

GRANITE CONSTRUCTION INC
Form 10-Q
May 05, 2015

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, 2015

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 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 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 No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 30, 2015.

Class	Outstanding
Common Stock, \$0.01 par value	39,346,462

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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)

	March 31, 2015	December 31, 2014	March 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents (\$52,884, \$61,276 and \$27,612 related to consolidated construction joint ventures (“CCJVs”))	\$239,403	\$255,961	\$205,780
Short-term marketable securities	19,282	25,504	41,143
Receivables, net (\$39,711, \$36,781 and \$39,014 related to CCJVs)	271,328	310,934	245,281
Costs and estimated earnings in excess of billings	56,907	36,411	53,311
Inventories	64,636	68,920	77,407
Real estate held for development and sale	11,609	11,609	11,742
Deferred income taxes	53,231	53,231	55,874
Equity in construction joint ventures	197,570	184,575	168,045
Other current assets	26,613	23,033	40,142
Total current assets	940,579	970,178	898,725
Property and equipment, net (\$9,729, \$11,969 and \$19,801 related to CCJVs)	399,910	409,653	432,398
Long-term marketable securities	80,522	76,563	65,969
Investments in affiliates	32,031	32,361	33,336
Goodwill	53,799	53,799	53,799
Other noncurrent assets	76,687	77,940	76,944
Total assets	\$1,583,528	\$1,620,494	\$1,561,171
LIABILITIES AND EQUITY			
Current liabilities			
Current maturities of long-term debt	\$22	\$21	\$21
Current maturities of non-recourse debt	6,435	1,226	1,226
Accounts payable (\$14,960, \$18,009 and \$22,136 related to CCJVs)	121,013	151,935	141,241
Billings in excess of costs and estimated earnings (\$29,963, \$32,830 and \$43,087 related to CCJVs)	95,328	108,992	125,618
Accrued expenses and other current liabilities	225,255	200,652	193,307
Total current liabilities	448,053	462,826	461,413
Long-term debt	270,105	270,105	270,127
Long-term non-recourse debt	—	5,516	6,435
Other long-term liabilities	42,058	44,495	48,662
Deferred income taxes	20,615	20,446	9,803
Commitments and contingencies			
Equity			
Preferred stock, \$0.01 par value, authorized 3,000,000 shares, none outstanding	—	—	—
Common stock, \$0.01 par value, authorized 150,000,000 shares; issued and outstanding 39,342,647 shares as of March 31, 2015, 39,186,386 shares as of December 31, 2014 and 39,098,549 shares as of March 31, 2014	393	392	391

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Additional paid-in capital	133,962	134,177	126,937
Retained earnings	645,931	659,816	629,443
Total Granite Construction Incorporated shareholders' equity	780,286	794,385	756,771
Non-controlling interests	22,411	22,721	7,960
Total equity	802,697	817,106	764,731
Total liabilities and equity	\$1,583,528	\$1,620,494	\$1,561,171

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

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited - in thousands, except per share data)

Three Months Ended March 31,	2015		2014	
Revenue				
Construction	\$ 188,520		\$ 157,040	
Large Project Construction	190,305		187,336	
Construction Materials	41,424		35,471	
Total revenue	420,249		379,847	
Cost of revenue				
Construction	166,845		147,896	
Large Project Construction	172,534		171,543	
Construction Materials	40,761		39,000	
Total cost of revenue	380,140		358,439	
Gross profit	40,109		21,408	
Selling, general and administrative expenses	52,203		49,247	
Gain on sales of property and equipment	(811	)	(894)
Operating loss	(11,283	)	(26,945)
Other (income) expense				
Interest income	(442	)	(479)
Interest expense	3,496		3,599	
Equity in loss (income) of affiliates	63		(791)
Other (income) expense, net	(1,284	)	51	
Total other expense	1,833		2,380	
Loss before benefit from income taxes	(13,116	)	(29,325)
Benefit from income taxes	(4,506	)	(8,064)
Net loss	(8,610	)	(21,261)
Amount attributable to non-controlling interests	50		708	
Net loss attributable to Granite Construction Incorporated	\$(8,560	)	\$(20,553)
Net loss per share attributable to common shareholders (see Note 12)				
Basic	\$(0.22	)	\$(0.53)
Diluted	\$(0.22	)	\$(0.53)
Weighted average shares of common stock				
Basic	39,215		38,951	
Diluted	39,215		38,951	
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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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - in thousands)

Three Months Ended March 31,	2015	2014
Operating activities		
Net loss	\$(8,610	) \$(21,261
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	15,627	15,832
Gain on sales of property and equipment	(811	) (894
Change in deferred income taxes	(14	) 1,613
Stock-based compensation	3,163	4,095
Equity in net income from unconsolidated joint ventures	(11,271	) (2,562
Changes in assets and liabilities:		
Receivables	36,662	68,383
Costs and estimated earnings in excess of billings, net	(29,366	) (43,318
Inventories	4,284	(14,933
Contributions to unconsolidated construction joint ventures	(20,000) —
Distributions from unconsolidated construction joint ventures	21,170	6,880
Other assets, net	(3,305	) (10,167
Accounts payable	(28,609	) (19,629
Accrued expenses and other current liabilities, net	14,162	(3,816
Net cash used in operating activities	(6,918	) (19,777
Investing activities		
Purchases of marketable securities	(9,988	) (10,000
Maturities of marketable securities	10,000	5,000
Proceeds from called marketable securities	5,000	15,000
Purchases of property and equipment	(7,607	) (10,375
Proceeds from sales of property and equipment	1,089	1,360
Other investing activities, net	383	39
Net cash (used in) provided by investing activities	(1,123	) 1,024
Financing activities		
Cash dividends paid	(5,094	) (5,083
Purchases of common stock	(3,191	) (4,278
(Distributions to) contributions from non-controlling partners	(270	) 4,278
Other financing activities	38	495
Net cash used in financing activities	(8,517	) (4,588
Decrease in cash and cash equivalents	(16,558	) (23,341
Cash and cash equivalents at beginning of period	255,961	229,121
Cash and cash equivalents at end of period	\$239,403	\$205,780
Supplementary Information		
Cash paid during the period for:		
Interest	\$612	\$624
Income taxes	202	1,551
Other non-cash activities:		
Performance guarantees	\$4,736	\$(438
Non-cash investing and financing activities:		
Restricted stock units issued, net of forfeitures	\$5,281	\$6,273
Accrued cash dividends	5,115	5,083
Accrued equipment purchases	2,313	—

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, 2014. 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 state fairly our financial position at March 31, 2015 and 2014 and the results of our operations and cash flows for the periods presented. The December 31, 2014 condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP.

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 and profitability. Therefore, the results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year.

We prepared the accompanying condensed consolidated financial statements on the same basis as our annual consolidated financial statements, except as follows:

Change in Accounting Policy for Affirmative Claims

Unresolved contract modifications and claims to recover additional costs to which the Company believes it is entitled under the terms of the projects’ contracts are pending or have been submitted on certain projects. The projects’ owners or their authorized representatives and/or other third parties may be in partial or full agreement with the request or proposed modification, or may have rejected or disagree entirely as to such entitlement.

Effective January 1, 2015, we changed our accounting policy for recognizing revenue associated with affirmative claims with customers. Revenue is now 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. Prior to this change in accounting policy, we recognized revenue from affirmative claims with customers when the claims were settled, generally when a legally binding agreement was signed. We believe this change in accounting policy is preferable as it more accurately reflects the timing and amount of revenue earned on our projects, as well as providing better comparability to our industry peers.

Recognizing claim recoveries requires significant judgments and estimates. During the first quarter of 2015, we implemented new and refined internal controls and processes to enable the reasonable estimation of claims.

Given that these internal controls and processes were not fully implemented until the first quarter of 2015, and we do not believe that it is possible to objectively distinguish information about claims estimates in prior periods from information that subsequently became available, it is impractical to independently and objectively substantiate judgments and estimates that would have been made with respect to claims in prior periods. Therefore, it is not possible to reasonably determine the estimated amounts of and prior reporting periods in which past claims would have met the criteria for recognition under our new accounting policy. Accordingly, we have adopted this accounting policy change prospectively beginning on January 1, 2015.

The effect of adopting the new accounting policy for customer claims was an increase in revenue and gross profit of \$9.7 million for the three months ended March 31, 2015 and there were no customer claims settled during the three months ended March 31, 2014.

Gross profit associated with claims against non-customers, such as vendors, designers or subcontractors, continues to be recognized when settled. During the three months ended March 31, 2015, there were no claim settlements with non-customers. During the three months ended March 31, 2014, gross profit from claim settlements with

non-customers was \$7.9 million.

The potential increase or decrease to gross profit from recoveries for contract modifications and claims may be material in future periods when claims, or a portion of such claims, against customers become probable and estimable, estimates are revised or when claims against other third parties are settled. In addition, the Company may incur additional costs when pursuing such potential recoveries.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. This ASU’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods or services. The ASU will be effective commencing with our quarter ending March 31, 2017. We are currently assessing the potential impact of this ASU on our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which provides guidance for consolidation of certain legal entities. The guidance changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The ASU will be effective commencing with our quarter ending March 31, 2016. We do not expect the adoption of this ASU will have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU will be effective commencing with our quarter ending March 31, 2016. We do not expect that the adoption of this ASU will have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance on accounting for fees paid by a customer in a cloud computing arrangement. A cloud computing arrangement that contains a software license will be accounted for consistently with the acquisition of other software licenses. If no software license is present in the contract, the entity should account for the arrangement as a service contract. The ASU will be effective commencing with our quarter ending March 31, 2016. We do not expect that the adoption of this ASU will have a material impact on our consolidated financial statements.

3. Revisions in Estimates

Our profit recognition related to construction contracts is based on estimates of costs to complete each project. These estimates can vary significantly in the normal course of business as projects progress, circumstances develop and evolve, and uncertainties are resolved. We recognize revenue associated with unapproved change orders and, effective in the first quarter of 2015, affirmative claims to the extent the related costs have been incurred, the amount can be reliably estimated and recovery is probable. Prior to 2015, we recognized revenue on affirmative claims when we had a signed agreement. See Note 1 for further discussion.

We recognize revisions to estimated total costs as soon as the obligation to perform is determined. When we experience significant changes in our estimates of costs to complete, we undergo a process that includes reviewing the nature of the changes to ensure that there are no material amounts that should have been recorded in a prior period rather than as a revision in estimates for the current period. In our review of these changes for the three months ended March 31, 2015 and 2014, we did not identify any amounts that should have been recorded in a prior period. We use the cumulative catch-up method applicable to construction contract accounting to account for revisions in estimates. Under this method, revisions in estimates are accounted for in their entirety in the period of change. There can be no assurance that we will not experience future changes in circumstances or otherwise be required to revise our profitability estimates.

Revenue in an amount equal to cost incurred is recognized if there is not sufficient information to determine the estimated profit on the project with a reasonable level of certainty. The gross profit impact from projects that reached initial profit recognition is not included in the tables below. During the three months ended March 31, 2015 and 2014, the gross profit impact from projects that reached initial profit recognition was \$7.6 million and \$4.0 million, respectively.

Construction

There were three and two revisions in estimates that individually had an impact of \$1.0 million or more on gross profit for the three months ended March 31, 2015 and 2014, respectively. The impact to gross profit during the three months ended March 31, 2015 was a \$4.8 million increase, ranging from \$1.0 million to \$2.2 million, due to estimated cost recovery from claims. The impact to gross profit during the three months ended March 31, 2014 was a \$3.5 million decrease, ranging from \$1.3 million to \$2.2 million, due to additional costs and lower productivity than originally anticipated.

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(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 were a net decrease of \$0.8 million and a net increase of \$8.2 million for the three months ended March 31, 2015 and 2014, respectively. Amounts attributable to non-controlling interests were \$0.5 million of the net decrease and \$0.7 million of the net increase for the three months ended March 31, 2015 and 2014, respectively. The projects are summarized as follows:

Increases

(dollars in millions)	Three Months Ended March 31,	
	2015	2014
Number of projects with upward estimate changes	2	5
Range of increase in gross profit from each project, net	\$1.1 - 1.9	\$1.3 - 7.9
Increase in project profitability	\$3.0	\$16.1

The increase during the three months ended March 31, 2015 was due to estimated cost recovery from claims. The increases during the three months ended March 31, 2014 were due to a claim settlement with a vendor and owner-directed scope changes.

Decreases

(dollars in millions)	Three Months Ended March 31,	
	2015	2014
Number of projects with downward estimate changes	3	2
Range of reduction in gross profit from each project, net	\$1.1 - 1.3	\$3.4 - 4.5
Decrease in project profitability	\$3.8	\$7.9

The decreases during the three months ended March 31, 2015 and 2014 were due to additional costs and lower productivity than originally anticipated.

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(Unaudited)

4. Marketable Securities

All marketable securities were classified as held-to-maturity for the dates presented and the carrying amounts of held-to-maturity securities were as follows:

(in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
U.S. Government and agency obligations	\$9,290	\$10,511	\$6,157
Commercial paper	9,992	14,993	34,986
Total short-term marketable securities	19,282	25,504	41,143
U.S. Government and agency obligations	80,522	76,563	65,969
Total long-term marketable securities	80,522	76,563	65,969
Total marketable securities	\$99,804	\$102,067	\$107,112

Scheduled maturities of held-to-maturity investments were as follows:

(in thousands)	March 31, 2015
Due within one year	\$19,282
Due in one to five years	80,522
Total	\$99,804

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(Unaudited)

5. Fair Value Measurement

Fair value accounting standards describe three levels that may be used to measure fair value:

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

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

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

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

March 31, 2015	Fair Value Measurement at Reporting Date Using			Total
	Level 1	Level 2	Level 3	
Cash equivalents				
Money market funds	\$54,709	\$—	\$—	\$54,709
Total assets	\$54,709	\$—	\$—	\$54,709
December 31, 2014	Fair Value Measurement at Reporting Date Using			Total
	Level 1	Level 2	Level 3	
Cash equivalents				
Money market funds	\$60,618	\$—	\$—	\$60,618
Total assets	\$60,618	\$—	\$—	\$60,618
March 31, 2014	Fair Value Measurement at Reporting Date Using			Total
	Level 1	Level 2	Level 3	
Cash equivalents				
Money market funds	\$49,770	\$—	\$—	\$49,770
Total assets	\$49,770	\$—	\$—	\$49,770

A reconciliation of cash equivalents to consolidated cash and cash equivalents is as follows:

(in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
Cash equivalents	\$54,709	\$60,618	\$49,770
Cash	184,694	195,343	156,010
Total cash and cash equivalents	\$239,403	\$255,961	\$205,780

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In March 2014, we entered into an interest rate swap with a notional amount of \$100.0 million which matures in June 2018 to convert the interest rate of our 2019 NPA (defined in Note 11) from a fixed rate of 6.11% to a floating rate of 4.15% plus six-month LIBOR. The interest rate swap is reported at fair value using Level 2 inputs, and gains or losses are recorded in other (income) expense, net in our condensed consolidated statements of operations, and was a gain of \$1.3 million during the three months ended March 31, 2015. The fair value of the interest rate swap is recorded in other current assets on the condensed consolidated balance sheets and was \$1.7 million as of March 31, 2015.

In March 2014, we entered into two diesel commodity swaps covering the periods from May 2014 to October 2014 and from May 2015 to October 2015 which represented roughly 25% of our forecasted purchases for diesel during these periods. In May 2014, we entered into two natural gas commodity swaps covering the periods from June 2014 to October 2014 and from May 2015 to October 2015 representing roughly 25% of our forecasted purchases of natural gas during these periods. The commodity swaps are reported at fair value using Level 2 inputs, and gains or losses are recorded in other (income) expense, net in our condensed consolidated statements of operations, and was a net loss of \$0.2 million during the three months ended March 31, 2015. The fair values of the commodity swaps are recorded in accrued expenses and other current liabilities on the condensed consolidated balance sheets and were \$1.9 million as of March 31, 2015.

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

(in thousands)	Fair Value Hierarchy	March 31, 2015		December 31, 2014		March 31, 2014	
		Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:							
Held-to-maturity marketable securities	Level 1	\$99,804	\$99,811	\$102,067	\$101,808	\$107,112	\$106,864
Liabilities (including current maturities):							
Senior notes payable ¹	Level 3	\$200,000	\$222,973	\$200,000	\$220,226	\$200,000	\$226,503
Credit Agreement loan ¹	Level 3	70,000	70,391	70,000	70,153	70,000	69,368

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

The carrying values of receivables, other current assets, and accrued expenses and other current liabilities approximate their fair values due to the short-term nature of these instruments. In addition, the fair value of non-recourse debt measured using Level 3 inputs approximates its carrying value due to its relative short-term nature and competitive interest rates. During the three months ended March 31, 2015 and 2014, we did not record any fair value adjustments related to nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

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GRANITE CONSTRUCTION INCORPORATED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Receivables, net

Receivables, net at March 31, 2015, December 31, 2014 and March 31, 2014 are as follows:

(in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
Construction contracts:			
Completed and in progress	\$ 163,671	\$ 191,094	\$ 142,289
Retentions	74,718	84,760	69,574
Total construction contracts	238,389	275,854	211,863
Construction Material sales	26,776	28,549	23,790
Other	6,504	6,822	12,212
Total gross receivables	271,669	311,225	247,865
Less: allowance for doubtful accounts	341	291	2,584
Total net receivables	\$271,328	\$310,934	\$245,281

Receivables include amounts billed and billable to clients for services provided as of the end of the applicable period and do not bear interest. To the extent costs have not been billed or are billable, the contract balance is included in costs and estimated earnings in excess of billings on the condensed consolidated balance sheets. Included in other receivables at March 31, 2015, December 31, 2014 and March 31, 2014 were items such as notes receivable, fuel tax refunds and income tax refunds. No such receivables individually exceeded 10% of total net receivables at any of these dates.

Financing receivables consisted of retentions receivable and were included in receivables, net on the condensed consolidated balance sheets as of March 31, 2015, December 31, 2014 and March 31, 2014. Certain construction contracts include retainage provisions. The balances billed but not paid by customers pursuant to these provisions generally become due upon completion and acceptance of the project work or products by the owners. No retention receivable individually exceeded 10% of total net receivables at any of the presented dates. As of March 31, 2015, the majority of the retentions receivable are expected to be collected within one year.

We segregate our retention receivables into two categories: escrow and non-escrow. The balances in each category were as follows:

(in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
Escrow	\$22,421	\$28,692	\$25,603
Non-escrow	52,297	56,068	43,971
Total retention receivables	\$74,718	\$84,760	\$69,574

The escrow receivables include amounts due to Granite which have been deposited into an escrow account and bear interest. Typically, escrow retention receivables are held until work on a project is complete and has been accepted by the owner who then releases those funds, along with accrued interest, to us. There is minimal risk of not collecting on these amounts.

As of March 31, 2015, the non-escrow retention receivables aged over 90 days decreased to \$6.7 million from \$8.6 million at December 31, 2014. As of both dates, our allowance for doubtful accounts contained no material provision related to non-escrow retention receivables as we determined there were no significant collectability issues.

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GRANITE CONSTRUCTION INCORPORATED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

7. Construction and Line Item Joint Ventures

We participate in various construction joint ventures, partnerships and a limited liability company of which we are a limited member (“joint ventures”). We also participate in various “line item” joint venture agreements under which each member is responsible for performing certain discrete items of the total scope of contracted work.

Due to the joint and several nature of the performance obligations under the related owner contracts, if any of the members fail to perform, we and the other members would be responsible for performance of the outstanding work. At March 31, 2015, there was approximately \$6.1 billion of construction revenue to be recognized on unconsolidated and line item construction joint venture contracts of which \$1.9 billion represented our share and the remaining \$4.2 billion represented the other members’ share. We are not able to estimate amounts that may be required beyond the remaining cost of the work to be performed. These costs could be offset by billings to the customer or by proceeds from the other members and/or other guarantors.

Construction Joint Ventures

Generally, each construction joint venture is formed to complete a specific contract and is jointly controlled by the venture members. The associated agreements typically provide that our interests in any profits and assets, and our respective share in any losses and liabilities resulting from the performance of the contracts, are limited to our stated percentage interest in the venture. Under our contractual arrangements, we provide capital to these joint ventures in return for an ownership interest. In addition, members dedicate resources to the ventures necessary to complete the contracts and are reimbursed for their cost. The operational risks of each construction joint venture are passed along to the joint venture members. As we absorb our share of these risks, our investment in each venture is exposed to potential gains and losses.

We have determined that certain of these joint ventures are consolidated because they are variable interest entities (“VIEs”), and we are the primary beneficiary, or because they are not VIEs, and we hold the majority voting interest. We continually evaluate whether there are changes in the status of the VIEs or changes to the primary beneficiary designation of the VIE. Based on our assessments during the three months ended March 31, 2015, we determined no change was required for existing construction joint ventures.

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Consolidated Construction Joint Ventures

The carrying amounts and classification of assets and liabilities of construction joint ventures we are required to consolidate are included on the condensed consolidated balance sheets as follows:

(in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
Cash and cash equivalents ¹	\$52,884	\$61,276	\$27,612
Receivables, net	39,711	36,781	39,014
Other current assets	2,510	1,746	4,624
Total current assets	95,105	99,803	71,250
Property and equipment, net	9,729	11,969	19,801
Total assets ²	\$104,834	\$111,772	\$91,051
Accounts payable	\$14,960	\$18,009	\$22,136
Billings in excess of costs and estimated earnings ¹	29,963	32,830	43,087
Accrued expenses and other current liabilities	1,530	2,714	7,074
Total liabilities ²	\$46,453	\$53,553	\$72,297

¹The volume and stage of completion of contracts from our consolidated construction joint ventures may cause fluctuations in cash and cash equivalents as well as billings in excess of costs and estimated earnings and costs in excess of billings and estimated earnings between periods.

²The assets and liabilities of each consolidated joint venture relate solely to that joint venture. The decision to distribute joint venture cash and cash equivalents and assets must generally be made jointly by a majority of the members and, accordingly, these cash and cash equivalents and assets generally are not available for the working capital needs of Granite until distributed.

At March 31, 2015, we were engaged in two active consolidated construction joint venture projects with total contract values of \$32.7 million and \$284.7 million. Our share of revenue remaining to be recognized on these consolidated joint ventures was \$0.1 million and \$38.0 million. Our proportionate share of the equity in these joint ventures was 55.0% and 65.0%. During the three months ended March 31, 2015 and 2014, total revenue from consolidated construction joint ventures was \$15.0 million and \$32.1 million, respectively. Total operating cash flows used in consolidated construction joint ventures were \$7.9 million and \$22.5 million during the three months ended March 31, 2015 and 2014, respectively.

Unconsolidated Construction Joint Ventures

We account for our share of construction joint ventures that we are not required to consolidate on a pro rata basis in the condensed consolidated statements of operations and as a single line item on the condensed consolidated balance sheets. As of March 31, 2015, these unconsolidated joint ventures were engaged in eleven active projects with total contract values ranging from \$73.0 million to \$3.1 billion. Our proportionate share of the equity in these unconsolidated joint ventures ranged from 20.0% to 50.0%. As of March 31, 2015, our share of the revenue remaining to be recognized on these unconsolidated joint ventures ranged from \$4.6 million to \$663.4 million.

As of March 31, 2015, one of our unconsolidated construction joint ventures was located in Canada and, therefore, the associated disclosures throughout this footnote include amounts that were translated from Canadian dollars to U.S. dollars using the spot rate in effect as of the reporting date for balance sheet items, and the average rate in effect during the reporting period for the results of operations. The associated foreign currency translation adjustments did not have a material impact on the condensed consolidated financial statements for any of the dates or periods presented.

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Following is summary financial information related to unconsolidated construction joint ventures:

(in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
Assets:			
Cash and cash equivalents ¹	\$240,123	\$264,263	\$240,486
Other assets	721,618	573,898	581,842
Less partners' interest	637,512	546,907	542,114
Granite's interest	324,229	291,254	280,214
Liabilities:			
Accounts payable	191,312	146,198	131,441
Billings in excess of costs and estimated earnings ¹	171,187	156,604	189,979
Other liabilities	72,026	55,289	69,745
Less partners' interest	304,422	251,412	278,996
Granite's interest	130,103	106,679	112,169
Equity in construction joint ventures ²	\$194,126	\$184,575	\$168,045

¹The volume and stage of completion of contracts from our unconsolidated construction joint ventures may cause fluctuations in cash and cash equivalents as well as billings in excess of costs and costs in excess of billings and estimated earnings between periods. The decision to distribute joint venture cash and cash equivalents and assets must generally be made jointly by all of the partners and, accordingly, these cash and cash equivalents and assets generally are not available for the working capital needs of Granite until distributed.

²As of March 31, 2015, this balance included \$3.4 million of deficit in construction joint ventures that is included in accrued expenses and other current liabilities on the condensed consolidated balance sheet.

(in thousands)	Three Months Ended March 31,	
	2015	2014
Revenue:		
Total	\$443,407	\$349,167
Less partners' interest and adjustments	308,120	259,857
Granite's interest	135,287	89,310
Cost of revenue:		
Total	410,071	297,461
Less partners' interest and adjustments	286,047	210,906
Granite's interest	124,024	86,555
Granite's interest in gross profit	\$11,263	\$2,755

¹Partners' interest represents amounts to reconcile total revenue and total cost of revenue as reported by our partners to Granite's interest adjusted to reflect our accounting policies.

During the three months ended March 31, 2015 and 2014, unconsolidated construction joint venture net income was \$33.4 million and \$51.0 million, respectively, of which our share was \$11.3 million and \$2.6 million, respectively. These net income amounts exclude our corporate overhead required to manage the joint ventures.

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Line Item Joint Ventures

The revenue for each line item joint venture member's discrete items of work is defined in the contract with the project owner and each venture member bears the profitability risk associated with its own work. There is not a single set of books and records for a line item joint venture. Each member accounts for its items of work individually as it would for any self-performed contract. We include only our portion of these contracts in our condensed consolidated financial statements. As of March 31, 2015, we had three active line item joint venture construction projects with total contract values ranging from \$42.7 million to \$86.6 million of which our portion ranged from \$29.1 million to \$64.1 million. As of March 31, 2015, our share of revenue remaining to be recognized on these line item joint ventures ranged from \$2.2 million to \$22.4 million.

8. Investments in Affiliates

Our investments in affiliates balance is related to our investments in unconsolidated non-construction entities that we account for using the equity method of accounting, including investments in real estate entities and a non-real estate entity. Our share of the operating results of the equity method investments is included in other income in the condensed consolidated statements of operations and as a single line item on the condensed consolidated balance sheets as investments in affiliates.

Our investments in affiliates balance consists of the following (in thousands):

(in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
Equity method investments in real estate affiliates	\$22,639	\$22,623	\$22,353
Equity method investment in other affiliate	9,392	9,738	10,983
Total investments in affiliates	\$32,031	\$32,361	\$33,336

The following table provides summarized balance sheet information for our affiliates accounted for under the equity method on a combined basis:

(in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
Total assets	\$178,723	\$170,174	\$172,763
Net assets	101,212	97,639	95,561
Granite's share of net assets	32,031	32,361	33,336

The equity method investments in real estate included \$16.8 million, \$16.5 million and \$15.9 million in residential real estate in Texas as of March 31, 2015, December 31, 2014 and March 31, 2014, respectively. The remaining balances were in commercial real estate in Texas. Of the \$178.7 million in total assets as of March 31, 2015, real estate entities had total assets ranging from \$1.9 million to \$61.8 million and the non-real estate entity had total assets of \$23.9 million.

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9. 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)	March 31, 2015	December 31, 2014	March 31, 2014
Equipment and vehicles	\$766,066	\$767,313	\$770,266
Quarry property	172,046	172,081	170,442
Land and land improvements	110,302	110,235	120,092
Buildings and leasehold improvements	82,628	82,655	83,994
Office furniture and equipment	70,820	70,820	70,826
Property and equipment	1,201,862	1,203,104	1,215,620
Less: accumulated depreciation and depletion	801,952	793,451	783,222
Property and equipment, net	\$399,910	\$409,653	\$432,398

10. Intangible Assets

Indefinite-lived Intangible Assets

Indefinite-lived intangible assets primarily consist of goodwill and use rights. Use rights of \$0.4 million are included in other noncurrent assets on our condensed consolidated balance sheets as of March 31, 2015, December 31, 2014 and March 31, 2014.

The following table presents the goodwill balance by reportable segment:

(in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
Construction	\$29,260	\$29,260	\$29,260
Large Project Construction	22,593	22,593	22,593
Construction Materials	1,946	1,946	1,946
Total goodwill	\$53,799	\$53,799	\$53,799

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Amortized Intangible Assets

The following is the breakdown of our amortized intangible assets that are included in other noncurrent assets on our condensed consolidated balance sheets (in thousands):

	Gross Value	Accumulated Amortization	Net Book Value
March 31, 2015			
Permits	\$29,713	\$(13,396)	) \$16,317
Acquired backlog	7,900	(7,378)	) 522
Customer lists	4,398	(2,858)	) 1,540
Trade name	4,100	(971)	) 3,129
Covenants not to compete and other	2,459	(2,428)	) 31
Total amortized intangible assets	\$48,570	\$(27,031)	) \$21,539
		Accumulated	
December 31, 2014	Gross Value	Amortization	Net Book Value
Permits	\$29,713	\$(13,115)	) \$16,598
Acquired backlog	7,900	(7,263)	) 637
Customer lists	4,398	(2,785)	) 1,613
Trade name	4,100	(863)	) 3,237
Covenants not to compete and other	2,459	(2,428)	) 31
Total amortized intangible assets	\$48,570	\$(26,454)	) \$22,116
		Accumulated	
March 31, 2014	Gross Value	Amortization	Net Book Value
Permits	\$29,713	\$(12,273)	) \$17,440
Acquired backlog	7,900	(6,962)	) 938
Customer lists	4,398	(2,564)	) 1,834
Trade name	4,100	(539)	) 3,561
Covenants not to compete and other	2,459	(2,424)	) 35
Total amortized intangible assets	\$48,570	\$(24,762)	) \$23,808

Amortization expense related to amortized intangible assets for each of the three months ended March 31, 2015 and 2014 was \$0.6 million. Based on the amortized intangible assets balance at March 31, 2015, amortization expense expected to be recorded in the future is as follows: \$2.4 million for the remainder of 2015; \$1.7 million in 2016; \$1.7 million in 2017; \$1.7 million in 2018; \$1.7 million in 2019; and \$12.3 million thereafter.

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11. Covenants and Events of Default

Our debt and credit agreements require us to comply with various affirmative, restrictive and financial covenants. 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 (1) us no longer being entitled to borrow under the agreements; (2) termination of the agreements; (3) the requirement that any letters of credit under the agreements be cash collateralized; (4) acceleration of the maturity of outstanding indebtedness under the agreements; and/or (5) foreclosure on any collateral securing the obligations under the agreements.

As of March 31, 2015, we were in compliance with the covenants contained in our note purchase agreement governing our senior notes payable (“2019 NPA”) and the credit agreement governing the \$215.0 million committed revolving credit facility, with a sublimit for letters of credit of \$100.0 million (“Credit Agreement”), as well as the debt agreements related to our consolidated real estate entities. We are not aware of any non-compliance by any of our unconsolidated real estate entities with the covenants contained in their debt agreements.

12. Weighted Average Shares Outstanding and Earnings Per Share

We calculate earnings per share (“EPS”) under the two-class method by allocating earnings to both common shares and unvested restricted stock which are considered participating securities. However, net losses are not allocated to participating securities for purposes of computing EPS under the two-class method.

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

(in thousands)	Three Months Ended March 31,	
	2015	2014
Weighted average shares outstanding:		
Weighted average common stock outstanding	39,215	38,951
Total basic weighted average shares outstanding	39,215	38,951
Diluted weighted average shares outstanding:		
Weighted average common stock outstanding, basic	39,215	38,951
Effect of dilutive securities:		
Common stock options and restricted stock units ¹	—	—
Total weighted average shares outstanding assuming dilution	39,215	38,951

¹Due to the net loss for the three months ended March 31, 2015 and 2014, restricted stock units and common stock options representing approximately 598,000 and 799,000 shares, respectively, have been excluded from the number of shares used in calculating diluted net loss per share, as their inclusion would be antidilutive.

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13. Equity

The following tables summarize our equity activity for the periods presented (in thousands):

	Granite Construction Incorporated	Non-controlling Interests	Total Equity
Balance at December 31, 2014	\$794,385	\$22,721	\$817,106