

GRANITE CONSTRUCTION INC
Form 10-Q
May 05, 2011

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

FORM 10-Q

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-12911

GRANITE CONSTRUCTION INCORPORATED

State of Incorporation:
Delaware

I.R.S. Employer Identification Number:
77-0239383

Address of principal executive offices:
585 W. Beach Street
Watsonville, California 95076
(831) 724-1011

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ✓Yes oNo

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

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

Large accelerated filer ✓ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange

Act). " Yes ý No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 26, 2011.

Class	Outstanding
Common Stock, \$0.01 par value	38,640,740 shares

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (unaudited)

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

	March 31, 2011	December 31, 2010	March 31, 2010
ASSETS			
Current assets			
Cash and cash equivalents	\$ 240,768	\$ 252,022	\$ 222,095
Short-term marketable securities	83,084	109,447	76,963
Receivables, net	170,441	243,986	197,658
Costs and estimated earnings in excess of billings	33,302	10,519	33,445
Inventories	56,899	51,018	49,483
Real estate held for development and sale	77,128	75,716	137,183
Deferred income taxes	52,583	53,877	31,150
Equity in construction joint ventures	78,773	74,716	71,693
Other current assets	44,059	42,555	56,033
Total current assets	837,037	913,856	875,703
Property and equipment, net	468,929	473,607	519,909
Long-term marketable securities	46,251	34,259	90,440
Investments in affiliates	28,893	31,410	30,823
Other noncurrent assets	83,478	82,401	80,371
Total assets	\$ 1,464,588	\$ 1,535,533	\$ 1,597,246
LIABILITIES AND EQUITY			
Current liabilities			
Current maturities of long-term debt	\$ 8,351	\$ 8,359	\$ 8,350
Current maturities of non-recourse debt	17,740	29,760	40,565
Accounts payable	94,688	129,700	100,102
Billings in excess of costs and estimated earnings	113,347	120,185	142,935
Accrued expenses and other current liabilities	144,584	150,773	156,374
Total current liabilities	378,710	438,777	448,326
Long-term debt	216,852	217,014	225,203
Long-term non-recourse debt	30,454	25,337	16,895
Other long-term liabilities	47,943	47,996	52,471
Deferred income taxes	11,048	10,774	27,217
Commitments and contingencies			
Equity			
Preferred stock, \$0.01 par value, authorized 3,000,000 shares, none outstanding	-	-	-
Common stock, \$0.01 par value, authorized 150,000,000 shares; issued and	386	387	388

outstanding 38,634,470 shares as
of March 31, 2011, 38,745,542 shares as
of December 31, 2010 and 38,801,232
shares as of March 31, 2010

Additional paid-in capital	102,548	104,232	93,688
Retained earnings	642,354	656,412	689,634
Total Granite Construction Incorporated shareholders' equity	745,288	761,031	783,710
Noncontrolling interests	34,293	34,604	43,424
Total equity	779,581	795,635	827,134
Total liabilities and equity	\$ 1,464,588	\$ 1,535,533	\$ 1,597,246

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

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

Three Months Ended March 31,	2011	2010
Revenue		
Construction	\$ 92,692	\$ 81,186
Large project construction	137,820	106,325
Construction materials	23,798	26,164
Real estate	2,421	7,008
Total revenue	256,731	220,683
Cost of revenue		
Construction	87,139	79,340
Large project construction	106,522	96,842
Construction materials	31,068	33,289
Real estate	2,014	5,498
Total cost of revenue	226,743	214,969
Gross profit	29,988	5,714
Selling, general and administrative expenses	43,372	55,292
Gain on sales of property and equipment	2,704	4,452
Operating loss	(10,680)	(45,126)
Other income (expense)		
Interest income	1,244	939
Interest expense	(3,356)	(3,734)
Equity in loss of affiliates	(257)	(319)
Other income, net	570	2,897
Total other expense	(1,799)	(217)
Loss before benefit from income taxes	(12,479)	(45,343)
Benefit from income taxes	(5,223)	(7,613)
Net loss	(7,256)	(37,730)
Amount attributable to noncontrolling interests	(1,751)	(3,224)
Net loss attributable to Granite Construction Incorporated	\$ (9,007)	\$ (40,954)
Net loss per share attributable to common shareholders (see Note 13)		
Basic	\$ (0.24)	\$ (1.09)
Diluted	\$ (0.24)	\$ (1.09)
Weighted average shares of common stock		
Basic	37,963	37,688
Diluted	37,963	37,688
Dividends per common share	\$ 0.13	\$ 0.13

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

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

Three Months Ended March 31,	2011	2010
Operating activities		
Net loss	\$ (7,256)	\$ (37,730)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	15,291	18,662
Gain on sales of property and equipment	(2,704)	(4,452)
Change in deferred income taxes	1,568	(119)
Stock-based compensation	3,149	3,158
Gain on company owned life insurance	(550)	(1,829)
Changes in assets and liabilities, net of the effects of consolidations:		
Receivables	76,415	81,308
Inventories	(5,881)	(3,683)
Real estate held for development and sale	(1,715)	(1,687)
Equity in construction joint ventures	(4,057)	(4,631)
Other assets, net	(1,105)	(4,732)
Accounts payable	(35,012)	(31,469)
Accrued expenses and other liabilities, net	(7,846)	(1,218)
Billings in excess of costs and estimated earnings, net	(29,621)	(35,932)
Net cash provided by (used in) operating activities	676	(24,354)
Investing activities		
Purchases of marketable securities	(27,341)	(47,511)
Maturities of marketable securities	24,000	-
Proceeds from sale of marketable securities	14,268	-
Additions to property and equipment	(11,760)	(14,712)
Proceeds from sales of property and equipment	4,623	5,674
Purchase of private preferred stock	-	(6,400)
Distributions from affiliates	1,325	-
Other investing activities, net	(104)	(453)
Net cash provided by (used in) investing activities	5,011	(63,402)
Financing activities		
Proceeds from long-term debt	906	53
Long-term debt principal payments	(7,235)	(8,739)
Cash dividends paid	(5,038)	(5,023)
Purchase of common stock	(3,515)	(3,296)
Distributions to noncontrolling partners, net	(2,062)	(12,103)

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Other financing activities	3	3
Net cash used in financing activities	(16,941)	(29,105)
Decrease in cash and cash equivalents	(11,254)	(116,861)
Cash and cash equivalents at beginning of period	252,022	338,956
Cash and cash equivalents at end of period	\$ 240,768	\$ 222,095

Supplementary Information

Cash paid during the period for:

Interest	\$ 936	\$ 1,576
Income taxes	33	66
Non-cash investing and financing activities:		
Restricted stock/units issued, net of forfeitures	\$ 3,964	\$ 6,734
Accrued cash dividends	5,023	5,044
Debt payments from sale of assets	837	4,075

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

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

1. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by Granite Construction Incorporated (“we,” “us,” “our,” “Company” or “Granite”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted, although we believe the disclosures which are made are adequate to make the information presented not misleading. Further, the condensed consolidated financial statements reflect, in the opinion of management, all normal recurring adjustments necessary to present fairly our financial position at March 31, 2011 and 2010 and the results of our operations and cash flows for the periods presented. In preparing these financial statements, we have evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued. The December 31, 2010 condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP.

We prepared the accompanying condensed consolidated financial statements on the same basis as our annual consolidated financial statements. Interim results are subject to significant seasonal variations and the results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year.

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

2. Revisions in Estimates

Our profit recognition related to construction contracts is based on estimates of costs to complete each project. These estimates can vary in the normal course of business as projects progress and uncertainties are resolved. We do not recognize revenue on contract change orders or claims until we have a signed agreement; however, we do recognize costs as incurred and revisions to estimated total costs as soon as the obligation to perform is determined. Approved change orders and claims, as well as changes in related estimates of costs to complete, are considered revisions in estimates. We use the cumulative catch-up method applicable to construction contract accounting to account for revisions in estimates. Under this option, revisions in estimates are accounted for in their entirety in the period of change. As of March 31, 2011, we had no revisions in estimates that are reasonably certain to impact future periods.

Construction

There was one revision in estimate that individually had an impact of \$1.0 million or more on gross profit during the three months ended March 31, 2011. The impact to gross profit was a \$1.0 million increase and was primarily due to owner directed scope changes. There were no revisions in estimates related to our Construction segment, either increases or decreases, that individually had an impact by \$1.0 million or more on gross profit during the three months ended March 31, 2010.

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

Large Project Construction

The net changes in project profitability from revisions in estimates, both increases and decreases, that individually had an impact of \$1.0 million or more on gross profit was a net increase of \$5.9 million and a net decrease of \$2.8 million for the three months ended March 31, 2011 and 2010, respectively. Amounts attributable to noncontrolling interests were \$0.4 million of the net increase and \$0.7 million of the net decrease for the three months ended March 31, 2011 and 2010, respectively. The projects are summarized as follows:

Increases

(dollars in millions)	Three Months Ended March 31,	
	2011	2010
Number of projects with upward estimate changes	3	1
Range of increase in gross profit from each project, net	\$ 1.0 - 4.2	\$ 3.2
Increase on project profitability	\$ 8.8	\$ 3.2

The increases during the three months ended March 31, 2011 were due to resolution of project uncertainties. The increase during the three months ended March 31, 2010 was due to production at a higher rate than anticipated.

Decreases

(dollars in millions)	Three Months Ended March 31,	
	2011	2010
Number of projects with downward estimate changes	1	3
Range of reduction in gross profit from each project, net	\$ 2.9	\$ 1.1 - 2.9
Decrease on project profitability	\$ 2.9	\$ 6.0

The decrease during the three months ended March 31, 2011 was due to lower productivity than previously anticipated. The decreases during the three months ended March 31, 2010 were related to design issues as well as job level productivity due to site conditions different than anticipated.

On a large highway project in mountainous terrain in Oregon, unanticipated ground movement was observed at several hillsides beginning in 2010. In some locations, the ground movements have caused damage to completed portions of bridge structures. Although work on the project is continuing, the corrective work required to complete the project has not yet been determined. The Company and the project owner (Oregon Department of Transportation) are engaged in the contractual dispute resolution process to determine the parties' responsibilities for design issues and which party bears the financial responsibility for the corrective work. At this time, the Company cannot predict the timing of the resolution of this matter or reasonably estimate the impact, if any, that the resolution of this matter may have on the projected financial results for this project. If the required corrective work is determined to be substantial, and the Company is determined to bear the financial responsibility for the corrective work, the Company's results of operations and cash flows for one or more future periods could be materially and adversely affected. Due to the uncertainties described above, no revisions in estimates were made in the three months ended March 31, 2011 related to this project.

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

3. Marketable Securities

The carrying amounts of marketable securities were as follows (in thousands):

March 31, 2011	Held-to-Maturity		Trading		Total
U.S. Government and agency obligations	\$ 48,240		\$ -		\$ 48,240
Commercial paper	19,986		-		19,986
Municipal bonds	9,825		-		9,825
Corporate bonds		5,033		-	5,033
Total short-term marketable securities		83,084		-	83,084
U.S. Government and agency obligations		39,415		-	39,415
Municipal bonds		3,625		-	3,625
Corporate bonds	3,211		-		3,211
Total long-term marketable securities		46,251		-	46,251
Total marketable securities	\$	129,335	\$	-	\$ 129,335

December 31, 2010

U.S. Government and agency obligations	\$	40,047	\$	-	\$	40,047
Commercial paper		33,971		-		33,971
Municipal bonds		10,896		-		10,896
Corporate bonds		10,122		-		10,122
Equity securities - mutual funds		-		14,411		14,411
Total short-term marketable securities		95,036		14,411		109,447
U.S. Government and agency obligations		30,618		-		30,618
Municipal bonds		3,641		-		3,641
Total long-term marketable securities		34,259		-		34,259
Total marketable securities	\$	129,295	\$	14,411	\$	143,706

March 31, 2010

U.S. Government and agency obligations	\$	16,471	\$	-	\$	16,471
Commercial paper		34,979		-		34,979
Municipal bonds		20,975		-		20,975
Equity securities - mutual funds		-		4,538		4,538
Total short-term marketable securities		72,425		4,538		76,963
U.S. Government and agency obligations		84,760		-		84,760
Municipal bonds		5,680		-		5,680
		90,440		-		90,440

Total long-term marketable securities

Total marketable securities	\$	162,865	\$	4,538	\$ 167,403
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