GRANITE CONSTRUCTION INC
Form 10-K
February 16, 2018

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 1-12911
Granite Construction Incorporated
(Exact name of registrant as specified in its charter)

Delaware	77-0239383
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

585 West Beach Street	
Watsonville, California	95076
(Address of principal executive offices)	(Zip Code)

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

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

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x   Accelerated filer o   Non-accelerated filer o   Smaller reporting company o   Emerging growth company o
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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x
The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was $1.9 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.

Index

1

Table of Contents

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

PART I

Item 1. BUSINESS

Introduction

Granite Construction Company was originally incorporated in 1922. In 1990, Granite Construction Incorporated was formed as the holding company for Granite Construction Company and its wholly owned 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

7

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

- 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.

Table of Contents

- 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.

Table of Contents

- 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.

15

Table of Contents

- 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.

Table of Contents

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.

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.

Table of Contents

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

Quarry Properties	Type Sand & Gravel	Hard Rock	Permitted Aggregate Reserves (tons)	Unpermitted Aggregate Reserves (tons)	Three-Year Annual Average Production Rate (tons)	Average Reserve Life
Owned quarry properties	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.

		Permitted Reserves for Each Product Type (tons)		Percentage of Permitted Reserves Owned and Leased	
State	Number of Properties	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.

Table of Contents

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.

Table of Contents

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.

20

Table of Contents

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

n Granite Construction Incorporated u S&P 500 1DOW Jones U.S. History Construction
*$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

Table of Contents

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.

22

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

25

Table of Contents

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.

Table of Contents

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

Table of Contents

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).

Table of Contents

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	104,029	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.

29

Table of Contents

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.

Table of Contents

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.

Table of Contents

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	