596	55,760
General and administrative			
Salaries and related expenses	77,571	71,032	67,939
Incentive compensation	9,402	9,345	8,653
Restricted stock unit amortization	10,996	9,670	4,611
Other general and administrative expenses	64,542	68,656	66,854
Total general and administrative	162,511	158,703	148,057
Total selling, general and administrative	$222,811	$219,299	$203,817
Percent of revenue	7.5%	8.7%	8.6%

Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2017 increased $3.5 million, or 1.6%, compared to 2016. Selling, general and administrative expenses as a percentage of revenue decreased to 7.5% in 2017 from 8.7% in 2016.

Selling, general and administrative expenses include variable cash and restricted stock unit ("RSU") performance-based incentives for select management personnel on which our compensation strategy heavily relies. The cash portion of these incentives is expensed when earned while the RSU portion is expensed as earned over the vesting period of the RSU award of generally three years; however, immediate vesting may apply to certain awards pursuant to the 2012 Equity Incentive Plan.

Selling Expenses

Selling expenses include the costs for estimating and bidding, including customer reimbursements for portions of our selling/bid submission expenses (i.e. stipends), business development and materials facility permits. Selling expenses can vary depending on the volume of projects in process and the number of employees assigned to estimating and bidding activities. As projects are completed or the volume of work slows down, we temporarily redeploy project employees to bid on new projects, moving their salaries and related costs from cost of revenue to selling expenses. Selling expenses for 2017 remained relatively unchanged compared to 2016. The increase in incentive compensation, due to an increase in operating income in most operating groups, was partially offset by a decrease in other selling expenses primarily due to an increase in stipends during 2017.

General and Administrative Expenses

General and administrative expenses include costs related to our operational offices that are not allocated to direct contract costs and expenses related to our corporate functions. Other general and administrative expenses include travel and entertainment, outside services, information technology, depreciation, occupancy, training, office supplies, changes in the fair market value of our Non-Qualified Deferred Compensation plan liability and other miscellaneous expenses, none of which individually exceeded 10% of total general and administrative expenses. Total general and administrative expenses for 2017 increased $3.8 million, or 2.4%, compared to 2016, primarily due to an increase in salaries and related expenses from an increase in employee benefits and compensation. These increases were partially offset by decreases in other general and administrative expenses primarily due to a write-off of capitalized software during 2016.

Other (Income) Expense

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

Years Ended December 31,	2017	2016	2015
(in thousands)			
Interest income	$(4,742)	$(3,225)	$ (2,135)
Interest expense	10,800	12,366	14,257
Equity in income of affiliates	(7,107)	(7,177)	(3,210)
Other income, net	(4,699)	(5,972)	(2,031)
Total other (income) expense	$(5,748)	$(4,008)	$ 6,881

Interest income for 2017 increased $1.5 million when compared to 2016 primarily due to an increase in interest rates associated with our marketable securities and cash equivalents. Interest expense for 2017 decreased $1.6 million when compared to 2016 primarily due to a reduction of the principal balance of our 2019 Notes (as defined in the Senior Notes Payable section below) from a payment made in late 2016. Other income, net for 2017 decreased $1.3 million primarily due to changes in the fair market values of our Non-Qualified Deferred Compensation plan assets and a gain associated with a consolidated real estate entity during 2016.

Income Taxes

The following table presents the provision for income taxes for the respective periods:

Years Ended December 31,	2017	2016	2015
(dollars in thousands)			
Provision for income taxes	$28,662	$30,162	$35,179
Effective tax rate	27.4%	31.3%	34.0%

Our 2017 tax rate decreased by 3.9% from 31.3% to 27.4% when compared to 2016 primarily due to the revaluation of our deferred tax assets and liabilities as a result of the recently enacted U.S. Tax Cuts and Jobs Act of 2017.

On December 22, 2017 the U.S. Tax Cuts and Jobs Act of 2017 ("Tax Reform") was signed into law. As a result of Tax Reform, the U.S. statutory tax rate was lowered from 35% to 21% effective January 1, 2018, among other changes. ASC Topic 740, *Accounting for Income Taxes*, requires companies to recognize the effect of tax law changes in the period of enactment; therefore, we were required to revalue our deferred tax assets and liabilities at December 31, 2017 at the new rate. The Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain tax effects of Tax Reform. The Company has recognized a $3.7 million provisional benefit for the tax impacts of Tax Reform in its consolidated financial statements for the year ended December 31, 2017. The majority of the provisional benefit is related to the revaluation of deferred tax assets and liabilities at December 31, 2017 as a result of Tax Reform. The ultimate impact may differ from this provisional amount, possibly materially, as a result of additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of Tax Reform. The accounting is expected to be complete when the 2017 U.S. corporate income tax return is filed in 2018.

Amount Attributable to Non-controlling Interests

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

Years Ended December 31,	2017	2016	2015
(in thousands)			
Amount attributable to non-controlling interests	$(6,703)	$(9,078)	$(7,763)

The amount attributable to non-controlling interests represents the non-controlling owners' share of the income or loss of our consolidated construction joint ventures. The decrease for 2017 when compared to 2016 was primarily due to a decrease in the estimated recovery from back charge claims in 2016 offset by the income from consolidated construction joint ventures awarded in the third quarter of 2016.

Prior Years

Revenue

Construction revenue for the year ended December 31, 2016 increased by $102.5 million, or 8.1%, compared to the year ended December 31, 2015 primarily due to increased volumes from entering the year with greater contract backlog in the Northwest and Kenny public sectors, as well as from an improved success rate on bidding activity for solar work in the California private sector. The increases were partially offset by declines in the Northwest and Kenny private sectors as well as a decline in the California public sector from the completion of projects in 2016 coupled with lower beginning contract backlog and a decline in the volume of awarded work during 2016.

Large Project Construction revenue for the year ended December 31, 2016 increased by $75.5 million, or 9.3%, compared to the year ended December 31, 2015, primarily due to progress on new projects in the California operating group, Heavy Civil operating group and Kenny public sector. These increases were partially offset by decreases in the Northwest operating group and Kenny private sector from completion of projects in late 2015 and early 2016 coupled with lower beginning contract backlog in the Kenny private sector.

Construction Materials revenue for the year ended December 31, 2016 decreased $34.4 million, or 11.6%, when compared to the year ended December 31, 2015 primarily due to a net decline in sales volume across most of our markets in California with demand shifting to increased internal (Construction segment) use in 2016.

Contract Backlog

Construction contract backlog of $1.0 billion at December 31, 2016 was $169.8 million, or 19.7%, higher than at December 31, 2015. The increase was primarily due to an improved success rate of bidding activity in the Northwest, Heavy Civil and Kenny operating groups and in the private sector of the California operating group, partially offset by progress on existing projects in the public sector of the California operating group.

Large Project Construction contract backlog of $2.5 billion at December 31, 2016 was $406.1 million, or 19.8%, higher than at December 31, 2015 primarily due to new awards in all operating groups.

Gross Profit

Construction gross profit in 2016 increased $21.7 million, or 11.6%, compared to 2015. Construction gross margin as a percentage of segment revenue for 2016 increased to 15.3% from 14.8% in 2015. The increases were primarily due to increased revenue volume from an increase in beginning backlog and margin improvement from increased private sector projects, increased margin on contract backlog at the beginning of 2016 compared to 2015 and reduced net revisions in estimates.

Large Project Construction gross profit in 2016 decreased $15.3 million, or 19.3%, compared to 2015. Large Project Construction gross margin as a percentage of segment revenue for 2016 decreased to 7.2% from 9.8% in 2015. The decreases were primarily due to net changes from revisions in estimates, including an increase to estimated costs to complete from outstanding affirmative claims, change orders and back charges.

Construction Materials gross profit in 2016 decreased $4.8 million, or 14.7%, compared to 2015. Construction Materials gross margin as a percentage of segment revenue for 2016 decreased to 10.7% from 11.1% in 2015. The decreases were primarily due to declines in external sales volumes and sales prices partially offset by a decrease in variable costs from improved efficiency at certain asphalt plants.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2016 increased $15.5 million, or 7.6%, compared to 2015. Selling expenses for 2016 increased $4.8 million, or 8.7%, compared to 2015. The increases were primarily due to increases in salaries and related expenses and pre-bid costs, both from increased bidding activity. Total general and administrative expenses for 2016 increased $10.6 million, or 7.2%, compared to 2015, primarily due to an increase in restricted stock unit amortization from awards issued in the first quarter of 2016, a portion of which immediately vested. In addition, the increase in other general and administrative expense was due to a change in the fair market value of our Non-Qualified Deferred Compensation plan liability, which is offset in other (income) expense.

Other Expense (Income)

Interest expense for 2016 decreased $1.9 million when compared to 2015 primarily due to a reduction of the principal balance of our 2019 Notes (as defined in Liquidity and Capital Resources section below) from payments made in late 2015, partially offset by an increase in the effective interest rate. Equity in income of affiliates for 2016 increased $4.0 million when compared to 2015 primarily due to income in the normal course of business associated with an unconsolidated real estate affiliate and with our asphalt terminal business in Nevada. Other income, net for 2016 increased $3.9 million primarily due to a gain associated with a consolidated real estate entity as well as from changes in the fair market values of our Non-Qualified Deferred Compensation plan assets and our interest rate swap during 2016.

Provision for Income Taxes

Our 2016 tax rate decreased by 2.7% from 34.0% to 31.3% when compared to 2015 primarily due to an increase in non-controlling interests and an increase in the domestic production activities deduction.

Amount Attributable to Non-controlling Interests

The increase for 2016 when compared to 2015 was primarily due to a change in the estimated recovery from back charge claims in 2016 and income from consolidated construction joint ventures awarded in the third quarter of 2015.

Liquidity and Capital Resources

The timing differences between our cash inflows and outflows require us to maintain adequate levels of working capital. We believe our cash and cash equivalents, short-term investments, available borrowing capacity and cash expected to be generated from operations will be sufficient to meet our expected working capital needs, capital expenditures, financial commitments, cash dividend payments, and other liquidity requirements associated with our existing operations for the next twelve months. We maintain a collateralized credit facility of $290.0 million, of which $136.7 million was available at December 31, 2017 (see Credit Agreement discussion below), to provide capital needs to fund growth opportunities, either internal or generated through acquisitions or to pay installments on our 2019 Notes (see Senior Notes Payable discussion below). If we experience a prolonged change in our business operating results or make a significant acquisition, we may need additional sources of financing, which, if available, may be limited by the terms of our existing debt covenants, or may require the amendment of our existing debt agreements. There can be no assurance that sufficient capital will continue to be available in the future or that it will be available on terms acceptable to us.

Our revenue, gross profit and the resulting cash flows can differ significantly from period to period due to a variety of factors, including our projects' progressions toward completion, outstanding contract change orders and affirmative claims and the payment terms of our contracts. While we typically invoice our customers on a monthly basis, our contracts frequently call for retention that is a specified percentage withheld from each payment until the contract is completed and the work accepted by the customer.

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

December 31,	2017	2016
(in thousands)		
Cash and cash equivalents excluding CCJVs	$139,352	$116,211
CCJV cash and cash equivalents[1]	94,359	73,115
Total consolidated cash and cash equivalents	233,711	189,326
Short-term and long-term marketable securities[2]	132,790	127,779
Total cash, cash equivalents and marketable securities	$366,501	$317,105

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

2 See Note 3 of "Notes to the Consolidated Financial Statements" for the composition of our marketable securities.

Our primary sources of liquidity are cash and cash equivalents, marketable securities and cash generated from operations. We may also from time to time access our Credit Agreement (defined below), issue and sell equity, debt or hybrid securities or engage in other capital markets transactions.

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

Total consolidated cash and cash equivalents increased $44.4 million during 2017 due to a $23.1 million increase in cash and cash equivalents excluding CCJVs and a $21.2 million increase in CCJV cash and cash equivalents – see Cash Flows discussion below. Granite's portion of CCJV cash and cash equivalents was $56.5 million and $44.7 million as of December 31, 2017 and 2016, respectively. Excluded from the table above is Granite's portion of unconsolidated construction joint venture cash and cash equivalents of $91.0 million and $151.3 million as of December 31, 2017 and 2016, respectively. The assets of each consolidated and unconsolidated construction joint venture relate solely to that joint venture. The decision to distribute joint venture assets must generally be made jointly by a majority of the members and, accordingly, these assets, including those associated with estimated cost recovery of customer affirmative claims and back charge claims, are generally not available for the working capital needs of Granite until distributed.

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

Cash Flows

Years Ended December 31,	2017	2016	2015
(in thousands)			
Net cash provided by (used in):			
Operating activities	$ 146,195	$ 73,146	$ 66,978
Investing activities	(59,186)	(96,390)	(30,707)
Financing activities	(42,624)	(40,266)	(39,396)

As a large construction and heavy civil contractor and construction materials producer, our operating cash flows are subject to seasonal cycles, as well as the cycles associated with winning, performing and completing projects. Additionally, operating cash flows are impacted by the timing related to funding construction joint ventures and the resolution of uncertainties inherent in the complex nature of the work that we perform, including affirmative claims settlements. Our working capital assets result from both public and private sector projects. Customers in the private sector can be slower paying than those in the public sector; however, private sector projects generally have higher gross profit as a percentage of revenue.

We manage our combined accounts receivable, net, costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings balances, our primary working capital assets, using day's sales outstanding ("DSO"). We calculate DSO by dividing Net DSO Receivables by Net DSO Revenue for the current quarter multiplied by 90 days, as presented below:

December 31,	2017	2016	2015
(in thousands)			
Accounts receivable, net	$ 479,791	$ 419,345	$ 340,822
Less: retentions	91,135	84,878	91,670
Less: other receivables	17,014	17,523	14,033
Plus: Costs and estimated earnings in excess of billings	103,965	73,102	59,070
Less: Billings in excess of costs and estimated earnings	135,146	97,522	92,515
Net DSO Receivables	340,461	292,524	201,674
Current quarter total revenue	$ 801,274	$ 666,681	$ 630,162
Less: Granite's interest in unconsolidated construction joint venture revenue	167,201	135,830	162,009
Net DSO Revenue	634,073	530,851	468,153
DSO	48	50	39

DSO decreased 2 days to 48 days as of December 31, 2017 when compared to 50 days at December 31, 2016.

We manage our accounts payable and accrued expenses and other current liabilities balances, our primary working capital liabilities, using day's payables outstanding ("DPO"). We calculate DPO by dividing Net DPO Payables by Net DPO Expenses for the current quarter multiplied by 90 days, as presented below:

December 31,	2017	2016	2015
(in thousands)			
Accounts payable	$ 237,673	$ 199,029	$ 157,571
Plus: accrued expenses and other current liabilities	236,407	218,587	200,935
Less: performance guarantees	88,606	83,110	65,514
Less: deficit in unconsolidated construction joint ventures	15,939	16,648	8,626
Net DPO Payables	369,535	317,858	284,366
Current quarter total cost of revenue	$ 700,567	$ 585,431	$ 529,538
Less: Granite's interest in unconsolidated construction joint venture cost of revenue	165,817	136,396	148,163
Plus: current quarter selling, general and administrative expenses	59,068	59,342	60,010
Net DPO Expenses	593,818	508,377	441,385
DPO	56	56	58

Accrued expenses and other current liabilities typically include items such as accruals for salaries and related benefits, insurance and sales, use and property tax, some of which are not scalable to our cost volume. DPO remained flat at 56 days as of December 31, 2017 when compared to December 31, 2016.

Cash provided by operating activities of $146.2 million during 2017 increased $73.0 million when compared to 2016. The increase was primarily due to a $33.8 million increase in net income after adjusting for non-cash items, a $15.5 million increase in net distributions from unconsolidated joint ventures and a $23.7 million increase in cash from working capital. The increase in cash from working capital was due to a $16.9 million increase in cash provided by working capital liabilities and a $6.8 million decrease in cash used in working capital assets. The increase in cash provided by working capital liabilities was primarily due to an increase in cost volume and the decrease in cash used in working capital assets was primarily due to a one day improvement in DSO partially offset by an increase in revenue volume.

Cash used in investing activities of $59.2 million during 2017 represents a $37.2 million decrease from the amount of cash used by investing activities in 2016. The change was primarily due to a decrease in purchases, net of sales proceeds, of property and equipment (see Capital Expenditures discussion below) and an increase in maturities, net of purchases and proceeds, of marketable securities.

Cash used in financing activities of $42.6 million during 2017 represents a $2.4 million increase in cash used when compared to 2016. The change was primarily due to a $5.0 million decrease in proceeds from long term debt and a $1.8 million increase in repurchases of common stock related to shares surrendered to pay taxes for vested restricted stock units partially offset by a $4.4 million increase in net contributions from non-controlling partners related to consolidated joint ventures.

Prior Year

DSO increased 11 days to 50 days at December 31, 2016 when compared to 39 days at December 31, 2015. DPO decreased to 56 days at December 31, 2016 compared to 58 at December 31, 2015.

Cash provided by operating activities of $73.1 million during 2016 increased $6.2 million when compared to 2015. The increase was primarily due to a $5.5 million increase in net income after adjusting for non-cash items and a $23.5 million increase in net distributions from unconsolidated joint ventures partially offset by a $22.8 million decrease in cash from working capital. The decrease in cash from working capital was due to a $41.8 million increase in cash used by working capital assets partially offset by an $18.9 million increase in cash provided by working capital liabilities. The increase in cash used by working capital assets was primarily due to a decrease in cash from accounts receivable from an increase in revenue volume, an increase in DSO due to an increase in contracts with customers in the private sector, which are typically slower paying than customers in the public sector and the timing of new consolidated projects in our Large Project Construction segment. The increase in cash provided by working capital liabilities was primarily due to an increase in cost of revenue volume from new consolidated construction joint ventures year over year.

Cash used in investing activities of $96.4 million during 2016 represents a $65.7 million increase from the amount of cash used by investing activities in 2015. The increase was primarily due to a $47.0 million increase in purchases, net of sales proceeds, of property and equipment (see Capital Expenditures discussion below) and a $24.0 million increase in purchases of marketable securities net of calls and maturities of investments.

Cash used in financing activities of $40.3 million during 2016 was in line with 2015 driven by dividend payments and net payments on outstanding indebtedness.

Capital Expenditures

During the year ended December 31, 2017, we had capital expenditures of $67.7 million compared to $91.0 million during 2016. Major capital expenditures are typically for aggregate and asphalt production facilities, aggregate reserves, construction equipment, buildings and leasehold improvements and investments in our information technology systems. The timing and amount of such expenditures can vary based on the progress of planned capital projects, the type and size of construction projects, changes in business outlook and other factors. The decrease in capital expenditures during 2017 when compared to 2016 was primarily due to an increase in leasing equipment during 2017 and a decrease in job specific equipment purchases for our Large Project Construction segment. We currently anticipate 2018 capital expenditures to be between $100.0 million and $105.0 million.

Derivatives

We recognize derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value using Level 2 inputs.

In January 2016, we entered into an interest rate swap designed to convert the interest rate on our term loan from a variable to fixed interest rate (see Credit Agreement section below).

In December 2016, we terminated the interest rate swap we entered in March 2014 due to the possibility of increasing interest rates (see Senior Notes Payable section below).

Debt and Contractual Obligations

The following table summarizes our significant obligations outstanding as of December 31, 2017:

	Payments Due by Period				
(in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt – principal[1]	$ 225,056	$46,277	$ 178,779	$ —	$ —
Long-term debt – interest[2]	20,872	9,651	11,221	—	—
Operating leases[3]	47,951	12,169	16,943	11,668	7,171
Other purchase obligations[4]	13,696	13,484	212	—	—
Deferred compensation obligations[5]	24,696	4,298	3,580	1,881	14,937
Asset retirement obligations[6]	22,527	4,701	5,002	2,752	10,072
Total	$ 354,798	$90,580	$ 215,737	$16,301	$ 32,180

1 Debt issuance costs are excluded from the table.

2 Included in the total is $7.9 million in interest related to borrowings under our Credit Agreement, calculated using the fixed rate associated with the cash flow hedge of 1.47% plus the applicable margin in effect as of December 31, 2017. The future payments were calculated using the applicable margin in effect as of December 31, 2017 and may differ from actual results. In addition, included in the total is $7.3 million in interest related to borrowings under the 2019 Notes, the terms of which include a 6.11% per annum interest rate. See Note 11 of "Notes to the Consolidated Financial Statements."

3 These obligations represent the minimum rental commitments and minimum royalty requirements under all noncancellable operating leases. See Note 16 of "Notes to the Consolidated Financial Statements."

4 These obligations represent firm purchase commitments for equipment and other goods and services not directly connected with our construction contract backlog which are individually greater than $10,000 and have an expected fulfillment date after December 31, 2017.

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

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

In addition to the significant obligations described above, as of December 31, 2017, we had approximately $3.6 million associated with uncertain tax positions filed on our tax returns which were excluded because we cannot make a reasonably reliable estimate of the timing of potential payments relative to such reserves.

Credit Agreement

As of December 31, 2017, we had a $290.0 million credit facility (the "Credit Agreement"), of which $200.0 million was a revolving credit facility and $90.0 million was a term loan that matures on October 28, 2020 (the "Maturity Date"). The Credit Agreement has a sublimit for letters of credit of $100.0 million. As of December 31, 2017 and 2016, $6.2 million and $5.0 million of the term loan balance was included in current maturities of long-term debt, respectively, and the remaining $83.8 million and $90.0 million, respectively, was included in long-term debt in the consolidated balance sheets.

Of the $95.0 million term loan outstanding as of December 31, 2016, we paid $5.0 million of the principal balance during 2017. Of the remaining $90.0 million outstanding as of December 31, 2017, 1.25% of the original principal balance is due in three quarterly installments beginning in March 2018, 2.50% of the original principal balance is due in eight quarterly installments beginning in December 2018 and the remaining balance is due on the Maturity Date.

As of December 31, 2017, the total stated amount of all issued and outstanding letters of credit under the Credit Agreement was $8.3 million. As of December 31, 2017 and 2016, $25.0 million and $30.0 million had been drawn for the 2017 and 2016 installments of the 2019 Notes (defined below), respectively. As of December 31, 2017, the total unused availability under the Credit Agreement was $136.7 million. The letters of credit will expire between July 2018 and October 2018.

Borrowings under the Credit Agreement bear interest at LIBOR or a base rate (at our option), plus an applicable margin based on certain financial ratios calculated quarterly. LIBOR varies based on the applicable loan term, market conditions and other external factors. The applicable margin was 1.75% for loans bearing interest based on LIBOR and 0.75% for loans bearing interest at the base rate at December 31, 2017. Accordingly, the effective interest rate using three-month LIBOR and base rate was 3.44% and 5.25%, respectively, at December 31, 2017 and we elected to use LIBOR. Borrowings at the base rate have no designated term and could be repaid without penalty any time prior to the Maturity Date. Borrowings bearing interest at a LIBOR rate have a term no less than one month and no greater than six months (or such longer period not to exceed 12 months if approved by all lenders). At the end of each term, such borrowings can be paid or continued at our discretion as either a borrowing at the base rate or a borrowing at a LIBOR rate with similar terms. Our obligations under the Credit Agreement are guaranteed by certain of our subsidiaries and are collateralized on an equivalent basis with the obligations under the 2019 Notes (defined below) by first priority liens (subject only to other permitted liens) on substantially all of the assets of the Company and our subsidiaries that are guarantors or borrowers under the Credit Agreement.

In January 2016, we entered into an interest rate swap designated as a cash flow hedge with an effective date of April 2016 and an initial notional amount of $98.8 million which matures in October 2020. The interest rate swap is designed to convert the interest rate on the term loan from a variable rate of interest of LIBOR plus an applicable margin to a fixed rate of 1.47% plus the same applicable margin. The interest rate swap is reported at fair value using Level 2 inputs in the consolidated balance sheets. Gains or losses on the effective portion are initially reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified to interest expense in the consolidated statements of operations when the quarterly hedged interest payment is settled. As of December 31, 2017, and 2016, the fair value of the cash flow hedge was $1.4 million and $0.8 million, respectively, and was included in other current assets in the consolidated balance sheets. The unrealized gains and losses, net of taxes, on the effective portion reported as a component of accumulated other comprehensive income (loss) and the interest expense reclassified from accumulated other comprehensive income (loss) were both immaterial during the years ended December 31, 2017 and 2016.

The Credit Agreement provides for the release of the liens securing the obligations, at our option and expense, so long as certain conditions as defined by the terms in the Credit Agreement are satisfied ("Collateral Release Period"). However, if subsequent to exercising the option, our Consolidated Fixed Charge Coverage Ratio is less than 1.25 or our Consolidated Leverage Ratio is greater than 2.50, then we would be required to promptly re-pledge substantially all of the assets of the Company and our subsidiaries that are guarantors or borrowers under the Credit Agreement. As of December 31, 2017, the conditions for the exercise of our right under the Credit Agreement to have liens released were not satisfied.

Senior Notes Payable

As of December 31, 2017 and 2016, senior notes payable in the amount of $80.0 million and $120.0 million, respectively, were due to a group of institutional holders and had an interest rate of 6.11% per annum ("2019 Notes"). As of December 31, 2017, two equal annual installments for 2018 and 2019 were remaining. As of December 31, 2017, $40.0 million of the outstanding balance was included in long-term debt in the consolidated balance sheets and the remaining $40.0 million was included in current maturities of long-term debt in the consolidated balance sheets. As of December 31, 2016, $110.0 million of the outstanding balance was included in long-term debt in the consolidated balance sheets, including $30.0 million due for the 2017 installment as we had the ability and intent to pay the 2017 installment using borrowings under the Credit Agreement (defined above) or by obtaining other sources of financing. The remaining $10.0 million was included in current maturities of long-term debt in the consolidated balance sheets.

In December 2016, we terminated the interest rate swap we entered in March 2014 due to the possibility of increasing interest rates. The interest rate swap is reported at fair value using Level 2 inputs in the consolidated balance sheets. Gains or losses, including net periodic settlement amounts, are recorded in other income, net, in our consolidated statements of operations. During the years ended December 31, 2016 and 2015, we recorded net gains of $0.3 million and $1.5 million, respectively.

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

Surety Bonds and Real Estate Mortgages

We are generally required to provide various types of surety bonds that provide an additional measure of security under certain public and private sector contracts. At December 31, 2017, approximately $3.5 billion of our contract backlog was bonded. Performance bonds do not have stated expiration dates; rather, we are generally released from the bonds after the owner accepts the work performed under contract. The ability to maintain bonding capacity to support our current and future level of contracting requires that we maintain cash and working capital balances satisfactory to our sureties.

Our investments in real estate affiliates are subject to mortgage indebtedness. This indebtedness is non-recourse to Granite but is recourse to the real estate entities. The terms of this indebtedness are typically renegotiated to reflect the evolving nature of the real estate projects as they progress through acquisition, entitlement and development. Modification of these terms may include changes in loan-to-value ratios requiring the real estate entity to repay portions of the debt. The debt associated with our unconsolidated real estate ventures is disclosed in Note 7 of "Notes to the Consolidated Financial Statements."

Covenants and Events of Default

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

The most significant financial covenants under the terms of our Credit Agreement and 2019 Notes require the maintenance of a minimum Consolidated Tangible Net Worth, a minimum Consolidated Interest Coverage Ratio and a maximum Consolidated Leverage Ratio.

As of December 31, 2017 and pursuant to the definitions in the agreements, our Consolidated Tangible Net Worth was $953.6 million, which exceeded the minimum of $752.0 million, our Consolidated Leverage Ratio was 1.25 which did not exceed the maximum of 3.00 and our Consolidated Interest Coverage Ratio was 15.59 which exceeded the minimum of 4.00.

As of December 31, 2017, we were in compliance with all covenants contained in the Credit Agreement and related to the 2019 Notes. We are not aware of any non-compliance by any of our unconsolidated real estate entities with the covenants contained in their debt agreements.

Share Purchase Program

On April 7, 2016, the Board of Directors authorized us to purchase up to $200.0 million of our common stock at management's discretion, which replaced the former authorization including the amount available. We did not purchase shares under the share purchase program in any of the periods presented. The specific timing and amount of any future purchases will vary based on market conditions, securities law limitations and other factors.

Recently Issued and Adopted Accounting Pronouncements

See "Note 1 - Summary of Significant Accounting Policies" of "Notes to the Consolidated Financial Statements" under the captions Recently Issued Accounting Pronouncements and Recently Adopted Accounting Pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We maintain an investment portfolio of various holdings, types and maturities. We purchase instruments that meet high credit quality standards, as specified in our investment policy. It also limits the amount of credit exposure to any one issue, issuer or type of instrument. The portfolio and accompanying cash balances are targeted to an average maturity of no more than one year from the date the purchase is settled. On an ongoing basis we monitor credit ratings, financial condition and other factors that could affect the carrying amount of our investment portfolio.

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

Given the short-term nature of certain investments, our investment income is subject to the general level of interest rates in the United States at the time of maturity and reinvestment. We have managed the financial market risks due largely to changes in interest rates primarily by managing the maturities in our investment portfolio. We do not have any material business transactions in foreign currencies.

The fair value of our short-term held-to-maturity investment portfolio and related income would not be significantly affected by changes in interest rates since the investment maturities are short. The fair value of our long-term held-to-maturity investment portfolio may be affected by changes in interest rates.

We are exposed to various commodity price risks, including, but not limited to, diesel fuel, natural gas, propane, steel, cement and liquid asphalt arising from transactions that are entered into in the normal course of business. In order to manage or reduce commodity price risk, we monitor the costs of these commodities at the time of bid and price them into our contracts accordingly. Additionally, some of our contracts include commodity price escalation clauses which partially protect us from increasing prices. At times we enter into supply agreements or pre-purchase commodities to secure pricing and may use financial contracts to further manage price risk.

As of December 31, 2017, $80.0 million of senior notes payable were due to a group of institutional holders in two remaining equal installments in 2018 and 2019 and bear interest at 6.11% per annum.

As of December 31, 2017, a $90.0 million term loan was outstanding under the Credit Agreement that had an effective interest rate of 3.44% using three-month LIBOR and the applicable margin, that we converted under a swap arrangement to a fixed rate of 1.47% plus the same applicable margin. The applicable margin is based on certain financial ratios calculated quarterly and can vary in future periods. Each 25 basis point increase in the applicable margin would result in $0.2 million annually in additional interest expense.

As of December 31, 2017, $55.0 million had been drawn and was outstanding under the revolving portion of the Credit Agreement that had an effective interest rate of 3.44% using three-month LIBOR and the applicable margin. We had the option of electing LIBOR or the base rate and we elected to use LIBOR. LIBOR is a variable rate subject to market changes over the life of the loan with no guarantees to fix as forecasted. Each 25 basis point increase in one-month LIBOR or in the applicable margin of the loan would result in an additional $0.1 million of annual interest expense.

See “Liquidity and Capital Resources” section above for further discussion on the senior notes payable and Credit Agreement.

The table below presents principal amounts due by year and related weighted average interest rates for our cash and cash equivalents, held-to-maturity investments and significant debt obligations as of December 31, 2017 (dollars in thousands):

	2018	2019	2020	2021	2022	Thereafter	Total
Assets							
Cash, cash equivalents, held-to-maturity investments	$ 301,486	$30,015	$25,000	$10,000	$ —	$ —	$ 366,501
Weighted average interest rate	1.33%	1.40%	1.50%	1.94%	—%	—%	1.37%
Liabilities							
Fixed rate debt							
Senior notes payable	$ 40,000	$40,000	$ —	$ —	$ —	$ —	$ 80,000
Interest rate	6.11%	6.11%	—%	—%	—%	—%	6.11%
Variable rate debt							
Credit Agreement - term loan	$ 6,250	$10,000	$73,750	$ —	$ —	$ —	$ 90,000
Effective interest rate[1]	3.22%	3.22%	3.22%	—%	—%	—%	3.22%
Credit Agreement - revolving credit facility[2]	$ —	$ —	$55,000	$ —	$ —	$ —	$ 55,000
Effective interest rate[3]	—%	—%	3.44%	—%	—%	—%	3.44%

1 The weighted average interest rate was calculated using the fixed rate associated with the cash flow hedge of 1.47% plus the applicable margin in effect as of December 31, 2017 and may differ from actual results.

2 Credit Agreement - revolving credit facility consists of $25.0 million and $30.0 million that had been drawn for the 2017 and 2016 installments of the 2019 Notes, respectively.

3 The weighted average interest rate was calculated using three-month LIBOR rates and the applicable margin in effect as of December 31, 2017 and may differ from actual results.

The estimated fair value of our cash, cash equivalents and short-term held-to-maturity investments approximates the principal amounts reflected above based on the generally short maturities of these financial instruments. Based on the fixed borrowing rates currently available to us for bank loans with similar terms and average maturities, the fair value of the senior notes payable was approximately $82.2 million and $124.7 million as of as of December 31, 2017 and 2016, respectively. The fair value of the term loan under the Credit Agreement was approximately $89.9 million and $94.0 million as of December 31, 2017 and 2016, respectively. The fair value of the revolving credit facility under the Credit Agreement was approximately $55.1 million and $29.5 million as of December 31, 2017 and 2016, respectively.

Item 8. Financial Statements and Supplementary Data

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

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - At December 31, 2017 and 2016

Consolidated Statements of Operations - Years Ended December 31, 2017, 2016 and 2015

Consolidated Statements of Comprehensive Income - Years Ended December 31, 2017, 2016 and 2015

Consolidated Statements of Shareholders' Equity - Years Ended December 31, 2017, 2016 and 2015

Consolidated Statements of Cash Flows - Years Ended December 31, 2017, 2016 and 2015

Notes to the Consolidated Financial Statements

Quarterly Financial Data (unaudited)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management carried out, as of December 31, 2017, with the participation of our Chief Executive Officer and our Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2017, our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed by us in reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2017, we implemented new transition and adoption controls as part of our efforts to adopt Accounting Standards Codification Topic 606, Revenue from Contracts with Customers and the related Accounting Standards Updates ("Topic 606"). These controls will be effective until the adoption of Topic 606 is complete and relate to evaluation of our contracts with customers and the resulting impact, if any, to our balance sheet and prospective revenue, upon the adoption of Topic 606, the monitoring of the adoption process and evaluation of the amounts used in the disclosures in Note 1 of "Notes to the Consolidated Financial Statements" within Item 15 of this Annual Report on Form 10-K. As the transition and adoption process continues, there may be additional changes in internal controls over financial reporting. However, there were no other changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d -15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

Independent Registered Public Accounting Firm Report

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued a report on the Company's internal control over financial reporting as of December 31, 2017. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, is included in "Item 15. Exhibits and Financial Statement Schedules" under the heading "Report of Independent Registered Public Accounting Firm."

Item 9B. Other Information

Not Applicable.

PART III

Certain information required by Part III is omitted from this report. We will file our definitive proxy statement for our Annual Meeting of Shareholders to be held on June 7, 2018 (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this report, and certain information included therein is incorporated herein by reference.

Item 10. Directors, Executive Officers and Corporate Governance

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

Item 11. Executive Compensation

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

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

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

Item 13. Certain Relationships and Related Transactions, and Director Independence

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

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this report:

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

2. Financial Statement Schedules. Schedules are omitted because they are not required or applicable, or the required information is included in the Financial Statements or related notes.

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Granite Construction Incorporated:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Granite Construction Incorporated and its subsidiaries as of December 31, 2017 and 2016 and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - *Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - *Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
San Francisco, California
February 16, 2018

We have served as the Company's auditor since 1982.

GRANITE CONSTRUCTION INCORPORATED
Consolidated Balance Sheets
(dollars in thousands, except share and per share data)

December 31,	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents ($94,359 and $73,115 related to consolidated construction joint ventures (“CCJVs”))	$ 233,711	$ 189,326
Short-term marketable securities	67,775	64,884
Receivables, net ($52,031 and $52,613 related to CCJVs)	479,791	419,345
Costs and estimated earnings in excess of billings ($1,437 and $5,046 related to CCJVs)	103,965	73,102
Inventories	62,497	55,245
Equity in construction joint ventures	247,826	247,182
Other current assets ($10,384 and $7,500 related to CCJVs)	36,513	39,908
Total current assets	1,232,078	1,088,992
Property and equipment, net ($38,361 and $20,500 related to CCJVs)	407,418	406,650
Long-term marketable securities	65,015	62,895
Investments in affiliates	38,469	35,668
Goodwill	53,799	53,799
Other noncurrent assets	75,199	85,449
Total assets	$ 1,871,978	$ 1,733,453
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 46,048	$ 14,796
Accounts payable ($34,795 and $26,419 related to CCJVs)	237,673	199,029
Billings in excess of costs and estimated earnings ($37,701 and $33,704 related to CCJVs)	135,146	97,522
Accrued expenses and other current liabilities ($2,126 and $1,544 related to CCJVs)	236,407	218,587
Total current liabilities	655,274	529,934
Long-term debt	178,453	229,498
Deferred income taxes, net	1,361	5,441
Other long-term liabilities	44,085	45,989
Commitments and contingencies		
Equity		
Preferred stock, $0.01 par value, authorized 3,000,000 shares, none outstanding	—	—
Common stock, $0.01 par value, authorized 150,000,000 shares; issued and outstanding 39,871,314 shares as of December 31, 2017 and 39,621,140 shares as of December 31, 2016	399	396
Additional paid-in capital	160,376	150,337
Accumulated other comprehensive income (loss)	634	(371)
Retained earnings	783,699	735,626
Total Granite Construction Incorporated shareholders’ equity	945,108	885,988
Non-controlling interests	47,697	36,603
Total equity	992,805	922,591
Total liabilities and equity	$ 1,871,978	$ 1,733,453

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

GRANITE CONSTRUCTION INCORPORATED
Consolidated Statements of Operations
(in thousands, except per share data)

Years Ended December 31,	2017	2016	2015
Revenue			
Construction	$ 1,664,708	$ 1,365,198	$ 1,262,675
Large Project Construction	1,032,229	888,193	812,720
Construction Materials	292,776	261,226	295,634
Total revenue	2,989,713	2,514,617	2,371,029
Cost of revenue			
Construction	1,417,694	1,155,983	1,075,169
Large Project Construction	1,002,436	824,056	733,253
Construction Materials	254,650	233,208	262,771
Total cost of revenue	2,674,780	2,213,247	2,071,193
Gross profit	314,933	301,370	299,836
Selling, general and administrative expenses	222,811	219,299	203,817
Restructuring gains	(2,411)	(1,925)	(6,003)
Gain on sales of property and equipment	(4,182)	(8,358)	(8,286)
Operating income	98,715	92,354	110,308
Other (income) expense			
Interest income	(4,742)	(3,225)	(2,135)
Interest expense	10,800	12,366	14,257
Equity in income of affiliates	(7,107)	(7,177)	(3,210)
Other income, net	(4,699)	(5,972)	(2,031)
Total other (income) expense	(5,748)	(4,008)	6,881
Income before provision for income taxes	104,463	96,362	103,427
Provision for income taxes	28,662	30,162	35,179
Net income	75,801	66,200	68,248
Amount attributable to non-controlling interests	(6,703)	(9,078)	(7,763)
Net income attributable to Granite Construction Incorporated	$ 69,098	$ 57,122	$ 60,485
Net income per share attributable to common shareholders (see Note 14)			
Basic	$ 1.74	$ 1.44	$ 1.54
Diluted	$ 1.71	$ 1.42	$ 1.52
Weighted average shares of common stock			
Basic	39,795	39,557	39,337
Diluted	40,372	40,225	39,868
Dividends per common share	$ 0.52	$ 0.52	$ 0.52

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

GRANITE CONSTRUCTION INCORPORATED
Consolidated Statements of Comprehensive Income
(in thousands)

Years Ended December 31,	2017	2016	2015
Net income	$75,801	$66,200	$68,248
Other comprehensive income (loss), net of tax:			
Net unrealized gain on derivatives	$ 191	$ 184	$ —
Less: reclassification for net losses included in interest expense	159	319	—
Net change	$ 350	$ 503	$ —
Foreign currency translation adjustments, net	655	626	(1,072)
Other comprehensive income (loss)	$ 1,005	$ 1,129	$ (1,072)
Comprehensive income	$76,806	$67,329	$67,176
Non-controlling interests in comprehensive income	(6,703)	(9,078)	(7,763)
Comprehensive income attributable to Granite	$70,103	$58,251	$59,413

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

GRANITE CONSTRUCTION INCORPORATED
Consolidated Statements of Shareholders' Equity
(in thousands, except share data)

	Outstanding Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Granite Shareholders' Equity	Non-controlling Interests	Total Equity
Balances at December 31, 2014	39,186,386	$392	$134,605	$ (428)	$659,816	$794,385	$22,721	$817,106
Net income	—	—	—	—	60,485	60,485	7,763	68,248
Other comprehensive loss	—	—	—	(1,072)	—	(1,072)	—	(1,072)
Restricted stock units vested	317,524	3	—	—	—	3	—	3
Amortized restricted stock units	—	—	8,763	—	—	8,763	—	8,763
Purchase of common stock	(114,969)	(1)	(3,855)	—	—	(3,856)	—	(3,856)
Cash dividends on common stock	—	—	—	—	(20,476)	(20,476)	—	(20,476)
Transactions with non-controlling interests, net	—	—	—	—	—	—	400	400
Employee Stock Purchase Plan ("ESPP") and other	23,936	—	1,399	—	(394)	1,005	—	1,005
Balances at December 31, 2015	39,412,877	394	140,912	(1,500)	699,431	839,237	30,884	870,121
Net income	—	—	—	—	57,122	57,122	9,078	66,200
Other comprehensive income	—	—	—	1,129	—	1,129	—	1,129
Restricted stock units vested	308,619	3	—	—	—	3	—	3
Amortized restricted stock units	—	—	13,383	—	—	13,383	—	13,383
Purchase of common stock	(116,355)	(1)	(5,226)	—	—	(5,227)	—	(5,227)
Cash dividends on common stock	—	—	—	—	(20,590)	(20,590)	—	(20,590)
Transactions with non-controlling interests, net	—	—	—	—	—	—	(3,359)	(3,359)
ESPP and other	15,999	—	1,268	—	(337)	931	—	931
Balances at December 31, 2016	39,621,140	396	150,337	(371)	735,626	885,988	36,603	922,591
Net income	—	—	—	—	69,098	69,098	6,703	75,801
Other comprehensive income	—	—	—	1,005	—	1,005	—	1,005
Restricted stock units vested	375,100	4	—	—	—	4	—	4
Amortized restricted stock units	—	—	15,764	—	—	15,764	—	15,764
Purchase of common stock	(140,070)	(1)	(6,976)	—	—	(6,977)	—	(6,977)
Cash dividends on common stock	—	—	—	—	(20,720)	(20,720)	—	(20,720)
Transactions with non-controlling interests, net	—	—	—	—	—	—	4,391	4,391
ESPP and other	15,144	—	1,251	—	(305)	946	—	946
Balances at December 31, 2017	39,871,314	$399	$160,376	$ 634	$783,699	$945,108	$47,697	$992,805

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

GRANITE CONSTRUCTION INCORPORATED
Consolidated Statements of Cash Flows
(in thousands)

Years Ended December 31,	2017	2016	2015
Operating activities			
Net income	$ 75,801	$ 66,200	$ 68,248
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash restructuring gains	(939)	(1,000)	(1,044)
Depreciation, depletion and amortization	66,345	64,375	64,309
Gain on sales of property and equipment	(4,182)	(8,358)	(8,286)
Change in deferred income taxes	(4,824)	9,842	28,258
Stock-based compensation	15,764	13,383	8,763
Equity in net loss (income) from unconsolidated construction joint ventures	14,634	(15,614)	(43,374)
Net income from affiliates	(7,107)	(7,177)	(3,210)
Changes in assets and liabilities:			
Receivables	(60,272)	(75,756)	(32,877)
Costs and estimated earnings in excess of billings, net	(26,066)	2,100	(22,374)
Inventories	(7,252)	308	13,367
Contributions to unconsolidated construction joint ventures	(16,937)	(11,795)	(69,313)
Distributions from unconsolidated construction joint ventures	39,955	19,344	53,367
Prepaid and other assets, net	13,211	(13,873)	(1,078)
Accounts payable	36,716	37,731	8,363
Accrued expenses and other current liabilities	11,348	(6,564)	3,859
Net cash provided by operating activities	146,195	73,146	66,978
Investing activities			
Purchases of marketable securities	(124,543)	(129,685)	(104,971)
Maturities of marketable securities	120,000	50,000	29,260
Proceeds from called marketable securities	—	55,000	75,000
Purchases of property and equipment ($18,309 million, $17,810 million and $0 related to CCJVs)	(67,695)	(90,970)	(44,179)
Proceeds from sales of property and equipment	10,202	12,946	13,148
Collection of notes receivable	1,052	4,331	943
Other investing activities, net	1,798	1,988	92
Net cash used in investing activities	(59,186)	(96,390)	(30,707)
Financing activities			
Proceeds from long-term debt	25,000	30,000	30,000
Debt principal payments	(45,000)	(45,025)	(46,763)
Cash dividends paid	(20,687)	(20,563)	(20,445)
Purchases of common stock	(6,977)	(5,227)	(3,777)
Contributions from non-controlling partners	11,500	5,250	7,462
Distributions to non-controlling partners	(7,109)	(5,258)	(6,992)
Other financing activities	649	557	1,119
Net cash used in financing activities	(42,624)	(40,266)	(39,396)
Increase (decrease) in cash and cash equivalents	44,385	(63,510)	(3,125)
Cash and cash equivalents at beginning of year	189,326	252,836	255,961
Cash and cash equivalents at end of year	$ 233,711	$ 189,326	$ 252,836

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

GRANITE CONSTRUCTION INCORPORATED
Consolidated Statements of Cash Flows (Continued)
(in thousands)

Years Ended December 31,	**2017**	**2016**	**2015**
Supplementary Information			
Cash paid during the period for:			
Interest	$ 11,446	$ 13,392	$ 14,601
Income taxes	33,948	29,872	4,298
Other non-cash activities:			
Performance guarantees	5,497	17,596	(10,306)
Non-cash investing and financing activities:			
Restricted stock units issued, net of forfeitures (See Note 13)	$ 11,505	$ 21,101	$ 6,220
Accrued cash dividends	5,183	5,151	5,124
Accrued equipment purchases	(1,945)	(3,865)	2,891

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

GRANITE CONSTRUCTION INCORPORATED
Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Description of Business

Granite Construction Incorporated is one of the largest diversified heavy civil contractors and construction materials producers in the United States, engaged in the construction and improvement of streets, roads, highways, mass transit facilities, airport infrastructure, bridges, trenchless and underground utilities, power-related facilities, water-related facilities, utilities, tunnels, dams and other infrastructure-related projects. We have permanent offices located in Alaska, Arizona, California, Florida, Illinois, Nevada, New York, Texas, Utah and Washington. Unless otherwise indicated, the terms "we," "us," "our," "Company" and "Granite" refer to Granite Construction Incorporated and its wholly owned and consolidated subsidiaries.

Principles of Consolidation

The consolidated financial statements include the accounts of Granite Construction Incorporated and its wholly owned and consolidated subsidiaries. All material inter-company transactions and accounts have been eliminated. Additionally, we participate in various joint ventures ("joint ventures"). We consolidate these joint ventures where we have determined that through our participation we have a variable interest and are the primary beneficiary as defined by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, *Consolidation*, and related standards. The factors we use to determine the primary beneficiary of a variable interest entity ("VIE") may include the decision authority of each partner, which partner manages the day-to-day operations of the project and the amount of our equity investment in relation to that of our partners. If we determine that the power to direct the significant activities is shared equally by two or more joint venture parties, then there is no primary beneficiary and no party consolidates the VIE.

Where we have determined we are not the primary beneficiary of a joint venture but do exercise significant influence, we account for our share of the operations of unconsolidated construction joint ventures on a pro rata basis in revenue and cost of revenue in the consolidated statements of operations and in equity in construction joint ventures in the consolidated balance sheets. We account for non-construction unconsolidated joint ventures under the equity method of accounting and include our share of the operations in equity in income from affiliates in the consolidated statements of operations and in investment in affiliates in the consolidated balance sheets. We have been divesting equity method investments in real estate affiliates as part of our 2010 Enterprise Improvement Plan ("EIP").

Use of Estimates in the Preparation of Financial Statements

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of these financial statements requires management to make estimates that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Our estimates and related judgments and assumptions are continually evaluated based on available information and experiences; however, actual amounts could differ from those estimates.

Revenue Recognition – Construction Contracts

Revenue and earnings on construction contracts, including construction joint ventures, are recognized under the percentage of completion method using the ratio of costs incurred to estimated total costs.

Revenue from unapproved change orders is recognized to the extent the related costs have been incurred, the amount can be reliably estimated and recovery is probable.

On certain projects we have submitted and have pending unresolved contract modifications and affirmative claims ("affirmative claims") to recover additional costs to which the Company believes it is entitled under the terms of contracts with customers, subcontractors, vendors or others. The owners or their authorized representatives and/or other third parties may be in partial or full agreement with the modifications or affirmative claims, or may have rejected or disagree entirely or partially as to such entitlement.

Revenue related to affirmative claims with customers is recognized to the extent of costs incurred when it is probable that a claim settlement with a customer will result in additional revenue and the amount can be reasonably estimated. A reduction to costs related to affirmative claims with non-customers with whom we have a contractual arrangement ("back charges") is recognized when the estimated recovery is probable and the amount can be reasonably estimated. Except for contractual back charges, a reduction to cost related to affirmative claims against non-customers is recognized when the claims are settled. Recognizing affirmative claims and back charge recoveries requires significant judgments of certain factors including, but not limited to, dispute resolution developments and outcomes, anticipated negotiation results, and the cost of resolving such matters.

Provisions are recognized in the consolidated statements of operations for the full amount of estimated losses on uncompleted contracts whenever evidence indicates that the estimated total cost of a contract exceeds its estimated total revenue. All contract costs, including those associated with affirmative claims, back charges and change orders, are recorded as incurred and revisions to estimated total costs are reflected as soon as the obligation to perform is determined. Contract costs consist of direct costs on contracts, including labor and materials, amounts payable to subcontractors, direct overhead costs and equipment expense (primarily depreciation, fuel, maintenance and repairs). All state and federal government contracts and many of our other contracts provide for termination of the contract at the convenience of the party contracting with us, with provisions to pay us for work performed through the date of termination. Pre-contract costs are expensed as incurred.

The accuracy of our revenue and profit recognition in a given period depends on the accuracy of our estimates of the cost to complete each project. Cost estimates for all of our projects use a detailed "bottom up" approach and we believe our experience allows us to create materially reliable estimates. There are a number of factors that can contribute to changes in estimates of contract cost and profitability. The most significant of these include:

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

The foregoing factors, as well as the stage of completion of contracts in process and the mix of contracts at different margins may cause fluctuations in gross profit and gross profit margin from period to period. Significant changes in cost estimates, particularly in our larger, more complex projects have had, and can in future periods have, a significant effect on our profitability.

Revenue Recognition – Materials

Revenue from the sale of materials is recognized when delivery occurs and risk of ownership passes to the customer.

Balance Sheet Classifications

Prepaid expenses and amounts receivable and payable under construction contracts (principally retentions) that may exist over the duration of the contract and could extend beyond one year are included in current assets and liabilities. A one-year time period is used as the basis for classifying all other current assets and liabilities.

Cash and Cash Equivalents

Cash equivalents are securities having maturities of three months or less from the date of purchase. Included in cash and cash equivalents in the consolidated balance sheets as of December 31, 2017 and 2016, was $94.4 million and $73.1 million, respectively, related to CCJVs. Our access to joint venture cash may be limited by the provisions of the venture agreements.

Costs and Estimated Earnings in Excess of Billings

Costs and estimated earnings in excess of billings represent unbilled amounts earned and reimbursable under contracts. These amounts become billable according to the contract terms, which usually consider the passage of time, achievement of milestones or completion of the project. With the exception of customer affirmative claims, generally, such unbilled amounts will be billed and collected over the next twelve months. Settlement with the customer of outstanding affirmative claims is dependent on the claims resolution process and could extend beyond one year or the project operating cycle. Based on our historical experience, we generally consider the collection risk related to these amounts to be low. When events or conditions indicate that the amounts outstanding may become uncollectible, an allowance is estimated and recorded.

Marketable Securities

We determine the classification of our marketable securities at the time of purchase and re-evaluate these determinations at each balance sheet date. Debt securities are classified as held-to-maturity when we have the positive intent and ability to hold the securities to maturity. Held-to-maturity investments are stated at amortized cost and are periodically assessed for other-than-temporary impairment. Amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, and is included in interest income. The cost of securities redeemed or called is based on the specific identification method.

Derivative Instruments

We recognize derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value using Level 2 inputs. To receive hedge accounting treatment, derivative instruments that are designated as cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions. The effective portion of the gain or loss on cash flow hedges is reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified to interest expense in the consolidated statements of operations when the periodic hedged cash flows are settled. Adjustments to fair value on derivative instruments that do not qualify for hedge accounting treatment are reported through other (income) expense in the consolidated statements of operations. We do not enter into derivative instruments for speculative or trading purposes.

Fair Value of Financial Assets and Liabilities

We measure and disclose certain financial assets and liabilities at fair value. ASC Topic 820, *Fair Value Measurements and Disclosures,* 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. ASC Topic 820 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. We report separately each class of assets and liabilities measured at fair value on a recurring basis and include assets and liabilities that are disclosed but not recorded at fair value in the fair value hierarchy.

The carrying value of marketable securities approximates their fair value as determined by market quotes. Rates currently available to us for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt. The carrying value of receivables and other amounts arising out of normal contract activities, including retentions, which may be settled beyond one year, is estimated to approximate fair value.

Concentrations of Credit Risk and Other Risks

Financial instruments, which potentially subject us to concentrations of credit risk, consist primarily of cash and cash equivalents, short-term and long-term marketable securities, and accounts receivable. We maintain our cash and cash equivalents and our marketable securities with several financial institutions. We invest with high credit quality financial institutions and, by policy, limit the amount of credit exposure to any one financial institution.

Our receivables are from customers concentrated in the United States, and we have no material receivables from foreign operations as of December 31, 2017 or 2016. We perform ongoing credit evaluations of our customers and generally do not require collateral, although the law provides us the ability to file mechanics' liens on real property improved for private customers in the event of non-payment by such customers. We maintain an allowance for doubtful accounts which has historically been within management's estimates.

Inventories

Inventories consist primarily of quarry products valued at the lower of average cost or market. We write down the inventories based on estimated quantities of materials on hand in excess of approximately one year of demand.

At December 31, 2017 and 2016, inventory also included $11.9 million and $5.0 million, respectively, of materials specifically related to a project in our Kenny Large Project Construction operating group and was valued at cost.

Investments in Real Estate Affiliates

Each real estate development project accounted for under the equity method of accounting is reviewed in accordance with ASC Topic 323, *Investments – Equity Method and Joint Ventures.* These projects are evaluated for impairment using the other-than-temporary impairment model, which requires an impairment charge to be recognized if our investment's carrying amount exceeds its fair value, and the decline in fair value is deemed to be other than temporary.

Events or changes in circumstances, which would cause us to review undiscounted future cash flows include, but are not limited to:

- significant decreases in the market price of the asset;
- significant adverse changes in legal factors or the business climate;
- significant changes to the development or business plans of a project;
- accumulation of costs significantly in excess of the amount originally expected for the acquisition, development or construction of the asset; and
- current period cash flow or operating losses combined with a history of losses, or a forecast of continuing losses associated with the use of the asset.

Future undiscounted cash flows and fair value assessments are estimated based on entitlement status, market conditions, cost of construction, debt load, development schedules, status of joint venture partners and other factors applicable to the specific project. Fair value is estimated based on the expected future cash flows attributable to the asset or group of assets and on other assumptions that market participants would use in determining fair value, such as market discount rates, transaction prices for other comparable assets, and other market data. Our estimates of cash flows may differ from actual cash flows due to, among other things, fluctuations in interest rates, decisions made by jurisdictional agencies, economic conditions, or changes to our business operations.

Property and Equipment

Property and equipment are stated at cost. Depreciation for construction and other equipment is primarily provided using accelerated methods over lives ranging from three to seven years, and the straight-line method over lives from three to twenty years for the remaining depreciable assets. We believe that accelerated methods best approximate the service provided by the construction and other equipment. Depletion of quarry property is based on the usage of depletable reserves. We frequently sell property and equipment that has reached the end of its useful life or no longer meets our needs, including depleted quarry property. At the time that an asset or an asset group meets the held-for-sale criteria as defined by ASC Topic 360, *Property, Plant, and Equipment,* we write it down to fair value, if the fair value is below the carrying value. Fair value is estimated by a variety of factors including, but not limited to, market comparative data, historical sales prices, broker quotes and third party valuations. If material, such property is separately disclosed, otherwise it is held in property and equipment until sold. The cost and accumulated depreciation or depletion of property sold or retired is removed from the balance sheet and the resulting gains or losses, if any, are reflected in operating income for the period. In the case that we abandon an asset, an amount equal to the carrying amount of the asset, less salvage value, if any, will be recognized as expense in the period that the asset was abandoned. Repairs and maintenance are charged to operations as incurred.

Costs related to the development of internal-use software during the preliminary project and post-implementation stages are expensed as incurred. Costs incurred during the application development stage are capitalized. These costs consist primarily of software, hardware and consulting fees, as well as salaries and related costs. Amounts capitalized are reported as a component of office furniture and equipment within property and equipment. Capitalized software costs are depreciated using the straight-line method over the estimated useful life of the related software, which range from three to seven years. During the years ended December 31, 2017, 2016 and 2015, we capitalized $7.9 million, $6.6 million and $2.3 million, respectively, of internal-use software development and related hardware costs.

Long-lived Assets

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

As of December 31, 2017, amortizable intangible assets include covenants not to compete, permits, trade names and customer lists which are being amortized on a straight-line basis over remaining terms from three to twenty years.

Capitalized Interest

Interest, to the extent it is incurred in connection with the construction of certain self-constructed assets and real estate development projects, is capitalized and recorded as part of the asset to which it relates. Capitalized interest on self-constructed assets is amortized over their estimated useful lives and is expensed on real estate projects as they are sold.

Goodwill

As of December 31, 2017 and 2016, we had five reporting units in which goodwill was recorded as follows:

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

The most significant goodwill balances reside in the reporting units associated with the Kenny Group. See Note 9 for balances by reportable segment.

We perform impairment tests annually as of November 1 and more frequently when events and circumstances occur that indicate a possible impairment of goodwill. In addition, we evaluate goodwill for impairment if events or circumstances change between annual tests indicating a possible impairment. Examples of such events or circumstances include the following:

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

We elected to only perform the quantitative goodwill impairment tests for the 2017 annual test. In performing the quantitative goodwill impairment tests, we calculate the estimated fair value of the reporting unit in which the goodwill is recorded using the discounted cash flows and market multiple methods. Judgments inherent in these methods include the determination of appropriate discount rates, the amount and timing of expected future cash flows and growth rates, and appropriate benchmark companies. The cash flows used in our 2017 discounted cash flow model were based on five-year financial forecasts, which in turn were based on the 2018-2020 operating plan developed internally by management adjusted for market participant based assumptions. Our discount rate assumptions are based on an assessment of the equity cost of capital and appropriate capital structure for our reporting units. In assessing the reasonableness of our determined fair values of our reporting units, we evaluate the reasonableness of our results against our current market capitalization.

The estimated fair value is compared to the net book value of the reporting unit, including goodwill. If the fair value of the reporting unit exceeds its net book value, goodwill of the reporting unit is considered not impaired. If the fair value of the reporting unit is less than its net book value, goodwill is impaired and the excess of the reporting unit's net book value over the fair value is recognized as an impairment loss.

The results of our annual goodwill impairment tests, performed in accordance with ASC 350, *Intangibles – Goodwill and Other,* indicated that the estimated fair values of our reporting units exceeded their net book values (i.e., cushion) by at least 20% for the reporting units with goodwill. Out of the five reporting units with goodwill, the Kenny Large Project Construction business is the most susceptible to fluctuations in results depending on awarded work given the large size and limited frequency of awards. While we believe the current cushion for the reporting unit is adequate to absorb these fluctuations, a material decline in job win rates could have a material impact to this reporting unit's estimated fair value.

Billings in Excess of Costs and Estimated Earnings

Billings in excess of costs and estimated earnings is comprised of cash collected from customers and billings to customers on contracts in advance of work performed, including advance payments negotiated as a contract condition. Generally, unearned project-related costs will be earned over the next twelve months.

Asset Retirement Obligations

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

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

Warranties

Many of our construction contracts contain warranty provisions covering defects in equipment, materials, design or workmanship that generally run from six months to one year after our customer accepts the contract. Because of the nature of our projects, including contract owner inspections of the work both during construction and prior to acceptance, we have not experienced material warranty costs for these short-term warranties and, therefore, do not believe an accrual for these costs is necessary. Certain construction contracts carry longer warranty periods, ranging from two to ten years, for which we have accrued an estimate of warranty cost. The warranty liability is estimated based on our experience with the type of work and any known risks relative to the project and was not material as of December 31, 2017 and 2016.

Accrued Insurance Costs

We carry insurance policies to cover various risks, primarily general liability, automobile liability, workers compensation and employee medical expenses, under which we are liable to reimburse the insurance company for a portion of each claim paid. The amounts for which we are liable for general liability and workers compensation generally range from the first $0.5 million to $1.0 million per occurrence. We accrue for probable losses, both reported and unreported, that are reasonably estimable using actuarial methods based on historic trends modified, if necessary, by recent events. Changes in our loss assumptions caused by changes in actual experience would affect our assessment of the ultimate liability and could have an effect on our operating results and financial position up to $1.0 million per occurrence for general liability and workers compensation or $0.3 million for medical insurance.

Performance Guarantees

Agreements with our joint venture partners ("partner(s)") for both construction joint ventures and line item joint ventures define each partner's management role and financial responsibility in the project. The amount of operational exposure is generally limited to our stated ownership interest. However, due to the joint and several nature of the performance obligations under the related owner contracts, if one of the partners fails to perform, we and the remaining partners, if any, would be responsible for performance of the outstanding work (i.e., we provide a performance guarantee). We estimate our liability for performance guarantees for our unconsolidated construction joint ventures and line item joint ventures using estimated partner bond rates and include them in accrued expenses and other current liabilities (see Note 10) with a corresponding increase in equity in construction joint ventures in the consolidated balance sheets. We reassess our liability when and if changes in circumstances occur. The liability and corresponding asset are removed from the consolidated balance sheets upon customer acceptance of the project. Circumstances that could lead to a loss under these agreements beyond our stated ownership interest include the failure of a partner to contribute additional funds to the venture in the event the project incurs a loss or additional costs that we could incur should a partner fail to provide the services and resources that it had committed to provide in the agreement.

Contingencies

We are currently involved in various claims and legal proceedings. Loss contingency provisions are recorded if the potential loss from any asserted or unasserted claim or legal proceeding is considered probable and the amount can be reasonably estimated. If a potential loss is considered probable but only a range of loss can be determined, the low-end of the range is recorded. These accruals represent management's best estimate of probable loss. Disclosure is also provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the amount recorded. Significant judgment is required in both the determination of probability of loss and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to claims and litigation and may revise our estimates. See Note 17 and "Item 3. Legal Proceedings" for additional information.

Stock-Based Compensation

We measure and recognize compensation expense, net of estimated forfeitures, over the requisite vesting periods for all stock-based payment awards made. Stock-based compensation is included in selling, general and administrative expenses and cost of revenue on our consolidated statements of operations.

Restructuring (Gains) Charges

Pursuant to an approved plan, we record severance costs when an employee has been notified, unless the employee provides future service, in which case severance costs are expensed ratably over the future service period. Other restructuring costs are recognized when the liability is incurred. Costs associated with terminating a lease contract are recorded at the contract termination date, in accordance with contract terms, or on the cease-use date, net of estimated sublease income, if applicable. In determining the amount related to termination of a lease, various assumptions are used including the time period over which facilities will be vacant, expected sublease term and sublease rates. These assumptions may be adjusted upon the occurrence of future events. Asset impairment analyses resulting from restructuring events are performed in accordance with ASC subtopic 360-10, *Property, Plant and Equipment*. See the *Property and Equipment and Long-lived Assets* accounting policies above for further information on asset impairment charges. During the years ended December 31, 2017, 2016 and 2015 we recorded net restructuring gains of $2.4 million, $1.9 million and $6.0 million (including amounts attributable to non-controlling interests of $3.3 million), respectively, related to our EIP.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities in the consolidated financial statements and their respective tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

We report a liability in other long-term liabilities in the consolidated balance sheets for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in other (income) expense in the consolidated statements of operations.

Computation of Earnings Per Share

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Potential common shares include stock options and restricted stock units, under the 2012 Equity Incentive Plan.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASC Topic 606, *Revenue from Contracts with Customers*, and subsequently issued several related Accounting Standards Updates ("ASU"s) ("Topic 606"), which provide guidance for recognizing revenue from contracts with customers. The core principle of Topic 606 is that revenue will be recognized when promised goods or services are transferred to customers in an amount that reflects consideration for which entitlement is expected in exchange for those goods or services. Topic 606 will be effective commencing with our quarter ending March 31, 2018.

We will adopt Topic 606 using the modified retrospective transition approach, which we will elect to apply Topic 606 to contracts with customers that are not substantially complete, i.e. less than 90% complete, as of January 1, 2018. We do not expect Topic 606 to have a material impact on our Construction Materials segment's revenue. The impact of Topic 606 primarily relates to our Construction and Large Project Construction segments specifically in the following areas:

- Multiple performance obligations – In accordance with Topic 606, we have reviewed construction contracts with customers, including those related to contract modifications, to determine if there are multiple performance obligations. Based on this review, we have identified one unconsolidated joint venture contract in our Large Project Construction segment that will have multiple performance obligations.
- Multiple contracts – We reviewed contracts containing task orders and identified one Large Project Construction segment contract and one Construction segment contract that consist of multiple individual contracts as defined by Topic 606.
- Provision for losses – Provisions for losses will be recognized in the consolidated statements of operations for the full amount of estimated losses at the uncompleted performance obligation level whenever evidence indicates that the estimated total cost of a performance obligation exceeds its estimated total revenue. Currently provisions for losses are recorded at the contract level. We have identified one unconsolidated joint venture contract in our Large Project Construction segment that will have, as of the effective date, actual and provisions for losses related to completed and uncompleted performance obligations, respectively.

Based on our estimated costs to complete and our assessment of the impact from the adoption of Topic 606 as of December 31, 2017, we estimate a net cumulative decrease to retained earnings between \$15.0 million and \$18.0 million as of January 1, 2018.

In addition to the above, we expect to separately present contract assets and liabilities in the consolidated balance sheets. Contract assets will include amounts due under contractual retainage provisions, unbilled receivables, costs and estimated earnings in excess of billings and capitalized mobilization costs. Contract liabilities will include provisions for losses and billings in excess of costs and estimated earnings.

There will also be new disclosures related to revenue including information about unearned revenue and revenue disaggregated by operating group. Unearned revenue will be similar to our existing contract backlog but will only include project amounts when the related contract, contract options and task orders, as applicable, are executed rather than when awarded and funding is probable.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* which, among other things, eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the disclosed fair value of financial instruments measured at amortized cost on the consolidated balance sheets. This ASU will be effective commencing with our quarter ending March 31, 2018. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* and subsequently issued a related ASU*,* which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The ASU will be effective commencing with our quarter ending March 31, 2019. We expect the adoption of this ASU to have a material and essentially equal increase to current assets and current liabilities on our consolidated balance sheets.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this ASU clarify and provide specific guidance on eight cash flow classification issues that are not currently addressed by current U.S. GAAP. This ASU will be effective commencing with our quarter ending March 31, 2018. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*. The amendments in this ASU require the income tax consequences of an intra-entity transfer of an asset other than inventory to be recognized when the transfer occurs instead of when the asset is sold to an outside party. This ASU will be effective commencing with our quarter ending March 31, 2018. Although we do not expect the adoption of this ASU to have a material impact on our consolidated financial statements upon adoption, it may have a material impact if applicable transactions occur.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805)*: *Clarifying the Definition of a Business,* which is intended to help companies evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses by providing a more robust framework to use in determining when a set of assets and activities is a business. This ASU will be effective commencing with our quarter ending March 31, 2018. Although we do not expect the adoption of this ASU to have a material impact on our consolidated financial statements upon adoption, or may have a material impact if applicable transactions occur.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718) Scope of Modification Accounting,* which clarifies that changes to the value, vesting conditions, or award classification of share-based payment awards must be accounted for as modifications. This ASU will be effective commencing with our quarter ending March 31, 2018. Although we do not expect the adoption of this ASU to have a material impact on our consolidated financial statements upon adoption, it may have a material impact if applicable transactions occur.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,* which refines and expands hedge accounting for both financial (e.g., interest rate) and commodity risks. This ASU will be effective commencing with our quarter ending March 31, 2019. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships,* which clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The ASU was effective commencing with our quarter ending March 31, 2017 and had no impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350)*: *Simplifying the Test for Goodwill Impairment.* This ASU eliminated Step 2 from the goodwill impairment test, which measures goodwill impairment by comparing the implied fair value of a reporting unit's goodwill to its carrying amount. According to the ASU, an impairment charge should be recorded if a reporting unit's net book value exceeds its fair value, limited to the amount of goodwill allocated to that reporting unit. We elected to early adopt the ASU, effective January 1, 2017. The estimated fair value of our reporting units exceeded the net book values; therefore, the adoption of this ASU had no impact on our consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities,* which requires the premium for certain callable debt securities held at a premium to be amortized to the earliest call date rather than at maturity. The ASU does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The ASU was effective commencing with our quarter ending March 31, 2017 and had an immaterial impact on our consolidated financial statements.

2. Revisions in Estimates

Our profit recognition related to construction contracts is based on estimates of costs to complete each project. These estimates can vary significantly in the normal course of business as projects progress, circumstances develop and evolve, and uncertainties are resolved. When we experience significant changes in our estimates of costs to complete, we undergo a process that includes reviewing the nature of the changes to ensure that there are no material amounts that should have been recorded in a prior period rather than as revisions in estimates for the current period. We use the cumulative catch-up method applicable to construction contract accounting to account for revisions in estimates. Under this method, revisions in estimates are accounted for in their entirety in the period of change. There can be no assurance that we will not experience further changes in circumstances or otherwise be required to revise our cost estimates in the future. In our review of these changes for the year ended December 31, 2017 we identified and corrected amounts that should have been recorded during the year ended December, 31, 2016. This correction resulted in a $4.9 million decrease to Large Project Construction revenue and gross profit and a $1.6 million decrease in net income attributable to Granite Construction Incorporated. We have assessed the impact of this correction to the financial statements of prior periods' and to the financial statements for the year ended December 31, 2017 and have concluded that the amounts are not material. In our review of these changes for the years ended 2016 and 2015, we did not identify any material amounts that should have been recorded in a prior period.

In the normal course of business, we have revisions in estimated costs some of which are associated with unresolved affirmative claims and back charges. The estimated or actual recovery related to these estimated costs associated with unresolved affirmative claims and back charges may be recorded in future periods or may be at values below the associated cost, which can cause fluctuations in the gross profit impact from revisions in estimates.

Affirmative Claims

Revisions in estimates for the years ended December 31, 2017, 2016 and 2015, included increases in revenue of $34.9 million, $37.3 million and $48.5 million, respectively, related to the estimated cost recovery of customer affirmative claims. Of these totals, $30.9 million, $25.4 million and $37.3 million, were offset by an increase in estimated contract costs that were in excess of the estimated recovery during the years ended December 31, 2017, 2016 and 2015, respectively. For the remaining $4.0 million, $11.9 million and $11.2 million, respectively, estimated contract costs in excess of estimated cost recovery were recorded in prior periods.

Back Charges

Revisions in estimates for the years ended December 31, 2017, 2016 and 2015, included reduction of cost of revenue of $4.6 million, $15.7 million and $7.0 million, respectively, related to the estimated recovery of back charges. Of these totals, $2.5 million, $4.8 million and $0.5 million, were offset by an increase in estimated contract costs that were in excess of the estimated recovery during the years ended December 31, 2017, 2016 and 2015, respectively. For the remaining $2.1 million, $10.9 million and $6.5 million, respectively, estimated contract costs in excess of estimated cost recovery were recorded in prior periods.

The tables below include the impact to gross profit from significant revisions in estimates related to estimated and actual recovery of customer affirmative claims and back charges as well as the associated estimated contract costs.

Construction

The net changes in project profitability from revisions in estimates, both increases and decreases, which individually had an impact of $1.0 million or more on gross profit were net increases of $4.0 million, $1.3 million and $19.9 million for the years ended December 31, 2017, 2016 and 2015, respectively. The projects are summarized as follows (dollars in millions):

INCREASES

Years Ended December 31,	2017	2016	2015
Number of projects with upward estimate changes	10	7	14
Range of increase in gross profit from each project, net	$1.1 - 3.9	$1.1 - 4.8	$1.1 - 6.6
Increase on project profitability	$ 17.2	$ 14.2	$ 30.7

The increases during the years ended December 31, 2017, 2016 and 2015 were due to lower costs and higher productivity than originally anticipated and owner directed scope changes. The 2017 and 2016 increases were also due to estimated cost recovery from affirmative claims.

DECREASES

Years Ended December 31,	2017	2016	2015
Number of projects with downward estimate changes	6	7	5
Range of reduction in gross profit from each project, net	$1.0 - 4.4	$1.0 - 3.9	$1.0 - 3.3
Decrease on project profitability	$ 13.2	$ 12.9	$ 10.8

The decreases during the years ended December 31, 2017, 2016 and 2015 were due to additional costs and lower productivity than originally anticipated. The 2017 decreases were also due to increases in estimated cost to complete from outstanding affirmative claims and change orders.

Large Project Construction

The net changes in project profitability from revisions in estimates, both increases and decreases, which individually had an impact of $1.0 million or more on gross profit were net decreases of $66.6 million and $13.5 million and a net increase of $7.6 million for the years ended December 31, 2017, 2016 and 2015, respectively. Amounts attributable to non-controlling interests were $2.1 million and $4.3 million of the net decreases and $3.0 million of the net increase for the years ended December 31, 2017, 2016 and 2015, respectively. The projects are summarized as follows (dollars in millions):

INCREASES

Years Ended December 31,	2017	2016	2015
Number of projects with upward estimate changes	1	8	7
Range of increase in gross profit from each project, net	$2.0	$1.2 - 6.5	$1.5 - 6.7
Increase on project profitability	$2.0	$ 27.2	$ 27.9

The increases during the years ended December 31, 2017 and 2016 were due to higher productivity and lower costs than anticipated and settlement of affirmative claims as well as estimated cost recovery from affirmative claims during 2016. The increases during the year ended December 31, 2015 were due to owner-directed scope changes and lower costs than anticipated, as well as estimated cost recovery from affirmative claims.

DECREASES

Years Ended December 31,	2017	2016	2015
Number of projects with downward estimate changes	7	5	6
Range of reduction in gross profit from each project, net	$1.3 - 17.2	$1.3 - 13.6	$1.0 - 5.5
Decrease on project profitability	$ 68.6	$ 40.7	$ 20.3

The decreases during the years ended December 31, 2017, 2016 and 2015 were primarily due to additional design, weather and owner-related costs and lower productivity than originally anticipated, net of estimated and actual recovery from customer affirmative claims and back charges. As of December 31, 2017, there were three projects for which additional costs were reasonably possible in excess of the probable amounts included in the cost forecast. The reasonably possible aggregate range that has the potential to adversely impact gross profit during the year ended December 31, 2018 was zero to $44.0 million. As the related projects proceed, future estimates may change and could have a material effect on our financial position, results of operations and/or cash flows in the future.

3. Marketable Securities

All marketable securities were classified as held-to-maturity as of the dates presented and the carrying amounts of held-to-maturity securities were as follows (in thousands):

December 31,	2017	2016
U.S. Government and agency obligations	$ 17,910	$ 10,002
Commercial paper	49,865	54,882
Total short-term marketable securities	67,775	64,884
U.S. Government and agency obligations	59,993	62,895
Corporate bonds	5,022	—
Total long-term marketable securities	65,015	62,895
Total marketable securities	$132,790	$127,779

Scheduled maturities of held-to-maturity investments were as follows (in thousands):

December 31, 2017	
Due within one year	$ 67,775
Due in one to five years	65,015
Total	$132,790

4. Fair Value Measurement

The following tables summarize significant assets and liabilities measured at fair value in the consolidated balance sheets on a recurring basis for each of the fair value levels (in thousands):

	Fair Value Measurement at Reporting Date Using			
December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents				
Money market funds	$37,284	$—	$—	$37,284
Commercial paper	9,967	—	—	9,967
Total assets	$47,251	$—	$—	$47,251

	Fair Value Measurement at Reporting Date Using			
December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents				
Money market funds	$10,057	$—	$—	$10,057
Total assets	$10,057	$—	$—	$10,057

Derivatives

The commodity swaps that we entered in 2014 were settled in October 2015. Gains or losses, including net periodic settlement amounts, were recorded in other income, net in our consolidated statements of operations. During the year ended December 31, 2015, we recorded a net loss of $0.4 million.

Interest Rate Swaps

In December 2016, we terminated the fixed to variable interest rate swap we entered in March 2014 due to the possibility of increasing interest rates. The interest rate swap is reported at fair value using Level 2 inputs in the consolidated balance sheets. Gains or losses, including net periodic settlement amounts, are recorded in other income, net in our consolidated statements of operations. During the years ended December 31, 2016 and 2015, we recorded net gains of $0.3 million and $1.5 million, respectively.

In January 2016, we entered into an interest rate swap designated as a cash flow hedge with an effective date of April 2016 and an initial notional amount of $98.8 million which matures in October 2020. The interest rate swap is designed to convert the interest rate on the term loan described in Note 11 from a variable rate of interest of LIBOR plus an applicable margin to a fixed rate of 1.47% plus the same applicable margin. The interest rate swap is reported at fair value using Level 2 inputs in the consolidated balance sheets. Gains or losses on the effective portion are initially reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified to interest expense in the consolidated statements of operations when the quarterly hedged interest payment is settled. As of December 31, 2017 and 2016, the fair value of the cash flow hedge was $1.4 million and $0.8 million, respectively, and was included in other current assets in the consolidated balance sheets. Associated gains or losses were recorded in the consolidated statements of operations and were immaterial during the years ended December 31, 2017 and 2016.

Other Assets and Liabilities

The carrying values and estimated fair values of our financial instruments that are not required to be recorded at fair value in the consolidated balance sheets are as follows (in thousands):

December 31,		**2017**		**2016**	
	Fair Value Hierarchy	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Assets:					
Held-to-maturity marketable securities	Level 1	$132,790	$132,002	$127,779	$127,365
Liabilities (including current maturities):					
Senior notes payable[1]	Level 3	$ 80,000	$ 82,190	$120,000	$124,654
Credit Agreement term loan[1]	Level 3	$ 90,000	$ 89,871	$ 95,000	$ 93,991
Credit Agreement - revolving credit facility, 2016 draw[1]	Level 3	$ 30,000	$ 30,105	$ 30,000	$ 29,452
Credit Agreement - revolving credit facility, 2017 draw[1]	Level 3	$ 25,000	$ 24,949	$ —	$ —

[1] The fair values of the senior notes payable and Credit Agreement (defined in Note 11) loan are based on borrowing rates available to us for long-term loans with similar terms, average maturities, and credit risk.

We measure certain nonfinancial assets and liabilities at fair value on a nonrecurring basis, at least annually. As of December 31, 2017 and 2016, the nonfinancial assets and liabilities included our asset retirement and reclamation obligations, as well as assets and corresponding liabilities associated with performance guarantees.

The fair value of asset retirement obligations were measured using Level 3 inputs and performance guarantees were measured using Level 2 inputs. Asset retirement obligations were initially measured using internal discounted cash flow calculations based upon our estimates of future retirement costs - see Note 8 for details of the asset retirement balances and Note 1 for further discussion on fair value measurements. Performance guarantees were measured using estimated partner bond rates - see Note 10 for the liability balances and Note 1 for further discussion on performance guarantees.

During the years ended December 31, 2017, 2016 and 2015, nonfinancial assets and liabilities fair value adjustments were related to our asset retirement obligations and restructuring gains associated with our EIP, detailed as follows:

- Asset retirement obligations adjustments were $0.5 million, $2.1 million and $0.2 million, respectively. See Note 8 for further information.
- Restructuring gains associated with our EIP were $2.4 million, $1.9 million and $6.0 million (including amounts attributable to non-controlling interests of $3.3 million), during the years ended December 31, 2017, 2016 and 2015, respectively, primarily associated with the release of lease obligations, sale of a real estate asset related to our equity method investments and the sale of a previously impaired consolidated real estate asset.

5. Receivables, net (in thousands)

December 31,	2017	2016
Construction contracts completed and in progress:		
Billed	$ 252,467	$ 206,570
Unbilled	77,135	81,590
Retentions	91,135	84,878
Total construction contracts completed and in progress	420,737	373,038
Construction material sales	42,192	29,357
Other	17,014	17,523
Total gross receivables	479,943	419,918
Less: allowance for doubtful accounts	152	573
Total net receivables	$ 479,791	$ 419,345

Receivables include amounts billed and billable to clients for services provided as of the end of the applicable period and do not bear interest. To the extent costs are not contractually billable or have not been earned, including claim recovery estimates, the associated revenue is included in costs and estimated earnings in excess of billings or billings in excess of costs and estimated earnings in the consolidated balance sheets. As of December 31, 2017 and 2016, the aggregate claim recovery estimates included in these balances were approximately $26.7 million and $12.3 million, respectively. Included in other receivables at December 31, 2017 and 2016 were items such as estimated recovery from back charge claims, notes receivable, fuel tax refunds, receivables from vendors and income tax refunds. No such receivables individually exceeded 10% of total net receivables at any of these dates. As of December 31, 2017 and 2016, the estimated recovery from back charge claims included in Other receivables was $1.1 million and $0.3 million, respectively.

During the year ended December 31, 2017, our largest volume customer, including both prime and subcontractor arrangements, was the California Department of Transportation (“Caltrans”). Revenue recognized from contracts with Caltrans during 2017 represented $281.7 million (9.4% of our total revenue) of which $219.9 million (13.2% of segment revenue) was in the Construction segment, $57.2 million (5.5% of segment revenue) in the Large Project Construction segment and $4.6 million (1.6% of segment revenue) was in the Construction Materials segment. During the year ended December 31, 2016, our largest volume customer, including both prime and subcontractor arrangements, was Caltrans. Revenue recognized from contracts with Caltrans during 2016 represented $222.4 million (8.8% of total revenue), of which $173.4 million (12.7% of segment revenue) was in the Construction segment and $48.7 million (5.5% of segment revenue) was in the Large Project Construction segment. During the year ended December 31, 2015, our largest volume customer, including both prime and subcontractor arrangements, was the New York State Department of Transportation ("NYSDOT"). Revenue recognized from contracts with NYSDOT during 2015 represented $199.0 million (8.4% of total revenue), all of which was in the Large Project Construction segment (24.5% of segment revenue).

We regularly review our accounts receivable, including past due amounts, to determine their probability of collection. If it is probable that an amount is uncollectible, it is charged to bad debt expense and a corresponding reserve is established in allowance for doubtful accounts. If it is deemed certain that an amount is uncollectible, the amount is written off.

Certain construction contracts include retainage provisions. The balances billed but not paid by customers pursuant to these provisions generally become due upon completion and acceptance of the project work or products by the owners. No retention receivable individually exceeded 10% of total net receivables at any of the presented dates. As of December 31, 2017, the majority of the retentions receivable are expected to be collected within one year. As of December 31, 2017 and 2016, there were no retentions receivables determined to be uncollectible.

6. Construction Joint Ventures

We participate in various construction joint ventures ("joint ventures").

Due to the joint and several nature of the performance obligations under the related owner contracts, if any of the partners fail to perform, we and the remaining partners, if any, would be responsible for performance of the outstanding work (i.e., we provide a performance guarantee). At December 31, 2017, there was $4.6 billion of construction revenue to be recognized on unconsolidated and line item construction joint venture contracts of which $1.5 billion represented our share and the remaining $3.1 billion represented our partners' share. We are not able to estimate amounts that may be required beyond the remaining cost of the work to be performed. These costs could be offset by billings to the customer or by proceeds from our partners' corporate and/or other guarantees. See Note 10 for disclosure of the performance guarantee amounts recorded in the consolidated balance sheets and Note 1 for additional discussion.

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 interests in any profits and assets, and our respective share in any losses and liabilities, that may result from the performance of the contracts are limited to our stated percentage interest in the project. Under our joint venture contractual arrangements, we provide capital to these joint ventures in return for an ownership interest. In addition, partners dedicate resources to the joint ventures necessary to complete the contracts and are reimbursed for their cost. The operational risks of each construction joint venture are passed along to the joint venture members. As we absorb our share of these risks, our investment in each venture is exposed to potential gains and losses.

We have determined that certain of these joint ventures are consolidated because they are VIEs and we are the primary beneficiary. We continually evaluate whether there are changes in the status of the VIEs or changes to the primary beneficiary designation of the VIE. Based on our assessments during the years ended December 31, 2017, 2016 and 2015, we determined no change was required for existing construction joint ventures.

The volume and stage of completion of contracts from our consolidated and unconsolidated construction joint ventures may cause fluctuations in cash and cash equivalents and, for consolidated construction joint ventures, billings in excess of costs and estimated earnings, costs in excess of billings and estimated earnings and property and equipment between periods.

The assets and liabilities of each consolidated and unconsolidated construction joint venture relate solely to that joint venture. The decision to distribute joint venture assets must generally be made jointly by a majority of the members and, accordingly, these assets, including those associated with estimated cost recovery of customer affirmative claims and back charge claims, are generally not available for the working capital needs of Granite until distributed.

Consolidated Construction Joint Ventures

At December 31, 2017, we were engaged in six active consolidated construction joint venture projects, with contract values ranging from $49.8 million to $409.6 million and a combined total of $1.2 billion. Our share of revenue remaining to be recognized on these consolidated joint ventures was $492.8 million and ranged from $4.9 million to $201.3 million. Our proportionate share of the equity in these joint ventures was between 50.0% and 65.0%. During the years ended December 31, 2017, 2016 and 2015, total revenue from consolidated construction joint ventures was $185.5 million, $119.8 million and $54.4 million, respectively. During the years ended December 31, 2017 and 2016 consolidated construction joint ventures provided $36.9 million and $37.8 million, respectively, of operating cash flows and used $16.4 million during the year ended December 31, 2015.

Unconsolidated Construction Joint Ventures

As of December 31, 2017, we were engaged in eleven active unconsolidated joint venture projects with contract values ranging from $77.3 million to $3.7 billion and a combined total of $12.4 billion of which our share was $3.7 billion. Our proportionate share of the equity in these unconsolidated joint ventures ranged from 20.0% to 50.0%. As of December 31, 2017, our share of the revenue remaining to be recognized on these unconsolidated joint ventures was $1.5 billion and ranged from $0.5 million to $365.0 million.

The following is summary financial information related to unconsolidated construction joint ventures (in thousands):

December 31,	2017	2016
Assets:		
Cash, cash equivalents and marketable securities	$ 289,940	$ 537,991
Other current assets[1]	812,577	644,809
Noncurrent assets	219,825	207,240
Less partners' interest	869,782	935,615
Granite's interest[1,2]	452,560	454,425
Liabilities:		
Current liabilities	682,832	696,215
Less partners' interest and adjustments[3]	462,159	472,324
Granite's interest	220,673	223,891
Equity in construction joint ventures[4]	$ 231,887	$ 230,534

1 Included in this balance and in accrued and other current liabilities on our consolidated balance sheets as of December 31, 2017 and 2016 was $88.6 million and $83.1 million, respectively, related to performance guarantees (see Note 10 of "Notes to the Consolidated Financial Statements").

2 Included in this balance as of December 31, 2017 and 2016 was $74.3 million and $65.4 million, respectively, related to Granite's share of estimated cost recovery of customer affirmative claims. In addition, the balances as of December 31, 2017 and 2016 included $11.8 million and $5.6 million, respectively, related to Granite's share of estimated recovery of back charge claims.

3 Partners' interest and adjustments includes amounts to reconcile total net assets as reported by our partners to Granite's interest adjusted to reflect our accounting policies primarily related to gross profit forecast differences.

4 As of December 31, 2017 and 2016, this balance included $15.9 million and $16.6 million, respectively, of deficit in construction joint ventures that is included in accrued expenses and other current liabilities in the consolidated balance sheets.

Years Ended December 31,	2017	2016	2015
Revenue:			
Total	$2,057,336	$1,958,158	$1,924,544
Less partners' interest and adjustments[1]	1,469,550	1,387,532	1,341,334
Granite's interest	587,786	570,626	583,210
Cost of revenue:			
Total	1,995,915	1,915,376	1,819,257
Less partners' interest and adjustments[1]	1,394,347	1,360,459	1,279,954
Granite's interest	601,568	554,917	539,303
Granite's interest in gross (loss) profit	$ (13,782)	$ 15,709	$ 43,907

[1] Partners' interest and adjustments includes amounts to reconcile total revenue and total cost of revenue as reported by our partners to Granite's interest adjusted to reflect our accounting policies primarily related to gross profit forecast differences.

During the years ended December 31, 2017, 2016 and 2015, unconsolidated construction joint venture net income was $62.2 million, $41.8 million and $105.6 million, respectively, of which our share was net loss of $14.4 million and net income of $15.6 million and $43.4 million, respectively. The differences between our share of the joint venture net loss when compared to the joint venture net income during the year ended December 31, 2017 primarily resulted from differences between our estimated total revenue and cost of revenue when compared to that of our partners' on four projects. These joint venture net income amounts exclude our corporate overhead required to manage the joint ventures and include taxes only to the extent the applicable states have joint venture level taxes.

Line Item Joint Ventures

We 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 each line item joint venture partners' discrete items of work is defined in the contract with the project owner and each joint venture partner bears the profitability risk associated with its own work. There is not a single set of books and records for a line item joint venture. Each partner accounts for its items of work individually as it would for any self-performed contract. We include only our portion of revenue and cost of revenue associated with these contracts in our consolidated financial statements. As of December 31, 2017, we had one active line item joint venture construction project with a total contract value of $66.2 million of which our portion was $49.0 million. As of December 31, 2017, our share of revenue remaining to be recognized on the line item joint venture was $1.4 million. During the years ended December 31, 2017, 2106 and 2015, our portion of revenue from line item joint ventures was $22.9 million, $35.0 million and $26.0 million, respectively.

7. Investments in Affiliates

Our investments in affiliates balance is related to our investments in unconsolidated non-construction entities that we account for using the equity method of accounting, including investments in real estate entities and a non-real estate entity.

The real estate entities were formed to accomplish specific real estate development projects in which our wholly-owned subsidiary, Granite Land Company ("GLC"), participates with third-party partners. The non-real estate entity is a 50% interest in a limited liability company which owns and operates an asphalt terminal and operates an emulsion plant in Nevada.

We have determined that the real estate entities are not consolidated because although they are VIEs, we are not the primary beneficiary. We have determined that the non-real estate entity is not consolidated because it is not a VIE and we do not hold the majority voting interest. As such, this entity is accounted for using the equity method. We account for our share of the operating results of the equity method investments in other income in the consolidated statements of operations and as a single line item in the consolidated balance sheets as investments in affiliates.

Our investments in affiliates balance consists of the following (in thousands):

December 31,	2017	2016
Equity method investments in real estate affiliates	$29,472	$25,911
Equity method investments in other affiliate	8,997	9,757
Total investments in affiliates	$38,469	$35,668

The following table provides summarized balance sheet information for our affiliates accounted for under the equity method on a combined basis (in thousands):

December 31,	2017	2016
Current assets	$ 31,320	$ 30,836
Noncurrent assets	129,039	124,670
Total assets	160,359	155,506
Current liabilities	30,131	18,485
Long-term liabilities[1]	31,636	37,217
Total liabilities	61,767	55,702
Net assets	98,592	99,804
Granite's share of net assets	$ 38,469	$ 35,668

[1] The balance primarily relates to debt associated with our real estate investments. See Note 11 for further discussion.

The equity method investments in real estate affiliates included $24.3 million and $20.8 million in residential real estate in Texas as of December 31, 2017 and 2016, respectively. The remaining balances were in commercial real estate in Texas.

Of the $160.4 million in total assets as of December 31, 2017, real estate entities had total assets ranging from less than $1.6 million to $68.5 million and the non-real estate entity had total assets of $28.1 million.

The following table provides summarized statement of operations information for our affiliates accounted for under the equity method on a combined basis (in thousands):

Years Ended December 31,	2017	2016	2015
Revenue	$56,372	$56,127	$47,457
Gross profit	23,007	22,398	19,117
Income before taxes	17,154	19,117	8,446
Net income	17,154	19,117	8,446
Granite's interest in affiliates' net income	7,107	7,177	3,210

8. Property and Equipment, net

Balances of major classes of assets and allowances for depreciation and depletion are included in property and equipment, net in the consolidated balance sheets as follows (in thousands):

December 31,	2017	2016
Equipment and vehicles	$ 778,549	$ 756,602
Quarry property	182,267	174,839
Land and land improvements	108,830	110,999
Buildings and leasehold improvements	82,601	82,762
Office furniture and equipment	56,894	56,381
Property and equipment	1,209,141	1,181,583
Less: accumulated depreciation and depletion	801,723	774,933
Property and equipment, net	$ 407,418	$ 406,650

Depreciation and depletion expense primarily included in cost of revenue in our consolidated statements of operations was $63.8 million for the year ended December 31, 2017 and was $61.0 million for both years ended December 31, 2016 and 2015.

Capitalized interest costs related to certain self-constructed assets were immaterial for the years ended December 31, 2017, 2016 and 2015 and were included in investments in affiliates and property and equipment in the consolidated balance sheets.

We have recorded liabilities associated with our legally required obligations to reclaim owned and leased quarry property and related facilities. As of December 31, 2017 and 2016, $4.8 million and $1.9 million, respectively, of our asset retirement obligations were included in accrued expenses and other current liabilities and $17.7 million and $20.1 million, respectively, were included in other long-term liabilities in the consolidated balance sheets.

The following is a reconciliation of these asset retirement obligations (in thousands):

Years Ended December 31,	2017	2016
Beginning balance	$21,936	$26,558
Revisions to estimates	462	(2,058)
Liabilities settled	(966)	(3,806)
Accretion	1,095	1,242
Ending balance	$22,527	$21,936

9. Intangible Assets

Indefinite-lived Intangible Assets

Indefinite-lived intangible assets primarily consist of goodwill. The following table presents the goodwill balance by reportable segment (in thousands):

December 31,	2017	2016
Construction	$29,260	$29,260
Large Project Construction	22,593	22,593
Construction Materials	1,946	1,946
Total goodwill	$53,799	$53,799

Amortized Intangible Assets

The following is the breakdown of our amortized intangible assets that are included in other noncurrent assets in the consolidated balance sheets (in thousands):

December 31, 2017	Gross Value	Accumulated Amortization	Net Value
Permits	$25,959	$(12,504)	$13,455
Customer lists	2,200	(1,467)	733
Trade name	4,100	(2,159)	1,941
Covenants not to compete and other	50	(26)	24
Total amortized intangible assets	$32,309	$(16,156)	$16,153
December 31, 2016			
Permits	$25,959	$(11,514)	$14,445
Acquired backlog	1,500	(1,472)	28
Customer lists	2,200	(1,174)	1,026
Trade name	4,100	(1,727)	2,373
Covenants not to compete and other	50	(24)	26
Total amortized intangible assets	$33,809	$(15,911)	$17,898

Amortization expense related to amortized intangible assets for the years ended December 31, 2017, 2016 and 2015 was $1.7 million, $2.0 million and $2.2 million, respectively, and was primarily included in selling, general and administrative expenses in the consolidated statements of operations. In addition, during the years ended December 31, 2017 and 2016, the gross value and associated accumulated amortization was adjusted for fully amortized intangible assets that we no longer intend to use. Based on the amortized intangible assets balance at December 31, 2017, amortization expense expected to be recorded in the future is as follows: $1.7 million in 2018; $1.7 million in 2019; $1.6 million in 2020; $1.4 million in 2021; and $9.7 million thereafter.

10. Accrued Expenses and Other Current Liabilities (in thousands):

December 31,	2017	2016
Payroll and related employee benefits	$ 68,210	$ 53,802
Accrued insurance	39,946	44,471
Performance guarantees (see Note 1)	88,606	83,110
Other	39,645	37,204
Total	$ 236,407	$ 218,587

Other includes dividends payable, accrued legal reserves, warranty reserves, asset retirement obligations, remediation reserves and other miscellaneous accruals, none of which are greater than 5% of total current liabilities.

11. Long-Term Debt and Credit Arrangements (in thousands):

December 31,	2017	2016
Senior notes payable	$ 80,000	$ 120,000
Credit Agreement term loan	90,000	95,000
Credit Agreement revolving credit loan	55,000	30,000
Debt issuance costs	(499)	(706)
Total debt	224,501	244,294
Less current maturities	46,048	14,796
Total long-term debt	$ 178,453	$ 229,498

The aggregate minimum principal maturities of long-term debt, including current maturities, for each of the three years following December 31, 2017 are as follows: 2018 - $46.3 million; 2019 - $50.0 million; and 2020 - $128.8 million. We have no long-term debt payments due after 2020.

Senior Notes Payable

As of December 31, 2017 and 2016, senior notes payable in the amount of $80.0 million and $120.0 million, respectively, were due to a group of institutional holders and had an interest rate of 6.11% per annum (“2019 Notes”). As of December 31, 2017, $40.0 million of the outstanding balance was included in long-term debt in the consolidated balance sheets and the remaining $40.0 million was included in current maturities of long-term debt in the consolidated balance sheets. As of December 31, 2016, $110.0 million of the outstanding balance was included in long-term debt in the consolidated balance sheets, including $30.0 million due for the 2017 installment as we had the ability and intent to pay the 2017 installment using borrowings under the Credit Agreement (defined below) or by obtaining other sources of financing. The remaining $10.0 million was included in current maturities of long-term debt in the consolidated balance sheets.

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

Credit Agreement

As of December 31, 2017, we had a $290.0 million credit facility (the "Credit Agreement"), of which $200.0 million was a revolving credit facility and $90.0 million was a term loan that matures on October 28, 2020 (the "Maturity Date"). The Credit Agreement has a sublimit for letters of credit of $100.0 million. As of December 31, 2017 and 2016, $6.2 million and $5.0 million of the term loan balance was included in current maturities of long-term debt, respectively, and the remaining $83.8 million and $90.0 million, respectively, was included in long-term debt in the consolidated balance sheets.

Of the $95.0 million term loan outstanding as of December 31, 2016, we paid $5.0 million of the principal balance during 2017. Of the remaining $90.0 million outstanding as of December 31, 2017, 1.25% of the original principal balance is due in three quarterly installments beginning in March 2018, 2.50% of the original principal balance is due in eight quarterly installments beginning in December 2018 and the remaining balance is due on the Maturity Date.

As of December 31, 2017, the total stated amount of all issued and outstanding letters of credit under the Credit Agreement was $8.3 million. As of December 31, 2017 and 2016, $25.0 million and $30.0 million had been drawn for the 2017 and 2016 installments of the 2019 Notes, respectively. The total unused availability under the Credit Agreement was $136.7 million. The letters of credit will expire between July 2018 and October 2018.

Borrowings under the Credit Agreement bear interest at LIBOR or a base rate (at our option), plus an applicable margin based on certain financial ratios calculated quarterly. LIBOR varies based on the applicable loan term, market conditions and other external factors. The applicable margin was 1.75% for loans bearing interest based on LIBOR and 0.75% for loans bearing interest at the base rate at December 31, 2017. Accordingly, the effective interest rate using three-month LIBOR and base rate was 3.44% and 5.25%, respectively, at December 31, 2017 and we elected to use LIBOR. Borrowings at the base rate have no designated term and could be repaid without penalty any time prior to the Maturity Date. Borrowings bearing interest at a LIBOR rate have a term no less than one month and no greater than six months (or such longer period not to exceed 12 months if approved by all lenders). At the end of each term, such borrowings can be paid or continued at our discretion as either a borrowing at the base rate or a borrowing at a LIBOR rate with similar terms. Our obligations under the Credit Agreement are guaranteed by certain of our subsidiaries and are collateralized on an equivalent basis with the obligations under the 2019 Notes (defined above) by first priority liens (subject only to other permitted liens) on substantially all of the assets of the Company and our subsidiaries that are guarantors or borrowers under the Credit Agreement.

In January 2016, we entered into an interest rate swap designated as a cash flow hedge with an effective date of April 2016 and an initial notional amount of $98.8 million which matures in October 2020. The interest rate swap is designed to convert the interest rate on the term loan described above from a variable rate of interest of LIBOR plus an applicable margin to a fixed rate of 1.47% plus the same applicable margin (see Note 4 for details).

The Credit Agreement provides for the release of the liens securing the obligations, at our option and expense, so long as certain conditions as defined by the terms in the Credit Agreement are satisfied ("Collateral Release Period"). However, if subsequent to exercising the option, our Consolidated Fixed Charge Coverage Ratio is less than 1.25 or our Consolidated Leverage Ratio is greater than 2.50, then we would be required to promptly re-pledge substantially all of the assets of the Company and our subsidiaries that are guarantors or borrowers under the Credit Agreement. As of December 31, 2017, the conditions for the exercise of our right under the Credit Agreement to have liens released were not satisfied.

Real Estate Indebtedness

Our unconsolidated investments in real estate entities is subject to mortgage indebtedness. This indebtedness is non-recourse to Granite, but is recourse to the real estate entity. The terms of this indebtedness are typically renegotiated to reflect the evolving nature of the real estate project as it progresses through acquisition, entitlement and development. Modification of these terms may include changes in loan-to-value ratios requiring the real estate entity to repay portions of the debt. The debt associated with our unconsolidated real estate entities is disclosed in Note 7.

Covenants and Events of Default

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

The most significant financial covenants under the terms of our Credit Agreement and 2019 NPA require the maintenance of a minimum Consolidated Tangible Net Worth, a minimum Consolidated Interest Coverage Ratio and a maximum Consolidated Leverage Ratio.

As of December 31, 2017 and pursuant to the definitions in the agreements, our Consolidated Tangible Net Worth was $953.6 million, which exceeded the minimum of $752.0 million, our Consolidated Leverage Ratio was 1.25 which did not exceed the maximum of 3.00 and our Consolidated Interest Coverage Ratio was 15.59 which exceeded the minimum of 4.00.

As of December 31, 2017, we were in compliance with all covenants contained in the Credit Agreement and related to the 2019 NPA. We are not aware of any non-compliance by any of our unconsolidated real estate entities with the covenants contained in their debt agreements.

12. Employee Benefit Plans

Profit Sharing and 401(k) Plan

The Profit Sharing and 401(k) Plan (the “401(k) Plan”) is a defined contribution plan covering all employees except employees covered by collective bargaining agreements and certain employees of our consolidated construction joint ventures. Each employee’s combined pre-tax 401(k) and post-tax (Roth) contributions cannot exceed 50% of their eligible pay or Internal Revenue Code annual contribution limits. Our 401(k) matching contributions can be up to 6% of an employee’s gross pay at the discretion of the Board of Directors. Our 401(k) matching contributions to the 401(k) Plan for the years ended December 31, 2017, 2016 and 2015 were $12.1 million, $11.0 million and $5.4 million, respectively. Profit sharing contributions from the Company may be made to the 401(k) Plan in an amount determined by the Board of Directors. We made no profit sharing contributions during the years ended December 31, 2017, 2016 and 2015.

Non-Qualified Deferred Compensation Plan

We offer a Non-Qualified Deferred Compensation Plan (“NQDC Plan”) to a select group of our highly compensated employees. The NQDC Plan provides participants the opportunity to defer payment of certain compensation as defined in the NQDC Plan. In October 2008, a Rabbi Trust was established to fund our NQDC Plan obligation and was fully funded as of December 31, 2017. The assets held by the Rabbi Trust at December 31, 2017 and 2016 are substantially in the form of Company-owned life insurance and are included in other noncurrent assets in the consolidated balance sheets. As of December 31, 2017, there were 61 active participants in the NQDC Plan. NQDC Plan obligations were $24.7 million and $21.5 million as of December 31, 2017 and 2016, respectively.

Multi-employer Pension Plans

Four of our wholly-owned subsidiaries, Granite Construction Company, Granite Construction Northeast, Inc., Granite Industrial, Inc., and Kenny Construction Company contribute to various multi-employer pension plans on behalf of union employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If we chose to stop participating in some of the multi-employer plans, we may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table presents our participation in these plans (dollars in thousands):

Pension Trust Fund	Pension Plan Employer Identification Number	Pension Protection Act ("PPA") Certified Zone Status[1]		FIP / RP Status Pending / Implemented[2]	Contributions			Surcharge Imposed	Expiration Date of Collective Bargaining Agreement[3]
		2017	2016		2017	2016	2015		
Locals 302 and 612 IUOE-Employers Construction Industry Retirement Plan	91-6028571	Green	Green	No	$ 3,646	$ 3,113	$ 3,000	No	12/31/2017 5/31/2018 12/31/2019
Pension Trust Fund for Operating Engineers Pension Plan	94-6090764	Red	Red	Yes	10,431	9,266	9,070	No	1/31/2018 10/31/2018 6/30/2019 5/15/2020 6/15/2020 6/30/2020 9/30/2020
Operating Engineers Pension Trust Fund	95-6032478	Yellow	Red	Yes	4,692	5,357	3,647	No	6/30/2019
Laborers Pension Trust Fund for Northern California	94-6277608	Yellow	Yellow	Yes	2,464	2,215	2,403	No	6/30/2019
Construction Laborers Pension Trust for Southern California	43-6159056	Green	Green	No	2,002	2,095	1,349	No	6/30/2018
Laborers Pension Fund	36-2514514	Green	Green	No	3,208	2,328	1,919	No	5/31/2021
All other funds (38 as of December 31, 2017)					10,341	8,708	7,171		
				Total Contributions:	$ 36,784	$33,082	$28,559		

[1] The most recent PPA zone status available in 2017 and 2016 is for the plan's year-end during 2016 and 2015, respectively. The zone status is based on information that we received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an Accumulated Funding Deficiency in the current year or projected into the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. Subsequent to December 31, 2016, the Operating Engineers Pension Trust Fund zone status changed from red to yellow for the plan's year-end during 2015.

[2] The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.

[3] Lists the expiration date(s) of the collective-bargaining agreement(s) to which the plans are subject. Pension trust funds with a range of expiration dates have various collective bargaining agreements. Expired collective bargaining agreements are under negotiation.

Based upon the most recently available annual reports, the Company's contribution to each of the individually significant plans listed in the table above was less than 5% of each plan's total contributions. We currently have no intention of withdrawing from any of the multi-employer pension plans in which we participate that would result in a significant withdrawal liability. In addition, we do not have any significant future obligations or funding requirements related to these plans other than the ongoing contributions that are paid as hours are worked by plan participants.

13. Shareholders' Equity

Stock-based Compensation

The 2012 Equity Incentive Plan provides for the issuance of restricted stock, restricted stock units ("RSUs") and stock options to eligible employees and to members of our Board of Directors. A total of 1,595,675 shares of our common stock have been reserved for issuance of which 1,072,750 remained available as of December 31, 2017. No stock options or restricted stock were granted during the years ended December 31, 2017, 2016 and 2015. There were no stock options or restricted stock outstanding as of December 31, 2017.

Restricted Stock Units

RSUs are issued for services to be rendered and may not be sold, transferred or pledged for such a period as determined by our Compensation Committee. RSU stock compensation cost is measured at our common stock's fair value based on the market price at the date of grant. We recognize compensation cost only for RSUs that we estimate will ultimately vest. We estimate the number of shares that will ultimately vest at each grant date based on our historical experience and adjust compensation cost based on changes in those estimates over time.

RSU compensation cost is recognized ratably over the shorter of the vesting period (generally three years) or the period from grant date to the first maturity date after the holder reaches age 62 and has completed certain specified years of service, when all RSUs become fully vested. Vesting of RSUs is not subject to any market or performance conditions and vesting provisions are at the discretion of the Compensation Committee. An employee may not sell or otherwise transfer unvested RSUs and, in the event employment is terminated prior to the end of the vesting period, any unvested RSUs are surrendered to us. We have no obligation to purchase these RSUs that are surrendered to us.

A summary of the changes in our RSUs during the years ended December 31, 2017, 2016 and 2015 is as follows (shares in thousands):

Years Ended December 31,	2017		2016		2015	
	RSUs	Weighted-Average Grant-Date Fair Value per RSU	RSUs	Weighted-Average Grant-Date Fair Value per RSU	RSUs	Weighted-Average Grant-Date Fair Value per RSU
Outstanding, beginning balance	681	$39.15	451	$32.73	565	$31.38
Granted	259	51.31	572	43.17	228	33.40
Vested	(372)	43.89	(307)	36.24	(300)	31.50
Forfeited	(44)	43.51	(35)	40.97	(42)	33.38
Outstanding, ending balance	524	$41.51	681	$39.15	451	$32.73

Compensation cost related to RSUs was $15.8 million ($11.4 million net of effective tax rate), $13.4 million ($9.2 million net of effective tax rate), and $8.8 million ($5.8 million net of effective tax rate) for the years ended December 31, 2017, 2016 and 2015, respectively. The grant date fair value of RSUs vested during the years ended December 31, 2017, 2016 and 2015 was $16.7 million, $11.5 million and $10.3 million, respectively. As of December 31, 2017, there was $10.0 million of unrecognized compensation cost related to RSUs which will be recognized over a remaining weighted-average period of 1.2 years.

401(k) Plan

As of December 31, 2017, the 401(k) Plan owned 1,454,844 shares of our common stock. Dividends on shares held by the 401(k) Plan are charged to retained earnings and all shares held by the 401(k) Plan are treated as outstanding in computing our earnings per share.

Employee Stock Purchase Plan:

Our ESPP allows qualifying employees to purchase shares of our common stock through payroll deductions of up to 15% of their compensation, subject to Internal Revenue Code limitations, at a price of 95% of the fair market value as of the end of each of the six-month offering periods, which commence on May 15 and November 15 of each year. During each of the years ended December 31, 2017, 2016 and 2015, proceeds from the ESPP were $0.8 million for 16,413, 16,717 and 22,567 shares, respectively.

Share Purchase Program

On April 7, 2016, the Board of Directors authorized us to purchase up to $200.0 million of our common stock at management's discretion, which replaced the former authorization including the amount available. We did not purchase shares under the share purchase program in any of the periods presented. The specific timing and amount of any future purchases will vary based on market conditions, securities law limitations and other factors.

14. Weighted Average Shares Outstanding and Net Income Per Share

The following table presents a reconciliation of the weighted average shares outstanding used in calculating basic and diluted net income per share as well as the calculation of basic and diluted net income per share (in thousands except per share amounts):

Years Ended December 31,	**2017**	**2016**	**2015**
Numerator (basic and diluted):			
Net income allocated to common shareholders for basic calculation	$69,098	$57,122	$60,485
Denominator:			
Weighted average common shares outstanding, basic	39,795	39,557	39,337
Dilutive effect of stock options and restricted stock units	577	668	531
Weighted average common shares outstanding, diluted	40,372	40,225	39,868
Net income per share, basic	$ 1.74	$ 1.44	$ 1.54
Net income per share, diluted	$ 1.71	$ 1.42	$ 1.52

15. Income Taxes

Following is a summary of the provision for income taxes (in thousands):

Years Ended December 31,	**2017**	**2016**	**2015**
Federal:			
Current	$27,877	$15,657	$ 4,810
Deferred	(4,397)	9,919	25,955
Total federal	23,480	25,576	30,765
State:			
Current	5,520	4,567	1,914
Deferred	(338)	19	2,500
Total state	5,182	4,586	4,414
Total provision for income taxes	$28,662	$30,162	$35,179

Following is a reconciliation of our provision for income taxes based on the Federal statutory tax rate to our effective tax rate (dollars in thousands):

Years Ended December 31,	2017		2016		2015	
Federal statutory tax	$36,562	35.0%	$33,728	35.0%	$35,165	34.0%
State taxes, net of federal tax benefit	3,814	3.7	2,990	3.1	3,769	3.6
Percentage depletion deduction	(1,368)	(1.3)	(1,352)	(1.4)	(1,444)	(1.4)
Domestic production activities deduction	(2,765)	(2.7)	(1,624)	(1.7)	(306)	(0.3)
Non-controlling interests	(2,346)	(2.3)	(3,177)	(3.3)	(2,639)	(2.6)
Nondeductible expenses	1,128	1.1	1,094	1.1	219	0.2
Tax Cuts and Jobs Act of 2017	(3,664)	(3.5)	—	—	—	—
Other	(2,699)	(2.6)	(1,497)	(1.5)	415	0.5
Total	$28,662	27.4%	$30,162	31.3%	$35,179	34.0%

On December 22, 2017 the U.S. Tax Cuts and Jobs Act of 2017 ("Tax Reform") was signed into law. As a result of Tax Reform, the U.S. statutory tax rate was lowered from 35% to 21% effective January 1, 2018, among other changes. ASC Topic 740, *Accounting for Income Taxes*, requires companies to recognize the effect of tax law changes in the period of enactment; therefore, we were required to revalue our deferred tax assets and liabilities at December 31, 2017 at the new rate. The Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain tax effects of Tax Reform. The Company has recognized the provisional tax impacts of Tax Reform in its consolidated financial statements for the year ended December 31, 2017. The majority of the $3.7 million provisional benefit above is related to the revaluation of deferred tax assets and liabilities at December 31, 2017 as a result of Tax Reform. The ultimate impact may differ from this provisional amount, possibly materially, as a result of additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of Tax Reform. The accounting is expected to be complete when the 2017 U.S. corporate income tax return is filed in 2018.

Following is a summary of the deferred tax assets and liabilities (in thousands):

December 31,	2017	2016
Long-term deferred tax assets:		
Receivables	$ 526	$ 573
Inventory	1,513	2,212
Insurance	7,401	12,524
Deferred compensation	8,985	12,740
Other accrued liabilities	1,525	2,294
Accrued compensation	1,738	11,031
Other	1,379	2,481
Net operating loss carryforwards	2,614	2,341
Valuation allowance	(2,471)	(2,153)
Total long-term deferred tax assets	23,210	44,043
Long-term deferred tax liabilities:		
Property and equipment	16,832	29,400
Contract income recognition	7,739	20,084
Total long-term deferred tax liabilities	24,571	49,484
Net long-term deferred tax liabilities	$ (1,361)	$ (5,441)

As of December 31, 2017, our deferred tax asset for net operating loss carryforwards relates to state and local net operating loss carryforwards with the significant carryforwards expiring beginning in 2035. We have provided a valuation allowance on the net deferred tax assets for certain state and local jurisdictions because we do not believe it is more likely than not that they will be realized.

The following is a summary of the change in valuation allowance (in thousands):

December 31,	2017	2016	2015
Beginning balance	$2,153	$ 641	$1,185
Additions (deductions), net	318	1,512	(544)
Ending balance	$2,471	$2,153	$ 641

The additions to the valuation allowance are related to the revaluation of our net deferred tax assets related to U.S. Tax Reform enacted during the year ended December 31, 2017 discussed above. Deductions to the valuation allowance are insignificant for the year ended December 31, 2017.

Uncertain Tax Positions

We file income tax returns in the U.S. and various state and local jurisdictions. We are currently under examination by various state taxing authorities for various tax years. We do not anticipate that any of these audits will result in a material change in our financial position. We are no longer subject to U.S. federal examinations by tax authorities for years before 2012. With few exceptions, as of December 31, 2017, we are no longer subject to state examinations by taxing authorities for years before 2010.

We had approximately $3.2 million and $3.3 million of total gross unrecognized tax benefits as of December 31, 2017 and 2016, respectively. There were approximately $3.1 million and $3.2 million of unrecognized tax benefits that would affect the effective tax rate in any future period at December 31, 2017 and 2016, respectively. We do not anticipate a significant increase or decrease in our unrecognized tax benefits that will impact our effective tax rate in 2018.

The following is a tabular reconciliation of unrecognized tax benefits (in thousands) the balance of which is included in other long-term liabilities on the consolidated balance sheets:

December 31,	2017	2016	2015
Beginning balance	$3,262	$1,578	$ 887
Gross increases – current period tax positions	—	1,902	1,006
Gross decreases – current period tax positions	(73)	(125)	(156)
Gross increases – prior period tax positions	1	2	—
Gross decreases – prior period tax positions	(6)	(5)	—
Settlements with taxing authorities/lapse of statute of limitations	(13)	(90)	(159)
Ending balance	$3,171	$3,262	$1,578

We record interest on uncertain tax positions in interest expense in our consolidated statements of operations. During the years ended December 31, 2017, 2016 and 2015, we recognized approximately $0.2 million interest expense, $0.1 million interest expense and $0.1 million of interest income, respectively. Approximately $0.4 million and $0.2 million of accrued interest related to our uncertain tax position liability was included in other long-term liabilities in our consolidated balance sheets at December 31, 2017 and 2016, respectively.

16. Commitments, Contingencies and Guarantees

Leases

Minimum rental commitments and minimum royalty requirements under all noncancellable operating leases, primarily quarry property, in effect at December 31, 2017 were (in thousands):

Years Ending December 31,	
2018	$12,169
2019	8,946
2020	7,997
2021	6,874
2022	4,794
Later years (through 2046)	7,171
Total	$47,951

Operating lease and equipment rental and royalty expense primarily included in cost of revenue in our consolidated statements of operations was $16.4 million, $18.2 million and $11.3 million in 2017, 2016 and 2015, respectively.

Performance Guarantees

We participate in various joint ventures and line item joint ventures under which each partner is responsible for performing certain discrete items of the total scope of contracted work. See Note 1, Note 6 and Note 10 for further details.

Surety Bonds

We are generally required to provide various types of surety bonds that provide an additional measure of security under certain public and private sector contracts. At December 31, 2017, $3.5 billion of our contract backlog was bonded. Performance bonds do not have stated expiration dates; rather, we are generally released from the bonds after the owner accepts the work performed under contract. The ability to maintain bonding capacity to support our current and future level of contracting requires that we maintain cash and working capital balances satisfactory to our sureties.

17. Legal Proceedings

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

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

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

Liabilities relating to legal proceedings and government inquiries, to the extent that we have concluded such liabilities are probable and the amounts of such liabilities are reasonably estimable, are recorded in the consolidated balance sheets. The aggregate liabilities recorded as of December 31, 2017 and 2016 related to these matters were approximately $0.9 million and $4.3 million, respectively, and were primarily included in accounts payable and accrued expenses and other current liabilities in our consolidated balance sheets. The aggregate range of possible loss related to (i) matters considered reasonably possible, and (ii) reasonably possible amounts in excess of accrued losses recorded for probable loss contingencies, including those related to liquidated damages, could have a material impact on our consolidated financial statements if they become probable and the reasonably estimable amount is determined.

18. Business Segment Information

Our reportable segments are: Construction, Large Project Construction and Construction Materials.

In addition to business segments, we review our business by operating groups. Our operating groups are defined as follows: (i) California; (ii) Northwest, which primarily includes offices in Alaska, Arizona, Nevada, Utah and Washington; (iii) Heavy Civil, which primarily includes offices in California, Florida, New York and Texas and (iv) Kenny, which primarily includes offices in Illinois. Each of these operating groups may include financial results from our Construction and Large Project Construction segments. Our California and Northwest operating groups include financial results from our Construction Materials segment.

The Construction segment performs various construction projects with a large portion of the work focused on new construction and improvement of streets, roads, highways, bridges, site work, underground, power-related facilities, water-related facilities, utilities and other infrastructure projects. These projects are typically bid-build projects completed within two years with a contract value of less than $75 million.

The Large Project Construction segment focuses on large, complex infrastructure projects which typically have a longer duration than our Construction segment work. These projects include major highways, mass transit facilities, bridges, tunnels, waterway locks and dams, pipelines, canals, power-related facilities, water-related facilities, utilities and airport infrastructure. This segment primarily includes bid-build, design-build, construction management/general contractor contracts, together with various contract methods relating to public-private partnerships, generally with contract values in excess of $75 million.

The Construction Materials segment mines and processes aggregates and operates plants that produce construction materials for internal use and for sale to third parties.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies (see Note 1). We evaluate segment performance based on gross profit or loss, and do not include selling, general and administrative expenses or non-operating income or expense. Segment assets include property and equipment, intangibles, goodwill, inventory and equity in construction joint ventures.

Summarized segment information is as follows (in thousands):

Years Ended December 31,	Construction	Large Project Construction	Construction Materials	Total
2017				
Total revenue from reportable segments	$1,664,708	$1,032,229	$ 467,140	$3,164,077
Elimination of intersegment revenue	—	—	(174,364)	(174,364)
Revenue from external customers	1,664,708	1,032,229	292,776	2,989,713
Gross profit	247,014	29,793	38,126	314,933
Depreciation, depletion and amortization	22,517	11,087	22,393	55,997
Segment assets	136,031	340,105	282,709	758,845
2016				
Total revenue from reportable segments	$1,365,198	$ 888,193	$ 425,029	$2,678,420
Elimination of intersegment revenue	—	—	(163,803)	(163,803)
Revenue from external customers	1,365,198	888,193	261,226	2,514,617
Gross profit	209,215	64,137	28,018	301,370
Depreciation, depletion and amortization	22,816	6,796	23,437	53,049
Segment assets	151,475	314,823	282,472	748,770
2015				
Total revenue from reportable segments	$1,262,675	$ 812,720	$ 432,284	$2,507,679
Elimination of intersegment revenue	—	—	(136,650)	(136,650)
Revenue from external customers	1,262,675	812,720	295,634	2,371,029
Gross profit	187,506	79,467	32,863	299,836
Depreciation, depletion and amortization	20,117	10,343	22,389	52,849
Segment assets	139,399	274,975	288,900	703,274

A reconciliation of segment gross profit to consolidated income before provision for income taxes is as follows (in thousands):

Years Ended December 31,	2017	2016	2015
Total gross profit from reportable segments	$314,933	$301,370	$299,836
Selling, general and administrative expenses	222,811	219,299	203,817
Restructuring gains	(2,411)	(1,925)	(6,003)
Gain on sales of property and equipment	(4,182)	(8,358)	(8,286)
Total other (income) expense	(5,748)	(4,008)	6,881
Income before provision for income taxes	$104,463	$ 96,362	$103,427

A reconciliation of segment assets to consolidated total assets is as follows (in thousands):

December 31,	2017	2016	2015
Total assets for reportable segments	$ 758,845	$ 748,770	$ 703,274
Assets not allocated to segments:			
Cash and cash equivalents	233,711	189,326	252,836
Short-term and long-term marketable securities	132,790	127,779	105,695
Receivables, net	479,791	419,345	340,822
Deferred income taxes, net	—	—	4,329
Other current assets, excluding segment assets	140,478	113,010	85,556
Property and equipment, net, excluding segment assets	29,242	32,397	36,721
Investments in affiliates	38,469	35,668	33,182
Other noncurrent assets, excluding segment assets	58,652	67,158	64,463
Consolidated total assets	$1,871,978	$1,733,453	$1,626,878

19. Subsequent Events Footnote

On February 13, 2018, the Company entered into an Agreement and Plan of Merger (“Merger Agreement”) to acquire Layne Christensen Company (“Layne”), a U.S.-based global water management, construction and drilling company. The acquisition is subject to the approval by Layne stockholders and other customary closing conditions.

The transaction is structured as a stock-for-stock merger in which each outstanding share of Layne common stock will be exchanged for 0.27 share of Company common stock. All outstanding stock options, restricted stock awards and unvested performance shares will be cashed out in accordance with the terms of the Merger Agreement. Using Granite’s closing share price as of February 16, 2018 of $60.36, the purchase price of the transaction in stock and cash would be approximately $360 million, excluding the assumption of approximately $209 million of debt at its estimated fair market value using Level 3 inputs as of February 16, 2018. The ultimate value of the transaction will be determined on the closing date in accordance with the terms of the Merger Agreement.

Following the completion of the acquisition, two outstanding issuances of Layne’s convertible notes will remain outstanding. The 4.25% convertible notes (the “4.25% Notes”) have outstanding principal of $69.5 million, a current conversion price of $22.93 per Layne share and mature on November 15, 2018. As permitted under the terms of the 4.25% Note indenture, following the closing, the conversion provisions of the 4.25% Notes will be amended to provide that the 4.25% notes will be cash settled only. The 8.0% convertible notes (the “8.0% Notes”) have outstanding principal of $99.9 million, a current conversion price of $11.70 per Layne share and mature on May 1, 2019. The maturity of the 8.0% Notes accelerates to August 15, 2018 if the 4.25% Notes remain outstanding on that date. At closing, the 8.0% Notes will become convertible into shares of Company common stock. At closing, the Company will also assume Layne’s $24.5 million of letters of credit, or issue new letters of credit. These additional debt obligations assumed at closing would exceed the amount of indebtedness currently permitted under the Company’s existing credit facility and private placement notes. The Company will seek consents or waivers from its existing lenders with respect to this additional indebtedness. The Company has also received a commitment letter for a new $370 million backstop financing facility, which the Company will use to the extent these consents or waivers are not received prior to closing.

Item 16. Form 10-K Summary

None.

Quarterly Financial Data

The following table sets forth selected unaudited quarterly financial information for the years ended December 31, 2017 and 2016. This information has been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, contains all adjustments necessary for a fair statement thereof. Net income (loss) per share calculations are based on the weighted average common shares outstanding for each period presented. Accordingly, the sum of the quarterly net income (loss) per share amounts may not equal the per share amount reported for the year.

QUARTERLY FINANCIAL DATA

(unaudited - dollars in thousands, except per share data)

2017 Quarters Ended	December 31,	September 30,	June 30,	March 31,
Revenue	$801,274	$957,126	$762,913	$468,400
Gross profit	100,707	114,530	74,570	25,126
As a percent of revenue	12.6%	12.0%	9.8%	5.4%
Net income (loss)	$ 35,325	$ 48,055	$ 16,272	$ (23,851)
As a percent of revenue	4.4%	5.0%	2.1%	(5.1)%
Net income (loss) attributable to Granite	$ 32,773	$ 45,982	$ 14,133	$ (23,790)
As a percent of revenue	4.1%	4.8%	1.9%	(5.1)%
Net income (loss) per share attributable to common shareholders:				
Basic	$ 0.82	$ 1.15	$ 0.35	$ (0.60)
Diluted	$ 0.81	$ 1.14	$ 0.35	$ (0.60)

2016 Quarters Ended	December 31,	September 30,	June 30,	March 31,
Revenue	$666,681	$803,905	$604,579	$439,452
Gross profit	81,250	107,674	73,201	39,245
As a percent of revenue	12.2%	13.4%	12.1%	8.9%
Net income (loss)	$ 19,264	$ 38,172	$ 18,526	$ (9,762)
As a percent of revenue	2.9%	4.7%	3.1%	(2.2)%
Net income (loss) attributable to Granite	$ 16,173	$ 37,190	$ 14,199	$ (10,440)
As a percent of revenue	2.4%	4.6%	2.3%	(2.4)%
Net income (loss) per share attributable to common shareholders:				
Basic	$ 0.41	$ 0.94	$ 0.36	$ (0.27)
Diluted	$ 0.40	$ 0.92	$ 0.35	$ (0.27)

INDEX TO 10-K EXHIBITS

Exhibit No.		Exhibit Description
2.1	*	Agreement and Plan of Merger by and among Granite Construction Incorporated, Layne Christensen Company and Lowercase Merger Sub Incorporated, dated as of February 13, 2018 [Exhibit 2.1 to the Company's Form 8-K filed on February 14, 2018]
2.2	*	Stock Purchase Agreement, dated December 28, 2012, by and between Granite Construction Incorporated and Kenny Industries, Inc. [Exhibit 2.1 to the Company's Form 8-K filed on January 4, 2013]
3.1	*	Certificate of Incorporation of Granite Construction Incorporated, as amended [Exhibit 3.1.b to the Company's Form 10-Q for quarter ended June 30, 2006]
3.2	*	Amended Bylaws of Granite Construction Incorporated [Exhibit 3.1 to the Company's Form 8-K filed on November 15, 2011]
10.1	* **	Key Management Deferred Compensation Plan II, as amended and restated [Exhibit 10.1 to the Company's Form 10-Q for quarter ended March 31, 2010]
10.2	* **	Granite Construction Incorporated Amended and Restated 1999 Equity Incentive Plan as Amended and Restated [Exhibit 10.1 to the Company's Form 10-Q for quarter ended June 30, 2009]
10.2.a	* **	Amendment No. 1 to the Granite Construction Incorporated Amended and Restated 1999 Equity Incentive Plan as Amended and Restated [Exhibit 10.2.a to the Company's Form 10-K for year ended December 31, 2009]
10.7	*	Note Purchase Agreement between Granite Construction Incorporated and Certain Purchasers dated December 12, 2007 [Exhibit 10.1 to the Company's Form 8-K filed January 31, 2008]
10.8	*	First Amendment to the Note Purchase Agreement, dated October 11, 2012, between Granite Construction Incorporated and the holders of the 2019 Notes party thereto. [Exhibit 10.7 to the Company's Form 10-Q for the quarter ended September 30, 2012]
10.9	*	Subsidiary Guaranty Agreement from the Subsidiaries of Granite Construction Incorporated as Guarantors of the Guaranty of Notes and Note Agreement and the Guaranty of Payment and Performance dated December 12, 2007 [Exhibit 10.10 to the Company's Form 10-K for year ended December 31, 2007]
10.11	* **	Form of Amended and Restated Director and Officer Indemnification Agreement [Exhibit 10.10 to the Company's Form 10-K for year ended December 31, 2002]
10.12	* **	Executive Retention and Severance Plan II effective as of March 9, 2011 [Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2011]
10.13	* **	Form of Restricted Stock Agreement effective March 2010 [Exhibit 10.18 to the Company's Form 10-K for the year ended December 31, 2010]
10.14	* **	Form of Non-employee Director Stock Option Agreement as amended and effective April 7, 2006 [Exhibit 10.19 to the Company's Form 10-K for the year ended December 31, 2010]
10.15	* **	Form of Restricted Stock Units Agreement effective January 1, 2010 [Exhibit 10.20 to the Company's Form 10-K for the year ended December 31, 2010]
10.16	* **	Form of Non-employee Director Restricted Stock Units Agreement effective January 1, 2010 [Exhibit 10.21 to the Company's Form 10-K for the year ended December 31, 2010]
10.17	* **	Granite Construction Incorporated Annual Incentive Plan effective January 1, 2010, as amended [Exhibit 10.22 to the Company's Form 10-K for the year ended December 31, 2011]
10.18	* **	Amendment No. 2 to the Granite Construction Incorporated Annual Incentive Plan effective January 1, 2012 [Exhibit 10.23 to the Company's Form 10-K for the year ended December 31, 2011]
10.19	* **	Granite Construction Incorporated Long Term Incentive Plan effective January 1, 2010, as amended [Exhibit 10.24 to the Company's Form 10-K for the year ended December 31, 2011]

Exhibit No.		Exhibit Description
10.20	* **	Amendment No. 2 to the Granite Construction Incorporated Long Term Incentive Plan effective January 1, 2012 [Exhibit 10.25 to the Company's Form 10-K for the year ended December 31, 2011]
10.21	* **	Granite Construction Incorporated 2012 Equity Incentive Plan [Exhibit 10.1 to the Company's Form 8-K filed on May 25, 2012]
10.22	* **	Form of Non-Employee Director Restricted Stock Unit Agreement effective May 22, 2012 [Exhibit 10.2 to the Company's Form 8-K filed on May 25, 2012]
10.23	* **	Granite Construction Incorporated NEO LTIP Awards Form of Restricted Stock Unit Agreement (Vesting on Date of Grant) [Exhibit 10.30 to the Company's Form 10-K for the year ended December 31, 2012]
10.24	* **	Granite Construction Incorporated NEO LTIP Awards Form of Restricted Stock Unit Agreement (3 Year Vesting Schedule) [Exhibit 10.31 to the Company's Form 10-K for the year ended December 31, 2012]
10.25	*	Second Amendment to Note Purchase Agreement, dated as of March 3, 2014 [Exhibit 10.32 to the Company's Form 10-K for the year ended December 31, 2013]
10.26	*	Second Amended and Restated Credit Agreement, dated October 28, 2015, by and among Granite Construction Incorporated, Granite Construction Company, GILC Incorporated, the lenders party thereto and Bank of America, N.A., as Administrative Agent, Collateral Agent, Swing Line Lender and L/C Issuer [Exhibit 10.26 to the Company's Form 10-K for the year ended December 31, 2015]
10.27	*	Second Amended and Restated Guaranty Agreement, dated October 28, 2015, by and among Granite Construction Incorporated, the guarantors party thereto and Bank of America, N.A., as Administrative Agent [Exhibit 10.26 to the Company's Form 10-K for the year ended December 31, 2015]
18.1	*	Preferability Letter from PricewaterhouseCoopers LLP [Exhibit 18 to the Company's Form 10-Q for quarter ended March 31, 2015]
21	†	List of Subsidiaries of Granite Construction Incorporated
23.1	†	Consent of PricewaterhouseCoopers LLP
31.1	†	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	†	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	††	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
95	†	Mine Safety Disclosure
101.INS	†	XBRL Instance Document
101.SCH	†	XBRL Taxonomy Extension Schema
101.CAL	†	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	†	XBRL Taxonomy Extension Definition Linkbase
101.LAB	†	XBRL Taxonomy Extension Label Linkbase
101.PRE	†	XBRL Taxonomy Extension Presentation Linkbase

* Incorporated by reference
** Compensatory plan or management contract
† Filed herewith
†† Furnished herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRANITE CONSTRUCTION INCORPORATED

By: /s/ Laurel J. Krzeminski
Laurel J. Krzeminski
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: February 16, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated and on the dates indicated.

/s/ William H. Powell William H. Powell, Chairman of the Board and Director	February 16, 2018
/s/ James H. Roberts James H. Roberts, President and Chief Executive Officer	February 16, 2018
/s/ Laurel J. Krzeminski Laurel J. Krzeminski	February 16, 2018
/s/ Claes G. Bjork Claes G. Bjork, Director	February 16, 2018
/s/ James W. Bradford, Jr. James W. Bradford, Jr., Director	February 16, 2018
/s/ David C. Darnell David C. Darnell, Director	February 16, 2018
/s/ Patricia D. Galloway Patricia D. Galloway, Director	February 16, 2018
/s/ David H. Kelsey David H. Kelsey, Director	February 16, 2018
/s/ Celeste B. Mastin Celeste B. Mastin, Director	February 16, 2018
/s/ Michael F. McNally Michael F. McNally, Director	February 16, 2018
/s/ Gaddi H. Vasquez Gaddi H. Vasquez, Director	February 16, 2018

CORPORATE INFORMATION

BOARD OF DIRECTORS

William H. Powell
Chairman of the Board
Retired Chairman and Chief Executive Officer, National Starch and Chemical Company

James H. Roberts
President and Chief Executive Officer, Granite Construction Incorporated

Claes G. Bjork
Retired Chief Executive Officer, Skanska AB, Sweden

James W. Bradford, Jr.
Retired Dean and Ralph Owen Professor for the Practice of Management, Owen School of Management, Vanderbilt University

David C. Darnell
Retired Vice Chairman of Global Wealth & Investment Management, Bank of America Corporation

Patricia D. Galloway
Chairman, Pegasus Global Holdings, Inc.

David H. Kelsey
Chief Financial Officer, Verdezyne, Inc.

Celeste B. Mastin
Chief Executive Officer
Petro Choice Lubrication Solutions

Michael F. McNally
Retired President and Chief Executive Officer, Skanska USA Inc.

Gaddi H. Vasquez
Senior Vice President of Government Affairs, Edison International and Southern California Edison

ANNUAL MEETING OF SHAREHOLDERS

Granite's Annual Meeting of Shareholders will be held at 10:30 a.m. PDT on June 7, 2018, at the Monterey Plaza Hotel, 400 Cannery Row, Monterey, CA 93940. Proxy materials are available on our website at graniteconstruction.com or upon written request to:

Investor Relations
Granite Construction Incorporated
Box 50085
Watsonville, CA 95077-5085

OFFICERS

James H. Roberts
President and Chief Executive Officer

Laurel J. Krzeminski
Executive Vice President and Chief Financial Officer

Richard A. Watts
Senior Vice President, General Counsel, Corporate Compliance Officer and Secretary

Philip M. DeCocco
Senior Vice President of Human Resources

Kyle T. Larkin
Senior Vice President and Group Manager

James D. Richards
Senior Vice President and Group Manager

Michael E. Stoecker
Senior Vice President and Group Manager

Dale A. Swanberg
Senior Vice President and Group Manager

Mathew C. Tyler
Senior Vice President and Group Manager

Jigisha Desai
Vice President, Treasurer and Assistant Financial Officer

Bradley G. Graham
Vice President, Controller and Assistant Financial Officer

DIVIDEND POLICY

The Company's Board of Directors has declared a quarterly cash dividend of $0.13 per share of common stock payable on April 13, 2018, to shareholders of record as of March 30, 2018. Declaration and payment of dividends are at sole discretion of the Board, subject to limitations imposed by Delaware law, and will depend on the Company's earnings, capital requirements, financial condition, and other such factors as the Board deems relevant.

ELECTRONIC DEPOSIT OF DIVIDENDS

Registered holders may have their quarterly dividends deposited to their checking or savings account free of charge. Call Computershare at (877) 520-8549 for U.S. residents, or (732) 491-0616 for non-U.S. residents to enroll.

FORM 10-K

A copy of the company's Annual Report on Form 10-K, which is filed with the Securities and Exchange Commission, is available free of charge on our website or upon written request to:

Investor Relations
Granite Construction Incorporated
Box 50085
Watsonville, CA 95077-5085

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP
Three Embarcadero Center
San Francisco, CA 94111

REGISTRAR AND TRANSFER AGENT

Computershare
250 Royall Street
Canton, MA 02021
(877) 520-8549 (U.S.)
(732) 491-0616 (non U.S.)

SHAREHOLDER INQUIRIES

Ronald E. Botoff
Vice President of Investor Relations & Government Affairs
(831) 728-7532
Ronald.Botoff@gcinc.com

CERTIFICATIONS

Granite's Chief Executive Officer (CEO) and Chief Financial Officer have each submitted certifications concerning the accuracy of financial and other information in Granite's Annual Report on Form 10-K, as required by Section 302(a) of the Sarbanes-Oxley Act of 2002.

After our 2018 Annual Meeting of Shareholders, we intend to file with the New York Stock Exchange (NYSE) the CEO certification regarding our compliance with the NYSE's corporate governance listing standards as required by NYSE Rule 303A.12(a). Last year's certification was filed on June 15, 2017.

GRANITE™

Corporate Office
585 West Beach Street
Watsonville, CA 95076
graniteconstruction.com

2018 WORLD'S MOST ETHICAL COMPANIES® ™
WWW.ETHISPHERE.COM

Granite has been recognized by the Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices, as one of the 2018 World's Most Ethical Companies. Granite has received this recognition nine consecutive years, and we are one of only two honorees in the Construction & Building Materials industry, underscoring their commitment to leading with integrity and prioritizing ethical business practices. The World's Most Ethical Companies assessment is based upon the Ethisphere Institute's Ethics Quotient® (EQ) framework, which offers a quantitative way to assess a company's performance in an objective, consistent and standardized manner.

Ethisphere has completed long-term analysis of stock prices of World's Most Ethical Companies publicly traded honorees compared to the U.S. Large Cap Index. Results at the end of 2017 reflect honorees that outperformed the large cap sector over five years by 10.72 percent and over three years by 4.88 percent.

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