GRANITE CONSTRUCTION INC
Form 10-Q
October 30, 2009

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2009

OR

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

Commission File Number: 1-12911

GRANITE CONSTRUCTION INCORPORATED

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

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 ý No ¨

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

Indicate by check mark 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 ý	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of October 26, 2009.

Class	Outstanding
Common Stock, $0.01 par value	38,658,847 shares

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	September 30, 2009	December 31, 2008	September 30, 2008
ASSETS			
Current assets			
Cash and cash equivalents	$ 371,434	$ 460,843	$ 281,046
Short-term marketable securities	27,798	38,320	101,112
Accounts receivable, net	382,572	314,733	480,315
Costs and estimated earnings in excess of billings	38,011	13,295	34,759
Inventories, net	51,972	55,223	61,342
Real estate held for development and sale	135,306	75,089	52,165
Deferred income taxes	43,356	43,637	46,233
Equity in construction joint ventures	58,450	44,681	45,219
Other current assets	41,185	56,742	65,182
Total current assets	1,150,084	1,102,563	1,167,373
Property and equipment, net	530,661	517,678	522,733
Long-term marketable securities	62,612	21,239	30,209
Investments in affiliates	21,309	19,996	27,518
Other noncurrent assets	80,233	81,979	73,696
Total assets	$ 1,844,899	$ 1,743,455	$ 1,821,529
LIABILITIES AND EQUITY			
Current liabilities			
Current maturities of long-term debt	$ 68,194	$ 39,692	$ 34,886
Accounts payable	211,670	174,626	234,126
Billings in excess of costs and estimated earnings	187,205	227,364	251,402
Accrued expenses and other current liabilities	209,806	184,939	227,611
Total current liabilities	676,875	626,621	748,025
Long-term debt	233,582	250,687	246,487
Other long-term liabilities	48,884	43,604	46,178
Deferred income taxes	17,917	18,261	18,733
Commitments and contingencies			
Equity			
Preferred stock, $0.01 par value, authorized 3,000,000 shares, none outstanding	-	-	-
Common stock, $0.01 par value, authorized 150,000,000 shares; issued and outstanding 38,669,447 shares as	387	383	383

of September 30, 2009, 38,266,791 shares as of December 31, 2008 and 38,264,058 shares as of September 30, 2008			
Additional paid-in capital	92,356	85,035	83,041
Retained earnings	724,621	682,237	655,287
Accumulated other comprehensive loss	-	(146)	(3,334)
Total Granite Construction Inc. shareholders' equity	817,364	767,509	735,377
Noncontrolling interests	50,277	36,773	26,729
Total equity	867,641	804,282	762,106
Total liabilities and equity	$ 1,844,899	$ 1,743,455	$ 1,821,529

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue				
Construction	$ 647,776	$ 771,941	$ 1,368,111	$ 1,755,457
Construction materials	71,527	124,478	158,688	283,321
Real estate	981	1,369	1,932	8,142
Total revenue	720,284	897,788	1,528,731	2,046,920
Cost of revenue				
Construction	549,053	643,531	1,123,038	1,437,093
Construction materials	64,528	109,068	145,991	247,959
Real estate	1,531	887	3,272	9,846
Total cost of revenue	615,112	753,486	1,272,301	1,694,898
Gross profit	105,172	144,302	256,430	352,022
General and administrative expenses	60,465	71,933	169,766	198,344
Gain on sales of property and equipment	1,549	2,008	6,878	4,564
Operating income	46,256	74,377	93,542	158,242
Other income (expense)				
Interest income	744	5,439	3,914	15,087
Interest expense	(4,245)	(5,303)	(10,586)	(12,871)
Equity in income (loss) of affiliates	4,021	(1,257)	4,360	(1,436)
Other income, net	3,062	549	8,278	9,196
Total other income (expense)	3,582	(572)	5,966	9,976
Income before provision for income taxes	49,838	73,805	99,508	168,218
Provision for income taxes	13,300	21,473	26,316	46,681
Net income	36,538	52,332	73,192	121,537
Amount attributable to noncontrolling interests	(5,940)	(594)	(15,725)	(31,058)
Net income attributable to Granite Construction Inc.	$ 30,598	$ 51,738	$ 57,467	$ 90,479
Net income per share attributable to common shareholders (see Note 13)				
Basic	$ 0.79	$ 1.35	$ 1.49	$ 2.35
Diluted	$ 0.79	$ 1.35	$ 1.49	$ 2.35
Weighted average shares of common stock				
Basic	37,595	37,430	37,552	37,664

Diluted	37,709	37,557	37,670	37,760
Dividends per common share	$ 0.13	$ 0.13	$ 0.39	$ 0.39

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)

Nine Months Ended September 30,	2009	2008
Operating activities		
Net income	$ 73,192	$ 121,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment of real estate held for development and sale	1,686	4,500
Depreciation, depletion and amortization	59,048	64,036
(Recovery of) provision for doubtful accounts, net	(3,844)	8,914
Gain on sales of property and equipment	(6,878)	(4,564)
Change in deferred income taxes	(518)	1,116
Stock-based compensation	7,869	5,135
Excess tax benefit on stock-based compensation	(670)	(743)
Gain from trading securities	(431)	-
Equity in (income) loss of affiliates	(4,360)	1,436
Acquisition of noncontrolling interest	-	(16,616)
Changes in assets and liabilities, net of the effects of acquisition and consolidations:		
Accounts receivable, net	(61,943)	(85,557)
Inventories, net	3,251	(4,083)
Real estate held for development and sale	(13,359)	(13,425)
Equity in construction joint ventures	(13,769)	(10,879)
Other assets, net	13,630	34,698
Accounts payable	36,939	20,991
Accrued expenses and other liabilities, net	32,615	19,650
Billings in excess of costs and estimated earnings	(64,875)	(41,249)
Net cash provided by operating activities	57,583	104,897
Investing activities		
Purchases of marketable securities	(61,974)	(68,732)
Maturities of marketable securities	32,610	64,090
Release of funds for acquisition of noncontrolling interest	-	28,332
Additions to property and equipment	(75,773)	(76,098)
Proceeds from sales of property and equipment	10,089	12,253
Acquisition of businesses	-	(14,022)
Contributions to affiliates	(4,969)	(5,345)
Issuance of notes receivable	(4,270)	-

Other investing activities		450		626
Net cash used in investing activities		(103,837)		(58,896)
Financing activities				
Proceeds from long-term debt		8,384		2,660
Long-term debt principal payments		(18,139)		(15,748)
Cash dividends paid		(15,031)		(15,081)
Purchase of common stock		(2,840)		(45,489)
Contributions from noncontrolling partners		239		4,955
Distributions to noncontrolling partners		(16,490)		(37,713)
Acquisition of noncontrolling interest		-		(11,716)
Excess tax benefit on stock-based compensation		670		743
Other financing		52		-
Net cash used in financing activities		(43,155)		(117,389)
Decrease in cash and cash equivalents		(89,409)		(71,388)
Cash and cash equivalents at beginning of period		460,843		352,434
Cash and cash equivalents at end of period	$	371,434	$	281,046

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 (continued)
(Unaudited - in thousands)

Nine Months Ended September 30,	2009		2008	
Supplementary Information				
Cash paid during the period for:				
Interest	$	11,883	$	9,204
Income taxes		13,964		37,848
Non-cash investing and financing activities:				
Restricted stock issued for services, net	$	19,164	$	6,934
Restricted stock units issued		47		3,208
Accrued cash dividends		5,027		4,974
Assets acquired through issuances of debt		-		2,660
Debt payments from sale of assets		-		2,652

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

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

1. Basis of Presentation:

The condensed consolidated financial statements included herein have been prepared by Granite Construction Incorporated ("we," "us," "our" or "Granite") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008. 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 September 30, 2009 and 2008 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 October 29, 2009, the date the financial statements were issued. The December 31, 2008 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 except for the adoption, in the first quarter of 2009, of two new accounting standards. One of the standards clarified that noncontrolling interests, formerly characterized as minority interests, should be reported as equity on the condensed consolidated balance sheets and requires net income or loss attributable to both the parent and noncontrolling interests to be disclosed separately in the condensed consolidated statements of income. This standard became effective for us on January 1, 2009 and requires prior year amounts related to noncontrolling interests to be reclassified to conform to current year presentation. In addition, it requires a reconciliation of the carrying amount of equity attributable to Granite and the amount of equity attributable to the noncontrolling interests. The second new standard clarified that all outstanding unvested share-based payment awards which contain nonforfeitable rights to dividends, whether paid or unpaid, shall be included in the number of shares outstanding in our basic and diluted earnings per share ("EPS") calculations (see Note 13).

Interim results are subject to significant seasonal variations and the results of operations for the three and nine months ended September 30, 2009 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. Recently Issued Accounting Pronouncements:

Investments - Other-Than-Temporary Impairments on Debt and Equity Securities
In April 2009, the FASB issued new accounting standards to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The standards do not amend existing recognition and measurement guidance. We did not recognize any other-than-temporary impairment on our debt securities during the nine months ended September 30, 2009 and, therefore, the new standards did not affect our financial statements. If we recognize any other-than-temporary impairment on our debt securities in the future, these standards would provide guidance for footnote disclosures.

Fair Value of Financial Instruments
In April 2009, the FASB issued new accounting standards that require disclosures about fair value of financial instruments for interim and annual reporting periods. We adopted these standards in the second quarter of 2009 and additional disclosure about our financial instruments is included in Note 6.

Consolidation of Variable Interest Entities
In June 2009, the FASB issued a new standard requiring ongoing analysis to determine whether a company holds a controlling financial interest in a variable interest entity (“VIE”). The standard includes a new approach for determining who should consolidate a VIE, requiring a qualitative rather than a quantitative analysis. This standard also changes when it is necessary to reassess who should consolidate a VIE. Previously an enterprise was required to reconsider whether it was the primary beneficiary of a VIE only when specific events had occurred. The new standard requires continuous reassessment of an enterprise’s interest in the VIE to determine who is the primary beneficiary. This statement will be effective for us in 2010. We do not expect the adoption of this accounting standard to have a material impact on our consolidated financial statements.

Codification
In June 2009, the FASB issued a new standard, the “Codification”, which was effective September 15, 2009 and became the source of authoritative U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. Subsequent issuances of new standards will be in the form of Accounting Standards Updates that will be included in the Codification. Generally, the Codification is not expected to change U.S. GAAP. All other accounting literature excluded from the Codification will be considered nonauthoritative. We adopted this standard in the third quarter of 2009 and, accordingly, changed references to authoritative accounting literature included in our financial statements to be in accordance with the Codification.

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

3. Change in Accounting Estimates:

Our profit recognition related to construction contracts in any reporting period is derived from estimates of project revenue and costs. Variations in project profitability due to the impact of estimating project uncertainties are a normal part of our business, and in some cases the effect of these variations on our profitability may be significant. Our gross profit for the three and nine months ended September 30, 2009 and 2008 includes the effects of significant changes in the estimates of the profitability of certain projects.

Granite West

The net impact of significant changes in the estimates of profitability on Granite West projects was to increase gross profit for the three and nine months ended September 30, 2009 and 2008 as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2009	2008	2009	2008
Increase in gross profit	$ 24.6	$ 26.6	$ 51.2	$ 65.2
Reduction in gross profit	(10.8)	(7.8)	(11.1)	(11.9)
Net increase in gross profit	$ 13.8	$ 18.8	$ 40.1	$ 53.3

Changes in estimates of project profitability on Granite West projects that individually affected gross profit by $1.0 million or more are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions)	2009	2008	2009	2008
Number of projects with upward estimate changes	4	6	18	11
Range of increase in gross profit from each project, net	$ 1.4 - 3.8	$ 1.5 - 5.1	$ 1.0 - 3.8	$ 1.2 - 18.4
Number of projects with downward estimate changes	1	2	1	2
Range of reduction in gross profit from each project, net	$ 6.1	$ 1.1 - 1.7	$ 6.1	$ 1.1 - 3.0

The increased profitability estimates during the three and nine months ended September 30, 2009 and 2008 were due to the resolution of certain project uncertainties, higher productivity than originally estimated and the settlement of outstanding issues with contract owners. The decreased profitability estimates during the three and nine months ended September 30, 2009 were due to unanticipated costs, disputed materials performance issues, and owner directed design and scope changes. The decreased profitability estimates during the three and nine months ended September 30, 2008 were due to lower production than originally estimated.

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

Granite East

The net impact of significant changes in the estimates of profitability on Granite East gross profit was to increase gross profit for the three and nine months ended September 30, 2009 and 2008 as follows:

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Increase in gross profit	$ 8.1	$ 12.1	$ 42.4	$ 68.6
Reduction in gross profit	(4.7)	(6.2)	(8.0)	(16.1)
Net increase in gross profit	$ 3.4	$ 5.9	$ 34.4	$ 52.5

Changes in estimates of project profitability on Granite East projects that individually affected gross profit by $1.0 million or more are summarized as follows:

(dollars in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Number of projects with upward estimate changes	1	4	7	6
Range of increase in gross profit from each project, net	$ 2.2	$ 1.1 - 2.8	$ 1.5 - 18.0	$ 1.2 - 32.2
Number of projects with downward estimate changes	1	2	3	3
Range of reduction in gross profit from each project, net	$ 2.0	$ 2.0 - 2.3	$ 1.7 - 2.0	$ 1.4 - 4.0

The increased profitability estimates during the three and nine months ended September 30, 2009 and 2008 included resolution of project uncertainties, the settlement of outstanding revenue issues with various contract owners and improved productivity on certain projects. Specifically included in gross profit for the nine months ended September 30, 2009 and 2008 are the results of negotiated claims settlements with contract owners of $16.0 million and $28.6 million, respectively. The decreased profitability estimates during the three and nine months ended September 30, 2009 and 2008 were due to issues with contract owners as well as job level productivity.

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

4. Marketable Securities:

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

September 30, 2009	Held to Maturity	Trading Securities	Available-for -Sale	Total
Municipal bonds	$ 18,371	$ -	$ -	$ 18,371
Mutual funds	-	9,427	-	9,427
Total short-term marketable securities	18,371	9,427	-	27,798
US Government and agency obligations	50,877	-	-	50,877
Municipal bonds	11,735	-	-	11,735
Total long-term marketable securities	62,612	-	-	62,612
Total marketable securities	$ 80,983	$ 9,427	$ -	$ 90,410
December 31, 2008				
US Government and agency obligations	$ 20,194	$ -	$ -	$ 20,194
Municipal bonds	17,090	-	-	17,090
Mutual funds	-	-	1,036	1,036
Total short-term marketable securities	37,284	-	1,036	38,320
US Government and agency obligations	43	-	-	43
Municipal bonds	21,196	-	-	21,196
Total long-term marketable securities	21,239	-	-	21,239
Total marketable securities	$ 58,523	$ -	$ 1,036	$ 59,559
September 30, 2008				
US Government and agency obligations	$ 26,057	$ -	$ -	$ 26,057
Municipal bonds	12,722	-	-	12,722
Commercial paper	33,892	-	-	33,892
Mutual funds	-	-	28,441	28,441
Total short-term marketable securities	72,671	-	28,441	$ 101,112
US Government and agency obligations	7,573	-	-	7,573
Municipal bonds	22,636	-	-	22,636
Commercial paper	-	-	-	-
Total long-term marketable securities	30,209	-	-	30,209
Total marketable securities	$ 102,880	$ -	$ 28,441	$ 131,321

Short-term investments on our condensed consolidated balance sheet are marketable securities for which we do not have the positive intent to hold to maturity have been designated as trading or available-for-sale securities. Trading securities are carried at fair value with unrealized gains and losses reported in other income, net. Available-for-sale securities are carried at fair value with the unrealized gains and losses, net of income taxes, reported as a separate component of other comprehensive income until realized. Held to maturity securities are carried at amortized cost, which approximates fair value.

At September 30, 2009, scheduled maturities of held-to-maturity investments were as follows (in thousands):

Due within one year	$ 18,371
Due in one to five years	62,612
Total	$ 80,983

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

5. Fair Value Measurement:

The following tables summarize financial assets we measure at fair value on a recurring basis (in thousands):

	Fair Value Measurement at Reporting Date Using			
September 30, 2009	Level 1[1]	Level 2[2]	Level 3[3]	Total
Money market funds	$ 214,312	$ -	$ -	$ 214,312
Trading securities	9,427	-	-	9,427
Total	$ 223,739	$ -	$ -	$ 223,739

December 31, 2008	Level 1[1]	Level 2[2]	Level 3[3]	Total
Money market funds	$ 433,121	$ -	$ -	$ 433,121
Available-for-sale securities	1,036	-	-	1,036
Total	$ 434,157	$ -	$ -	$ 434,157

September 30, 2008	Level 1[1]	Level 2[2]	Level 3[3]	Total
Money market funds	$ 192,490	$ -	$ -	$ 192,490
Available-for-sale securities	28,441	-	-	28,441
Total	$ 220,931	$ -	$ -	$ 220,931

1Quoted prices in active markets for identical assets or liabilities.
2Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
3Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Money market funds are included in cash and cash equivalents on our condensed consolidated balance sheet.

Effective in the quarter ended March 31, 2009, we applied the new standard for financial instruments to nonfinancial assets and liabilities that are recognized and disclosed at fair value on a non-recurring basis. As of September 30, 2009, nonfinancial assets or liabilities measured at fair value consisted of our asset retirement obligations, which are initially measured at fair value using internal discounted cash flow calculations based upon our estimates of future retirement costs. The adoption of this standard did not impact our financial position or results of operations.

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

6. Fair Value of Other Financial Instruments:

As of June 30, 2009, we adopted a new standard that requires quarterly fair value disclosures for financial instruments in addition to the annual disclosure. We believe the carrying value of receivables, other current assets, and other current liabilities approximate their fair values.

The carrying amount and estimated fair value of senior notes payable were:

(in thousands)	September 30, 2009	December 31, 2008
Carrying amount:		
Senior notes payable (including current maturities)	$ 240,000	$ 255,000
Fair value:		
Senior notes payable (including current maturities)	$ 254,423	$ 200,851

The fair value of the senior notes payable was based on borrowing rates available to us for bank loans with similar terms, average maturities, and credit risk.

7.Inventories:

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

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

8. Construction and Line Item Joint Ventures:

We participate in various construction joint venture partnerships. We also participate in various “line item” joint venture agreements under which each partner is responsible for performing certain discrete items within the total scope of contracted work.

Our agreements with our joint venture partners for both construction joint ventures and line item joint ventures provide that each party will assume and pay its share of any losses resulting from a project. If one of our partners is unable to pay its share, we would be fully liable under our contract with the project owner. Circumstances that could lead to a loss under our joint venture arrangements beyond our stated ownership interest include a partner’s inability to contribute additional funds to the venture in the event the project incurs a loss or additional costs that we could incur should a partner fail to provide the services and resources toward project completion that had been committed to in the joint venture agreement.

At September 30, 2009, approximately $984.2 million of work representing our partners’ share of unconsolidated construction joint ventures and line item joint venture contracts in progress had yet to be completed.

Construction Joint Ventures

Generally, each construction joint venture is formed to accomplish a specific project and is jointly controlled by the joint venture partners. The joint venture agreements typically provide that our 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. We have no significant commitments beyond completion of the contract.

We have determined that certain of these joint ventures are VIEs as defined by FASB Accounting Standards Codification (“ASC”) Topic 810 Interpretation, Consolidation, and related standards. Under our contractual arrangements, we provide capital to these joint ventures and in return we receive an ownership interest in these entities. Under the “by design model,” as specified in ASC 810, these entities’ risks are designed to be passed along to the holders of variable interests. As we absorb these risks, our investments in these entities are exposed to potential losses. Typically, the determining factor in whether we are the primary beneficiary is the extent of our exposure to variability in the expected cash flows of the entity. Other important criteria that impact the outcome of the analysis are the relationship of activities of the VIE with each party; the significance of the VIE’s activity to each of the parties; and the amount of equity investment as a percentage of total capitalization.

If we have determined that we are the primary beneficiary, we have consolidated these joint ventures in our condensed consolidated financial statements. The construction joint ventures we have consolidated are engaged in two active projects with total contract values of $434.2 million and $466.5 million. Our proportionate share of these consolidated joint ventures is 52.5% and 57.3%.

We account for our share of the operations of construction joint ventures in which we have determined we are not the primary beneficiary on a pro rata basis in the condensed consolidated statements of income and as a single line item on the condensed consolidated balance sheets. The joint ventures in which we hold a significant interest but are not the primary beneficiary are engaged in six active construction projects with total contract values ranging from $109.1 million to $987.3 million. Our proportionate share of equity in these joint ventures ranges from 20.0% to 42.5%.

Each quarter, we evaluate whether certain "reconsideration events" have occurred which cause us to reevaluate our conclusions as to whether an entity is a VIE and whether we are the primary beneficiary. During the quarter ended September 30, 2009, there were no entities for which we became the primary beneficiary, and accordingly, there were no new entities consolidated in our condensed consolidated financial statements.

Line Item Joint Ventures

The revenue for each line item joint venture partner's discrete items of work is defined in the contract with the project owner and each venture partner bearing the profitability risk associated with its own work. There is not a single set of books and records for a line item joint venture. Each partner accounts for its items of work individually as it would for any self-performed contract. We account for our portion of these contracts as project revenues and costs in our accounting system and include receivables and payables associated with our work in our condensed consolidated financial statements.

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9.Real Estate Entities and Investments in Affiliates:

We are participants in real estate entities through our Granite Land Company ("GLC") subsidiary. Generally, each entity is formed to accomplish a specific real estate development project. We have determined that substantially all of these entities are VIEs as defined by ASC Topic 810, and related standards. When we have determined we are the primary beneficiary of a VIE, as described in Note 8, we consolidate that entity in our condensed consolidated financial statements. We account for our share of the operating results of real estate entities in which we have determined we are not the primary beneficiary as investments in affiliates on our condensed consolidated balance sheets and in other income (expense) in our condensed consolidated statements of income.

As discussed in Note 8, each quarter, we evaluate whether certain "reconsideration events" have occurred which cause us to reevaluate our conclusions as to whether an entity is a VIE and whether we are the primary beneficiary. During the quarter ended September 30, 2009, there were no entities for which we became the primary beneficiary, and accordingly, there were no new real estate entities consolidated in our condensed consolidated financial statements.

GLC routinely assists its consolidated and equity-method real estate entities in securing debt financing from various sources. The amount of financial support to be provided by GLC to consolidated VIEs was increased by $8.2 million to date in 2009 and by $7.5 million in 2008 as a result of changes in the entities' business plans. These amounts represent additional financial support in the form of current or future cash contributions to the consolidated entities, beyond what GLC had previously committed to provide. As of September 30, 2009, $8.5 million of the total increased commitment of $15.7 million had been contributed to the consolidated entities.

The carrying amounts of all real estate development assets are evaluated for recoverability in accordance with ASC Topic 360, Property, Plant, and Equipment. Based on our evaluations, we recognized a pre-tax, non-cash impairment charge on assets classified as real estate held for development and sale of $0.7 million and $1.7 million during the three and nine months ended September 30, 2009, respectively. We recorded the charge in cost of revenue in our condensed consolidated statements of income in our GLC segment. We recognized no impairment charge during the quarter ended September 30, 2008 and $4.5 million for the nine months ended September 30, 2008.

Our agreements with our partners in our real estate entities define the management role of each partner and each partner's financial responsibility in a residential and commercial project. If one of our partners is unable to make its required contribution or fulfill its management role, we may assume full financial and management responsibility for the project. For entities that are currently accounted for under the equity method, this may result in their consolidation in our financial statements.

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Consolidated Real Estate Entities

At September 30, 2009, the entities we have consolidated were engaged in residential and commercial development projects with total assets ranging from approximately $0.8 million to $45.3 million.

The breakdown by type and location of our real estate held for development and sale is summarized below:

(in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Residential[1]	$ 117,888	$ 65,298	$ 42,576
Commercial	17,418	9,791	9,589
Total	$ 135,306	$ 75,089	$ 52,165
Washington	$ 78,803	$ 30,126	$ 29,134
California	19,589	11,155	15,153
Texas	8,458	8,004	7,878
Oregon	28,456	25,804	-
Total	$ 135,306	$ 75,089	$ 52,165

[1]The balances at September 30, 2009 and December 31, 2008 include $44.5 million and $25.8 million related to two entities that were consolidated during those respective periods.

Additionally, at September 30, 2009 we had $14.8 million in real estate held for use included in property and equipment on our condensed consolidated balance sheet related to consolidated real estate entities. Of the combined total of real estate held for development, sale and use of $150.1 million, approximately $143.7 million was pledged as collateral for the obligations of the real estate entities. The related debt totaled $61.5 million of which $53.2 million is included in current maturities of long-term debt and $8.3 million is included in long-term debt on our condensed consolidated balance sheet as of September 30, 2009. All outstanding debt of the real estate entities is recourse only to our real estate affiliates that incurred the debt, the limited partnership or limited liability company, of which we are a limited partner. Our proportionate share of the results of these entities varies depending on the ultimate profitability of the entities.

Investments in Affiliates

We account for entities where we have determined we are not the primary beneficiaries as investments in affiliates. At September 30, 2009, these entities were engaged in real estate development projects with total assets ranging from approximately $6.4 million to $50.1 million. Our proportionate share of the operating results of these entities varies depending on the ultimate profitability of the entities. At September 30, 2009 we had approximately $13.3 million recorded on our condensed consolidated balance sheet related to our investment in these real estate entities.

Additionally, we have non-real estate investments in affiliates that are accounted for using the equity method. The most significant of these investments is a 50% interest in a limited liability company which owns and operates an asphalt terminal in Nevada. Committed and outstanding advances to the asphalt terminal limited liability company totaled $4.9 million at September 30, 2009. We are not aware of any joint ventures where we would be obligated to perform our partner’s share of remaining work. However, future changes in the financial viability of our joint venture partners could require us to perform their work or make additional financial contributions to the joint venture entity.

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Our investments in affiliates balance consists of the following:

(in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Equity method investments in real estate affiliates	$13,343	$16,308	$19,797
Equity method investments in other affiliates	7,966	3,688	3,550
Total equity method investments	21,309	19,996	23,347
Cost method investments	-	-	4,171
Total investments in affiliates	$21,309	$19,996	$27,518

The breakdown by type and location of our investments in real estate ventures is summarized below:

(in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Residential	$ 8,779	$ 11,648	$ 15,162
Commercial	4,564	4,660	4,635
Total	$ 13,343	$ 16,308	$ 19,797
Texas	$ 13,343	$ 12,283	$ 12,169
Oregon	-	-	4,766
Washington	-	4,025	2,862
Total	$ 13,343	$ 16,308	$ 19,797

The following table provides summarized balance sheet information for our affiliates on a combined 100% basis, which primarily relate to our real estate affiliates accounted for under the equity method:

(in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Total assets	$ 169,134	$ 196,702	$ 197,591
Net assets	78,572	90,867	91,985
Granite’s share of net assets	21,309	19,996	23,347

Substantially all the assets of these real estate entities in which we are participants through GLC are classified as real estate held for sale or use. All outstanding debt of these entities is non-recourse to Granite. However, there is recourse to our real estate affiliates that incurred the debt. Our real estate affiliates include a limited partnership or limited liability company of which we are a limited partner or shareholder.

10. Property and Equipment, net:

Balances of major classes of assets and allowances for depreciation and depletion are included in property and equipment, net on our condensed consolidated balance sheets as follows:

(in thousands)	September 30, 2009	December 31, 2008	September 30, 2008

Land and land improvements	$ 134,389	$ 119,576	$ 115,389
Quarry property	146,529	141,638	140,917
Buildings and leasehold improvements	95,630	94,579	92,661
Equipment and vehicles	850,114	843,045	846,629
Office furniture and equipment	38,287	35,021	33,262
Property and equipment	1,264,949	1,233,859	1,228,858
Less: accumulated depreciation and depletion	(734,288)	(716,181)	(706,125)
Property and equipment, net	$ 530,661	$ 517,678	$ 522,733

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11. Intangible Assets:

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

Unamortized intangible assets:

(in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Goodwill	$ 9,900	$ 9,900	$ 9,900
Use rights	2,954	2,954	2,954
Total unamortized intangible assets	$ 12,854	$ 12,854	$ 12,854

Amortized intangible assets:

September 30, 2009 (in thousands)	Gross Value	Accumulated Amortization	Net Value
Permits	$ 36,070	$ (5,041)	$ 31,029
Trade names	158	(51)	107
Covenants not to compete	1,588	(1,003)	585
Customer lists and other	3,122	(1,636)	1,486
Total amortized intangible assets	$ 40,938	$ (7,731)	$ 33,207
December 31, 2008 (in thousands)			
Permits	$ 36,070	$ (3,698)	$ 32,372
Trade names	1,583	(1,352)	231
Covenants not to compete	1,588	(695)	893
Customer lists and other	3,725	(1,684)	2,041
Total amortized intangible assets	$ 42,966	$ (7,429)	$ 35,537
September 30, 2008 (in thousands)			
Permits	$ 36,070	$ (3,249)	$ 32,821
Trade names	1,583	(1,256)	327
Covenants not to compete	1,588	(593)	995
Customer lists and other	3,725	(1,452)	2,273
Total amortized intangible assets	$ 42,966	$ (6,550)	$ 36,416

Amortization expense related to intangible assets was approximately $0.7 million and $2.3 million for the three and nine months ended September 30, 2009, respectively, and approximately $0.9 million and $2.5 million for the three and nine months ended September 30, 2008, respectively. Amortization expense expected to be recorded in the future is as follows: $0.7 million for the balance of 2009, $2.5 million in 2010, $2.3 million in 2011, $2.2 million in 2012, $1.9 million in 2013 and $23.6 million thereafter.

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12. Weighted Average Common Shares Outstanding:

A reconciliation of the weighted average shares outstanding used in calculating basic and diluted net income per share in the condensed consolidated statements of income is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2009	2008	2009	2008
Weighted average shares outstanding:				
Weighted average common stock outstanding	38,672	38,272	38,560	38,486
Less: weighted average unvested restricted stock outstanding	1,077	842	1,008	822
Total basic weighted average shares outstanding	37,595	37,430	37,552	37,664
Diluted weighted average shares outstanding:				
Weighted average common stock outstanding, basic	37,595	37,430	37,552	37,664
Effect of dilutive securities:				
Common stock options and units	114	127	118	96
Total weighted average shares outstanding assuming dilution	37,709	37,557	37,670	37,760

13. Earnings Per Share:

The FASB issued a new standard that requires entities to apply the two-class method of computing basic and diluted EPS for awards that accrue cash dividends (whether paid or unpaid) and those dividends do not need to be returned to the entity if the employee forfeits the award. Awards of this nature are considered participating securities and are included in the computation of EPS. This new standard became effective for us on January 1, 2009 and requires retroactive application to all prior period EPS. Unvested restricted stock issued under the Amended and Restated 1999 Equity Incentive Plan carries nonforfeitable dividend rights.

EPS under the two-class method is calculated by dividing the sum of earnings allocated to common shareholders by the weighted average number of common shares outstanding during the period. In applying the two-class method, earnings are allocated to both common shares and unvested restricted stock, except when in a net loss position.

Diluted earnings per share is computed giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares consist of the incremental common shares issuable upon the exercise of stock options and conversion of stock units. Prior to the adoption of this new standard, unvested restricted stock units were included in the calculation of diluted net income per share using the treasury stock method.

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The following is a reconciliation of net income attributable to Granite and weighted average shares of common stock outstanding for calculating basic and diluted net income per share:

(in thousands, except per share amounts)	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Basic				
Numerator:				
Net income attributable to Granite	$30,598	$ 51,738	$57,467	$90,479
Less: net income allocated to participating securities	849	1,135	1,487	1,918
Net income allocated to common shareholders for basic calculation	$29,749	$ 50,603	$55,980	$88,561
Denominator:				
Weighted average common shares outstanding	37,595	37,430	37,552	37,664
Net income per share, basic	$0.79	$ 1.35	$1.49	$2.35
Diluted				
Numerator:				
Net income attributable to Granite	$30,598	$ 51,738	$57,467	$90,479
Less: net income allocated to participating securities	846	1,131	1,482	1,914
Net income allocated to common shareholders for diluted calculation	$29,752	$ 50,607	$55,985	$88,565
Denominator:				
Weighted average common shares outstanding	37,709	37,557	37,670	37,760
Net income per share, diluted	$0.79	$ 1.35	$1.49	$2.35

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14. Equity and Other Comprehensive Income (Loss):

The following tables summarize our equity activity for the periods presented, in accordance with the adoption of the new standard that requires a reconciliation of the carrying amount of equity attributable to Granite and the amount of equity attributable to the noncontrolling interests:

(in thousands)	Granite Construction Inc.	Noncontrolling Interests	Total Equity
Balance at December 31, 2008	$ 767,509	$ 36,773	$ 804,282
Purchase of common stock1	(2,840)	-	(2,840)
Amortization of restricted stock and other	10,165	-	10,165
Transactions with noncontrolling interests, net	-	(2,221)	(2,221)
Comprehensive income:			
Net income	57,467	15,725	73,192
Other comprehensive income	146	-	146
Total comprehensive income	57,613	15,725	73,338
Dividends on common stock	(15,083)	-	(15,083)
Balance at September 30, 2009	$ 817,364	$ 50,277	$ 867,641

(in thousands)	Granite Construction Inc.	Noncontrolling Interests	Total Equity
Balance at December 31, 2007	$ 700,199	$ 23,471	$ 723,670
Purchase of common stock2	(45,489)	-	(45,489)
Amortization of restricted stock and other	9,546	-	9,546
Transactions with noncontrolling interests, net	-	(27,800)	(27,800)
Comprehensive income:			
Net income	90,479	31,058	121,537
Other comprehensive (loss)	(4,432)	-	(4,432)
Total comprehensive income	86,047	31,058	117,105
Dividends on common stock	(14,926)	-	(14,926)
Balance at September 30, 2008	$ 735,377	$ 26,729	$ 762,106

1Represents 78,349 shares purchased in connection with employee tax withholding for shares vested.
2Includes 76,237 shares purchased in connection with employee tax withholding for shares vested and 1,364,370 shares purchased under our share repurchase program.

The components of other comprehensive income (loss) are as follows:

(in thousands)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Other comprehensive income (loss):				
	$ -	$ (3,931)	$ 238	$ (7,280)

Changes in unrealized gain (loss) on investments				
Tax (provision) benefit on unrealized gain (loss)	-	1,538	(92)	2,848
Total other comprehensive income (loss)	$ -	$ (2,393)	$ 146	$ (4,432)

The decreases in unrealized gains (losses) during the three and nine months ended September 30, 2009 were due to a reduction in the balance of our available-for-sale investments.

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15. Legal Proceedings:

Silica Litigation
Our wholly-owned subsidiary Granite Construction Company ("GCCO") is one of approximately 100 to 300 defendants in six active California Superior Court lawsuits. Of the six lawsuits, four were filed against GCCO in 2005 and two were filed against GCCO in 2006, in Alameda County (Dominguez vs. A-1 Aggregates, et al.; Guido vs. A. Teichert & Son, Inc.; Williams vs. A. Teichert & Son, Inc.; Horne vs. Teichert & Son, Inc.; Kammer vs. A-1 Aggregates, et al.; and Solis vs. The 3M Company et al.). Each lawsuit was brought by a single plaintiff who is seeking money damages by way of various causes of action, including strict product and market share liability, and alleges personal injuries caused by exposure to silica products and related materials during the plaintiffs' use or association with sand blasting or grinding concrete. The plaintiff in each lawsuit has categorized the defendants as equipment defendants, respirator defendants, premises defendants and sand defendants. We have been identified as a sand defendant, meaning a party that manufactured, supplied or distributed silica-containing products. Our investigation revealed that we have not knowingly sold or distributed abrasive silica sand for sandblasting, and therefore, we believe the probability of these lawsuits resulting in an incurrence of a material liability is remote. We have been dismissed from eighteen other similar lawsuits.

Hiawatha Project DBE Issues
The Hiawatha Light Rail Transit ("HLRT") project was performed by Minnesota Transit Constructors ("MnTC"), a joint venture that consisted of GCCO and other unrelated companies. GCCO was the managing partner of the joint venture, with a 56.5% interest. The Minnesota Department of Transportation ("MnDOT") is the contracting agency for this federally funded project. The Metropolitan Council is the local agency conduit for providing federal funds to MnDOT for the HLRT project. MnDOT and the U.S. Department of Transportation Office of Inspector General ("OIG") each conducted a review of the Disadvantaged Business Enterprise ("DBE") program maintained by MnTC for the HLRT project. In addition, the U.S. Department of Justice ("USDOJ") is conducting an investigation into compliance issues with respect to MnTC's DBE Program for the HLRT project. MnDOT and the OIG (collectively, the "Agencies") have initially identified certain compliance issues in connection with MnTC's DBE Program and, as a result, have determined that MnTC failed to meet the DBE utilization criteria as represented by MnTC. Although there has been no formal administrative subpoena issued, nor has a civil complaint been filed in connection with the administrative reviews or the investigation, MnDOT has proposed a monetary sanction of $4.3 million against MnTC and specified DBE training for personnel from the members of the MnTC joint venture as a condition of awarding future projects to joint venture members of MnTC on MnDOT and Metropolitan Council work. MnTC is fully cooperating with the Agencies and the USDOJ and, on July 2, 2007 and on February 21, 2008, presented its detailed written responses to the initial determinations of the Agencies as well as the investigation by the USDOJ. A letter reply dated September 17, 2009 was received from the USDOJ, to which MnTC responded by letter dated September 25, 2009. MnTC and the USDOJ are continuing to engage in informal discussions in an attempt to resolve the matter. Such discussions, if successful, are expected to include resolution of issues with the USDOT and with the state agencies. We cannot, however, rule out the possibility of a civil or criminal actions being brought against MnTC or one or more of its members which could result in civil and criminal penalties.

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

the project and resulted in discharges to surface water in alleged violations of YRC’s stormwater permit. In June 2009, YRC was informed that the USDOJ had assumed the criminal investigation that the Oregon Department of Justice had previously been conducting in connection with stormwater runoff from the project. YRC and its members are fully cooperating in the investigation, but we do not know whether criminal charges or civil lawsuits, if any, will be brought or against whom, as a result of the investigation. Therefore, we cannot estimate what if any criminal or civil penalty or conditional assessment may result from this investigation.

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City of San Diego Fire Debris Cleanup
In the aftermath of the 2007 San Diego County wildfires, GCCO bid for and was awarded a fixed unit price, variable quantity contract with the City of San Diego (“the City”) to perform specified debris cleanup work. GCCO began work in November 2007 and completed the work in April 2008. In August 2008, the City announced that it would conduct an independent audit of the project. In December 2008, the City’s audit report was released with findings that, while some GCCO billings contained mistakes, rates paid to GCCO appear to be generally reasonable. GCCO has reimbursed the City the undisputed overbilled amount of less than $3,000. The former San Diego City Attorney, after conducting a separate investigation of GCCO’s work on the project, filed a civil lawsuit in California Superior Court, County of San Diego on October 17, 2008 against GCCO and the one other contractor that had been awarded a similar cleanup contract with the City. In the complaint, the City alleges that both contractors knowingly presented to the City false claims for payment in violation of the California False Claims Act. The City seeks trebled damages in an amount to be determined, and a civil penalty in the amount of $10,000 for each false claim made. After the November 2008 election in which a new City Attorney was elected, GCCO and the new City Attorney agreed to suspend the lawsuit to allow the City Attorney time to complete its investigation. GCCO believes the allegations in the City’s complaint to be without factual or legal basis and, therefore, the City’s entitlement to relief sought under the California False Claims Act is remote.

Grand Avenue Project DBE Issues
On March 6, 2009, the U.S. Department of Transportation, Office of Inspector General (“OIG”) served upon our wholly-owned subsidiary, Granite Construction Northeast, Inc., (“Granite Northeast”), a United States District Court Eastern District of New York subpoena to testify before a grand jury by producing documents. The subpoena seeks all documents pertaining to a Granite Northeast Disadvantaged Business Enterprise (“DBE”) subcontractor (“the Subcontractor”), and the Subcontractor’s non-DBE lower tier subcontractor/consultant, relating to the Subcontractor’s work on the Grand Avenue Bus Depot and Central Maintenance Facility for the Borough of Queens Project (the “Grand Avenue Project”). The subpoena also seeks all documents regarding Granite Northeast’s use of the Subcontractor as a DBE on the Grand Avenue Project and all documents related to the Subcontractor as a DBE on any other contract including public works construction. We have complied with the subpoena and are fully cooperating with the OIG’s investigation. To date, Granite Northeast has not been notified that it is either a subject or target of the OIG’s investigation. As a result, we do not know whether criminal charges or civil lawsuits, if any, will be brought or against whom, as a result of the investigation. Therefore, we cannot estimate what, if any, criminal or civil penalty or conditional assessment may result from this investigation.

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

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16. Business Segment Information:

Our three reportable business segments are Granite West, Granite East, and Granite Land Company.

Granite West has offices in the western United States that perform various heavy civil construction projects with a large portion of the work focused on new construction and improvement of streets, roads, highways, bridges and airports as well as site preparation for housing and commercial development. Although most Granite West projects are started and completed within a year, the segment also has the capability of constructing larger projects and had five active projects at September 30, 2009, each with total contract revenue greater than $50.0 million. All of our revenue from the sale of construction materials is generated by Granite West, which mines aggregates and operates plants that process aggregates into construction materials for internal use and for sale to others. These activities are vertically integrated into the Granite West business, providing both a source of profits and a competitive advantage to our construction business.

Granite East operates out of three regional offices in the eastern portion of the United States. Its focus is on large, complex infrastructure projects, primarily east of the Rocky Mountains, and includes major highways, large dams, mass transit facilities, bridges, pipelines, canals, waterway locks and dams, and airport infrastructure. Granite East construction contracts are typically greater than two years in duration.

GLC purchases, develops, operates, sells and otherwise invests in real estate developments as well as provides real estate services for other Granite operations. GLC’s current portfolio consists of residential, retail and office site development projects for sale to home and commercial property developers or held for rental income in Washington, California, Texas and Oregon.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies contained in our 2008 Annual Report on Form 10-K. We evaluate performance based on operating profit or loss (excluding gain on sales of property and equipment), and do not include income taxes, interest income, interest expense or other income (expense). Unallocated other corporate expenses are principally comprised of corporate general and administrative expenses.

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Summarized segment information is as follows:

	Three Months Ended September 30,			
(in thousands)	Granite West	Granite East	Granite Land Company	Total
2009				
Revenue from external customers	$ 564,076	$ 155,227	$ 981	$ 720,284
Intersegment revenue transfer	13	(13)	-	-
Net revenue	564,089	155,214	981	720,284
Depreciation, depletion and amortization	15,219	1,185	68	16,472
Operating income (loss)	56,299	12,052	(1,221)	67,130
2008				
Revenue from external customers	$ 749,368	$ 147,051	$ 1,369	$ 897,788
Intersegment revenue transfer	119	(119)	-	-
Net revenue	749,487	146,932	1,369	897,788
Depreciation, depletion and amortization	18,865	1,949	86	20,900
Operating income (loss)	93,570	3,819	(191)	97,198

	Nine Months Ended September 30,			
(in thousands)	Granite West	Granite East	Granite Land Company	Total
2009				
Revenue from external customers	$ 1,109,402	$ 417,397	$ 1,932	$ 1,528,731
Intersegment revenue transfer	40	(40)	-	-
Net revenue	1,109,442	417,357	1,932	1,528,731
Depreciation, depletion and amortization	47,871	3,732	369	51,972
Operating income (loss)	98,073	55,136	(4,159)	149,050
Segment assets				