

Orion Marine Group Inc  
Form 10-Q  
August 01, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014  
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:  
1-33891

ORION MARINE GROUP, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
Incorporation or organization)

26-0097459  
(I.R.S. Employer  
Identification Number)

12000 Aerospace Dr. Suite 300  
Houston, Texas  
(Address of principal executive offices)

77034  
(Zip Code)

713-852-6500  
(Registrant's telephone number, including area code)

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 website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 definitions of "Large Accelerated Filer," "Accelerated Filer," and "Smaller Reporting Company" in Rule 12b-2 of the Exchange Act. (Check one)

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

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

As of August 1, 2014, 27,447,966 shares of the Registrant's common stock, \$0.01 par value were outstanding.

ORION MARINE GROUP, INC.

Quarterly Report on Form 10-Q for the period ended June 30, 2014

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## Part I - Financial Information

Orion Marine Group, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets  
(In Thousands, Except Share and Per Share Information)  
(Unaudited)

|   | June 30,<br>2014 | December 31,<br>2013 |
|---|------------------|----------------------|
| <b>ASSETS</b>   |                  |                      |
| Current assets:   |                  |                      |
| Cash and cash equivalents   | \$34,370         | \$40,859             |
| Accounts receivable:  |                  |                      |
| Trade, net of allowance of \$0  | 26,997           | 39,110               |
| Retainage   | 15,032           | 10,427               |
| Other   | 394              | 2,040                |
| Income taxes receivable   | 1,244            | 333                  |
| Inventory   | 4,082            | 3,520                |
| Deferred tax asset  | 726              | 726                  |
| Costs and estimated earnings in excess of billings on uncompleted contracts   | 30,556           | 24,856               |
| Asset held for sale   | 375              | 417                  |
| Prepaid expenses and other  | 2,580            | 2,990                |
| Total current assets  | 116,356          | 125,278              |
| Accounts receivable, non-current  | 1,410            | —                    |
| Property and equipment, net   | 163,512          | 141,923              |
| Inventory, non-current  | 5,636            | 4,772                |
| Goodwill  | 33,798           | 33,798               |
| Intangible assets, net of amortization  | 60               | 197                  |
| Other assets  | 234              | 240                  |
| Total assets  | \$321,006        | \$306,208            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                  |                      |
| Current liabilities:  |                  |                      |
| Current debt  | \$30,675         | \$8,564              |
| Accounts payable:   |                  |                      |
| Trade   | 19,838           | 23,105               |
| Retainage   | 1,623            | 1,667                |
| Accrued liabilities   | 14,493           | 11,415               |
| Taxes payable   | 356              | 459                  |
| Billings in excess of costs and estimated earnings on uncompleted contracts   | 7,922            | 14,595               |
| Total current liabilities   | 74,907           | 59,805               |
| Other long-term liabilities   | 502              | 526                  |
| Deferred income taxes   | 17,978           | 17,978               |
| Deferred revenue  | 58               | 87                   |
| Total liabilities   | 93,445           | 78,396               |
| Commitments and contingencies   |                  |                      |
| Stockholders' equity:   |                  |                      |
| Preferred stock -- \$0.01 par value, 10,000,000 authorized, none issued   | —                | —                    |
| Common stock -- \$0.01 par value, 50,000,000 authorized, 27,765,697 and 27,710,775 issued; 27,447,966 and 27,393,045 outstanding at June 30, 2014 and December 31, 2013, respectively | 278              | 278                  |

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|  |           |           |   |
|--|-----------|-----------|---|
| Treasury stock, 317,731 shares, at cost    | (3,003    | ) (3,003  | ) |
| Additional paid-in capital                 | 165,092   | 163,970   |   |
| Retained earnings                          | 65,194    | 66,567    |   |
| Equity attributable to common stockholders | 227,561   | 227,812   |   |
| Noncontrolling interest                    | —         | —         |   |
| Total stockholders' equity                 | 227,561   | 227,812   |   |
| Total liabilities and stockholders' equity | \$321,006 | \$306,208 |   |

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

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Orion Marine Group, Inc. and Subsidiaries  
 Condensed Consolidated Statements of Operations  
 (In Thousands, Except Share and Per Share Information)  
 (Unaudited)

|   | Three months ended June 30, |            | Six months ended June 30, |            |
|---|-----------------------------|------------|---------------------------|------------|
|   | 2014                        | 2013       | 2014                      | 2013       |
| Contract revenues   | \$90,251                    | \$84,081   | \$171,509                 | \$159,140  |
| Costs of contract revenues                                  | 84,378                      | 76,205     | 157,989                   | 145,431    |
| Gross profit  | 5,873                       | 7,876      | 13,520                    | 13,709     |
| Selling, general and administrative expenses                | 8,129                       | 7,826      | 16,093                    | 15,517     |
| (Loss) income from operations                               | (2,256 )                    | 50         | (2,573 )                  | (1,808 )   |
| Other income (expense)                                      |                             |            |                           |            |
| Gain from sale of assets, net                               | 84                          | 45         | 176                       | 48         |
| Other income  | 467                         | 316        | 467                       | 614        |
| Interest income   | —                           | 1          | 10                        | 12         |
| Interest expense  | (194 )                      | (132 )     | (324 )                    | (316 )     |
| Other income, net   | 357                         | 230        | 329                       | 358        |
| (Loss) income before income taxes                           | (1,899 )                    | 280        | (2,244 )                  | (1,450 )   |
| Income tax benefit  | (736 )                      | (22 )      | (871 )                    | (661 )     |
| Net (loss) income   | (1,163 )                    | 302        | \$(1,373 )                | \$(789 )   |
| Net loss attributable to noncontrolling interest            | —                           | (18 )      | —                         | (25 )      |
| Net (loss) income attributable to Orion common stockholders | \$(1,163 )                  | \$320      | \$(1,373 )                | \$(764 )   |
| Basic (loss) income per share                               | \$(0.04 )                   | \$0.01     | \$(0.05 )                 | \$(0.03 )  |
| Diluted (loss) income per share                             | \$(0.04 )                   | \$0.01     | \$(0.05 )                 | \$(0.03 )  |
| Shares used to compute (loss) income per share              |                             |            |                           |            |
| Basic   | 27,422,658                  | 27,270,367 | 27,410,384                | 27,250,268 |
| Diluted   | 27,422,658                  | 27,600,661 | 27,410,384                | 27,250,268 |

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

Orion Marine Group, Inc. and Subsidiaries  
 Consolidated Statement of Stockholders' Equity  
 (In Thousands, Except Share Information)  
 (Unaudited)

|                            | Common Stock |        | Treasury Stock |            | Additional Paid-In Capital | Retained Earnings | Total     |
|----------------------------|--------------|--------|----------------|------------|----------------------------|-------------------|-----------|
|                            | Shares       | Amount | Shares         | Amount     |                            |                   |           |
| Balance, December 31, 2013 | 27,710,775   | \$278  | (317,731 )     | \$(3,003 ) | \$163,970                  | \$66,567          | \$227,812 |
| Stock-based compensation   |              |        |                |            | 782                        |                   | 782       |
| Exercise of stock options  | 54,922       | —      |                |            | 340                        |                   | 340       |
| Net loss                   |              |        |                |            |                            | (1,373 )          | (1,373 )  |
| Balance, June 30, 2014     | 27,765,697   | \$278  | (317,731 )     | \$(3,003 ) | \$165,092                  | \$65,194          | \$227,561 |

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



Orion Marine Group, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(In Thousands)  
(Unaudited)

|   | Six months ended June 30, |          |
|---|---------------------------|----------|
|   | 2014                      | 2013     |
| Cash flows from operating activities  |                           |          |
| Net loss  | \$(1,373                  | ) \$(885 |
| Adjustments to reconcile net loss to net cash provided by Operating activities: |                           |          |
| Depreciation and amortization   | 11,263                    | 10,728   |
| Deferred financing cost amortization  | —                         | 35       |
| Bad debt recoveries   | (7                        | ) (3     |
| Deferred income taxes   | (911                      | ) (747   |
| Stock-based compensation  | 782                       | 1,132    |
| Gain on sale of property and equipment  | (176                      | ) (48    |
| Change in operating assets and liabilities:                                     |                           |          |
| Accounts receivable   | 7,751                     | 14,905   |
| Income tax receivable   | —                         | 269      |
| Inventory   | (1,426                    | ) (869   |
| Prepaid expenses and other  | 498                       | 930      |
| Costs and estimated earnings in excess of billings on uncompleted contracts     | (5,700                    | ) (647   |
| Accounts payable  | (3,311                    | ) (9,324 |
| Accrued liabilities   | 3,054                     | (2,762   |
| Income tax payable  | (103                      | ) 86     |
| Billings in excess of costs and estimated earnings on uncompleted contracts     | (6,673                    | ) (5,700 |
| Deferred revenue  | (29                       | ) (29    |
| Net cash provided by operating activities                                       | 3,639                     | 7,071    |
| Cash flows from investing activities:   |                           |          |
| Proceeds from sale of property and equipment                                    | 338                       | 81       |
| Purchase of land  | (22,199                   | ) —      |
| Purchase of property and equipment  | (10,718                   | ) (6,917 |
| Net cash used in investing activities   | (32,579                   | ) (6,836 |
| Cash flows from financing activities:   |                           |          |
| Borrowings from Credit Facility   | 22,500                    | —        |
| Contribution from non controlling interest                                      | —                         | 33       |
| Payments made on borrowings from Credit Facility                                | (389                      | ) (3,278 |
| Exercise of stock options   | 340                       | 510      |
| Net cash provided by (used in) financing activities                             | 22,451                    | (2,735   |
| Net change in cash and cash equivalents   | (6,489                    | ) (2,500 |
| Cash and cash equivalents at beginning of period                                | 40,859                    | 43,084   |
| Cash and cash equivalents at end of period                                      | \$34,370                  | \$40,584 |
| Supplemental disclosures of cash flow information:                              |                           |          |
| Cash paid during the period for:  |                           |          |
| Interest  | \$325                     | \$337    |
| Taxes (net of refunds)  | \$146                     | \$ (269  |

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



Orion Marine Group, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
(Tabular Amounts in thousands, Except for Share and per Share Amounts)  
(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

Orion Marine Group, Inc., its subsidiaries and affiliates (hereafter collectively referred to as “Orion” or the “Company”) provide a broad range of heavy civil marine construction and specialty services on, over and under the water along the Gulf Coast, the Atlantic Seaboard, the West Coast, and in Alaska, Canada and the Caribbean Basin and acts as a single source turn-key solution for our customers' marine contracting needs. Our heavy civil marine construction services include marine transportation facility construction, marine pipeline construction, marine environmental structures, dredging of waterways, channels and ports, environmental dredging, and specialty services. We are headquartered in Houston, Texas.

Although we describe our business in this report in terms of the services we provide, our base of customers and the geographic areas in which we operate, we have concluded that our operations currently comprise one reportable segment pursuant to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 280 – Segment Reporting. In making this determination, we considered the similar economic characteristics of our operations. The methods used, and the internal processes employed to deliver our heavy civil marine construction services are similar throughout our business, including standardized estimating, project controls and project management. We have the same customers with similar funding drivers throughout our business, and we comply with regulatory environments driven through Federal agencies such as the US Army Corps of Engineers, US Fish and Wildlife Service, US Environmental Protection Agency and the US Occupational Safety and Health Administration, among others. Additionally, our business is driven by macro-economic considerations including import/export seaborne transportation, development of energy related infrastructure, cruise line expansion and operations, marine bridge infrastructure development, waterway pipeline crossings and the maintenance of waterways. These considerations, and others, are key catalysts for future prospects and are similar across our business. The tools used by our chief operating decision maker (“CODM”) to allocate resources and assess performance are based on our business of heavy civil marine construction.

Basis of Presentation

The accompanying condensed consolidated financial statements and financial information included herein have been prepared pursuant to the interim period reporting requirements of Form 10-Q. Consequently, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. Readers of this report should also read our consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (“2013 Form 10-K”) as well as Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations also included in our 2013 Form 10-K.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments considered necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the periods presented. Such adjustments are of a normal recurring nature. Interim results of operations for the three and six months ended June 30, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

## 2. Summary of Significant Accounting Principles

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities; the revenues and expenses reported by the periods covered by the accompanying consolidated financial statements; and certain amounts disclosed in these Notes to Condensed Consolidated Financial Statements. Although these estimates and assumptions are based on management's assessment of the most recent information available, actual results could differ from those estimates and assumptions. Management continually evaluates its estimates, judgments and assumptions based on available information and past experience and makes adjustments accordingly. Please refer to Note 2 of the Notes to Consolidated Financial statements included in our 2013 Form 10-K for a discussion of other significant estimates and assumptions affecting our condensed consolidated financial statements which are not discussed below.

On an ongoing basis, the Company evaluates the significant accounting policies used to prepare its condensed consolidated financial statements, including, but not limited to, those related to:

- Revenue recognition from construction contracts;
- Allowance for doubtful accounts;
- Testing of goodwill and other long-lived assets for possible impairment;
- Income taxes;
- Self-insurance; and
- Stock based compensation.

#### Revenue Recognition

For financial statement purposes, the Company records revenue on construction contracts using the percentage-of-completion method, measured by the percentage of contract costs incurred to date to total estimated costs for each contract. This method is used because management considers contract costs incurred to be the best available measure of progress on these contracts. Contract revenue reflects the original contract price adjusted for agreed upon change orders. Contract costs include all direct costs, such as material and labor, and those indirect costs related to contract performance such as payroll taxes and insurance. General and administrative costs are charged to expense as incurred. Unapproved claims are recognized as an increase in contract revenue only when the collection is deemed probable and if the amount can be reasonably estimated for purposes of calculating total profit or loss on long-term contracts. Incentive fees, if available, are billed to the customer based on the terms and conditions of the contract. The Company records revenue and the unbilled receivable for claims to the extent of costs incurred and to the extent we believe related collection is probable and includes no profit on claims recorded. Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined, without regard to the percentage of completion. Revenue is recorded net of any sales taxes collected and paid on behalf of the customer, if applicable.

The current asset “costs and estimated earnings in excess of billings on uncompleted contracts” represents revenues recognized in excess of amounts billed, which management believes will be billed and collected within one year of the completion of the contract. The liability “billings in excess of costs and estimated earnings on uncompleted contracts” represents billings in excess of revenues recognized.

The Company’s projects are typically short in duration, and usually span a period of less than one year. Historically, the Company has not combined or segmented contracts.

#### Classification of Current Assets and Liabilities

The Company includes in current assets and liabilities amounts realizable and payable in the normal course of contract completion.

#### Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At times, cash held by financial institutions may exceed federally insured limits. The Company has not historically sustained losses on our cash balances in excess of federally insured limits. Cash equivalents at June 30, 2014 and December 31, 2013 consisted primarily of money market mutual funds and overnight bank deposits.

#### Foreign Currencies

Historically, the Company's exposure to foreign currency fluctuations has not been material and has been limited to temporary field accounts, located in countries where the Company performs work, which amounts were insignificant in this reporting period.

#### Risk Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk principally consist of cash and cash equivalents and accounts receivable.

The Company depends on its ability to continue to obtain federal, state and local governmental contracts, and indirectly, on the amount of funding available to these agencies for new and current governmental projects. Therefore, a substantial portion of the Company's operations may be dependent upon the level and timing of government funding. Statutory mechanics liens provide

the Company high priority in the event of lien foreclosures following financial difficulties of private owners, thus minimizing credit risk with private customers.

#### Accounts Receivable

Accounts receivable are stated at the historical carrying value, less write-offs and allowances for doubtful accounts. The Company has significant investments in billed and unbilled receivables as of June 30, 2014. Billed receivables represent amounts billed upon the completion of small contracts and progress billings on large contracts in accordance with contract terms and milestones. Unbilled receivables on fixed-price contracts, which are included in costs in excess of billings, arise as revenues are recognized under the percentage-of-completion method. Unbilled amounts on cost-reimbursement contracts represent recoverable costs and accrued profits not yet billed. Revenue associated with these billings is recorded net of any sales tax, if applicable. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. In establishing an allowance for doubtful accounts, the Company evaluates its contract receivables and costs in excess of billings and thoroughly reviews historical collection experience, the financial condition of its customers, billing disputes and other factors. The Company writes off uncollectible accounts receivable against the allowance for doubtful accounts if it is determined that the amounts will not be collected or if a settlement is reached for an amount that is less than the carrying value. As of June 30, 2014 and December 31, 2013, the Company had not recorded an allowance for doubtful accounts.

Balances billed to customers but not paid pursuant to retainage provisions in construction contracts generally become payable upon contract completion and acceptance of the work by the owner. Retention at June 30, 2014 totaled \$15.0 million, of which \$1.0 million is expected to be collected beyond June 30, 2015. Retention at December 31, 2013 totaled \$10.4 million.

The Company negotiates change orders and claims with its customers. Unsuccessful negotiations of claims could result in a change to contract revenue that is less than its carrying value, which could result in the recording of a loss. Successful claims negotiations could result in the recovery of previously recorded losses. Significant losses on receivables could adversely affect the Company's financial position, results of operations and overall liquidity.

#### Advertising Costs

The Company primarily obtains contracts through the open bid process, and therefore advertising costs are not a significant component of expense. Advertising costs are expensed as incurred.

#### Environmental Costs

Costs related to environmental remediation are charged to expense. Other environmental costs are also charged to expense unless they increase the value of the property and/or provide future economic benefits, in which event the costs are capitalized. Liabilities, if any, are recognized when the expenditure is considered probable and the amount can be reasonably estimated.

#### Fair Value Measurements

We evaluate and present certain amounts included in the accompanying consolidated financial statements at "fair value" in accordance with U. S. GAAP, which requires us to base our estimates on assumptions that market participants, in an orderly transaction, would use to price an asset or liability, and to establish a hierarchy that prioritizes the information used to determine fair value. In measuring fair value, we use the following inputs in the order of priority indicated:

Level I – Quoted prices in active markets for identical, unrestricted assets or liabilities.

Level II – Observable inputs other than Level I prices, such as (i) quoted prices for similar assets or liabilities; (ii) quoted prices in markets that have insufficient volume or infrequent transactions; and (iii) inputs that are derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level III – Unobservable inputs to the valuation methodology that are significant to the fair value measurement.

We generally apply fair value valuation techniques on a non-recurring basis associated with (1) valuing assets and liabilities acquired in connection with business combinations and other transactions; (2) valuing potential impairment loss related to long-lived assets; and (3) valuing potential impairment loss related to goodwill and indefinite-lived intangible assets.

#### Inventory

Inventory consists of parts and small equipment held for use in the ordinary course of business and is valued at the lower of cost (using historical average cost) or market. Where shipping and handling costs are incurred by us, these charges are included in



inventory and charged to cost of contract revenue upon use. Our non-current inventory consists of spare parts (including engines, cutters and gears) that require special order or long-lead times for manufacture or fabrication, but must be kept on hand to reduce downtime on a project.

#### Property and Equipment

Property and equipment are recorded at cost. Ordinary maintenance and repairs that do not improve or extend the useful life of the asset are expensed as incurred. Major renewals and betterments of equipment are capitalized and depreciated generally over three to seven years until the next scheduled maintenance.

When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in results of operations for the respective period. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets for financial statement purposes, as follows:

|                            |               |
|----------------------------|---------------|
| Automobiles and trucks     | 3 to 5 years  |
| Buildings and improvements | 5 to 30 years |
| Construction equipment     | 3 to 15 years |
| Vessels and dredges        | 1 to 15 years |
| Office equipment           | 1 to 5 years  |

The Company generally uses accelerated depreciation methods for tax purposes where appropriate.

Dry-docking costs are capitalized and amortized on the straight-line method over a period ranging from three to 15 years until the next scheduled dry-docking. Dry-docking activities include, but are not limited to, the inspection, refurbishment and replacement of steel, engine components, tailshafts, mooring equipment and other parts of the vessel. Amortization related to dry-docking activities is included as a component of depreciation. These activities and the related amortization periods are periodically reviewed to determine if the estimates are accurate. If warranted, a significant upgrade of equipment may result in a revision to the useful life of the asset, in which case, the change is accounted for prospectively.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheets and reported at the lower of the carrying amount or the fair value, less the costs to sell, and are no longer depreciated. The assets held for sale remaining at June 30, 2014 and December 31, 2013 are expected to be disposed of within one year.

#### Goodwill and Other Intangible Assets

##### Goodwill

The Company has acquired businesses and assets in purchase transactions that resulted in the recognition of goodwill. Goodwill represents the costs in excess of fair values assigned to the underlying net assets in the acquisition. In accordance with U.S. GAAP, acquired goodwill is not amortized, but is subject to impairment testing at least annually or more frequently if events or circumstances indicate that the asset more likely than not may be impaired. In 2013, based on changes in our internal management structure and continuing consolidation efforts, we

determined that our operations comprise a single reporting unit for goodwill impairment testing, which matches our single operating segment for financial reporting.

#### Intangible assets

Intangible assets that have finite lives are amortized. In addition, the Company must evaluate the remaining useful life in each reporting period to determine whether events and circumstances warrant a revision of the remaining period of amortization. If the estimate of an intangible asset's remaining life is changed, the remaining carrying value of such asset is amortized prospectively over that revised remaining useful life.

### Stock-Based Compensation

The Company recognizes compensation expense for equity awards over the vesting period based on the fair value of these awards at the date of grant. The computed fair value of these awards is recognized as a non-cash cost over the period the employee provides services, which is typically the vesting period of the award. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of restricted stock grants is equivalent to the fair value of the stock issued on the date of grant, and is measured as the mean price of the stock on the date of grant.

Compensation expense is recognized only for share-based payments expected to vest. The Company estimates forfeitures at the date of grant based on historical experience and future expectations.

### Income Taxes

The Company determines its consolidated income tax provision using the asset and liability method prescribed by U. S. GAAP, which requires the recognition of income tax expense for the amount of taxes payable or refundable for the current period and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. The Company must make significant assumptions, judgments and estimates to determine its current provision for income taxes, its deferred tax assets and liabilities, and any valuation allowance to be recorded against any deferred tax asset. The current provision for income tax is based upon the current tax laws and the Company's interpretation of these laws, as well as the probable outcomes of any tax audits. The value of any net deferred tax asset depends upon estimates of the amount and category of future taxable income reduced by the amount of any tax benefits that the Company does not expect to realize. Actual operating results and the underlying amount and category of income in future years could render current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate, thus impacting the Company's financial position and results of operations. The Company computes deferred income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740-10 which prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken, or expected to be taken, on its consolidated tax return. The Company evaluates and records any uncertain tax positions based on the amount that management deems is more likely than not to be sustained upon examination and ultimate settlement with the tax authorities in the tax jurisdictions in which it operates.

### Insurance Coverage

The Company maintains insurance coverage for its business and operations. Insurance related to property, equipment, automobile, general liability, and a portion of workers' compensation is provided through traditional policies, subject to a deductible or deductibles. A portion of the Company's workers' compensation exposure is covered through a mutual association, which is subject to supplemental calls.

The Company maintains two levels of excess loss insurance coverage, totaling \$100 million in excess of primary coverage. The Company's excess loss coverage responds to most of its liability policies when a primary limit of \$1 million has been exhausted; provided that the primary limit for Maritime Employer's Liability is \$10 million and the Watercraft Pollution Policy primary limit is \$5 million.

Separately, the Company's employee health care is provided through a trust, administered by a third party. The Company funds the trust based on current claims. The administrator has purchased appropriate stop-loss coverage. Losses on these policies up to the deductible amounts are accrued based upon known claims incurred and an estimate of claims incurred but not reported. The accruals are derived from known facts, historical trends and industry averages to determine the best estimate of the ultimate expected loss. Actual claims may vary from estimates. The Company includes any adjustments to such reserves in its consolidated results of operations in the period in which they become known.

The accrued liability for self-insured claims includes incurred but not reported losses of \$5.7 million and \$5.8 million at June 30, 2014 and December 31, 2013, respectively.

## Recent Accounting Pronouncements

The FASB issues accounting standards and updates (each, an "ASU") from time to time to its Accounting Standards Codification, which is the primary source of U.S. GAAP. The Company regularly monitors ASUs as they are issued and considers applicability to its business. All ASUs are adopted by their respective due dates and in the manner prescribed by the FASB. The following are those recently issued ASUs most likely to affect the presentation of the Company's consolidated financial statements:

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This comprehensive new revenue recognition standard will supersede existing revenue guidance under U. S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The guidance is effective for the Company beginning January 1, 2017. The Company has not yet determined the impact to the Company's financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation - Stock Compensation, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. A performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition under Accounting Standards Codification 718, Compensation - Stock Compensation. As a result, the target is not reflected in the estimation of the award's grant date fair value. Compensation cost would be recognized over the required service period, if it is probable that the performance condition will be achieved. This guidance was issued to resolve diversity in practice. The guidance is effective for the Company beginning January 1, 2016. The Company believes that adoption of the new guidance will not have a material impact on the Company's financial statements.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This update provides guidance for the presentation of an unrecognized tax benefit when, among other things, a net operating loss carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The new guidance was effective for the Company beginning January 1, 2014. The adoption of the new guidance did not have a material impact on the Company's financial statements.

During the periods presented in these financial statements, the Company implemented other new accounting pronouncements other than those noted above that are discussed in the notes where applicable.

## 3. Concentration of Risk and Enterprise Wide Disclosures

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Accounts receivable include amounts billed to governmental agencies and private customers and do not bear interest. Balances billed to customers but not paid pursuant to retainage provisions generally become payable upon contract completion and acceptance by the owner. The table below presents the concentrations of receivables (trade and retainage) at June 30, 2014 and December 31, 2013, respectively:

|                    | June 30, 2014 |     |   | December 31, 2013 |     |   |
|--------------------|---------------|-----|---|-------------------|-----|---|
| Federal Government | \$2,223       | 5   | % | \$4,849           | 10  | % |
| State Governments  | 508           | 1   | % | 4,002             | 8   | % |
| Local Governments  | 10,744        | 26  | % | 8,857             | 18  | % |
| Private Companies  | 28,554        | 68  | % | 31,829            | 64  | % |
| Total receivables  | \$42,029      | 100 | % | \$49,537          | 100 | % |

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At June 30, 2014, a private sector customer and a local port authority represented 22.5% and 9.9% of total receivables, respectively. At December 31, 2013, a private sector customer accounted for 9.9% of total receivables.

Additionally, the table below represents concentrations of revenue by type of customer for the three months and six months ended June 30, 2014 and 2013.

|         | Three months ended June 30, |       |          |       | Six months ended June 30, |       |           |       |
|---------|-----------------------------|-------|----------|-------|---------------------------|-------|-----------|-------|
|         | 2014                        | %     | 2013     | %     | 2014                      | %     | 2013      | %     |
| Federal | \$6,496                     | 7 %   | \$16,544 | 19 %  | \$18,393                  | 11 %  | \$36,493  | 23 %  |
| State   | 10,881                      | 12 %  | 5,797    | 7 %   | 17,791                    | 10 %  | 12,016    | 8 %   |
| Local   | 20,586                      | 23 %  | 13,065   | 16 %  | 34,092                    | 20 %  | 26,186    | 16 %  |
| Private | 52,288                      | 58 %  | 48,675   | 58 %  | 101,233                   | 59 %  | 84,445    | 53 %  |
|         | \$90,251                    | 100 % | \$84,081 | 100 % | \$171,509                 | 100 % | \$159,140 | 100 % |

In the three months ended June 30, 2014, two private customers generated 11.5% and 10.9% of revenues, respectively. In the three months ended June 30, 2013, the United States Corps of Engineers (USCOE) generated 19.0% of total revenues. In the six months ended June 30, 2014, two private customers generated 12.5% and 10.7% of revenues, respectively. For the six months ended June 30, 2013 the USCOE generated 16.3% of total revenues.

The Company does not believe that the loss of any one of these customers would have a material adverse effect on the Company and its subsidiaries and affiliates.

#### 4. Contracts in Progress

Contracts in progress are as follows at June 30, 2014 and December 31, 2013:

|   | June 30,<br>2014 | December 31,<br>2013 |
|---|------------------|----------------------|
| Costs incurred on uncompleted contracts   | \$445,011        | \$360,678            |
| Estimated earnings  | 77,616           | 47,208               |
|   | 522,627          | 407,886              |
| Less: Billings to date  | (499,993)        | (397,625)            |
|   | \$22,634         | \$10,261             |
| Included in the accompanying consolidated balance sheet under the following captions: |                  |                      |
| Costs and estimated earnings in excess of billings on uncompleted contracts           | \$30,556         | \$24,856             |
| Billings in excess of costs and estimated earnings on uncompleted contracts           | (7,922)          | (14,595)             |
|   | \$22,634         | \$10,261             |

Costs and estimated earnings in excess of billings on completed contracts, net of billings totaled \$0.8 million at June 30, 2014.

Contract costs include all direct costs, such as materials and labor, and those indirect costs related to contract performance such as payroll taxes and insurance. Provisions for estimated losses on uncompleted contracts are made in the period in which such estimated losses are determined. Changes in job performance, job conditions and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

5. Property and Equipment

The following is a summary of property and equipment at June 30, 2014 and December 31, 2013:

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|                                      | June 30,<br>2014 | December 31,<br>2013 |
|--------------------------------------|------------------|----------------------|
| Automobiles and trucks               | \$2,048          | \$2,148              |
| Building and improvements            | 23,058           | 22,828               |
| Construction equipment               | 146,632          | 145,309              |
| Dredges and dredging equipment       | 94,428           | 93,963               |
| Office equipment                     | 4,533            | 4,545                |
|                                      | 270,699          | 268,793              |
| Less: accumulated depreciation       | (154,337         | ) (144,121           |
| Net book value of depreciable assets | 116,362          | 124,672              |
| Construction in progress             | 10,158           | 2,458                |
| Land                                 | 36,992           | 14,793               |
|                                      | \$163,512        | \$141,923            |

For the three months ended June 30, 2014, and 2013, depreciation expense was \$5.6 million and \$5.3 million, respectively, and for the sixth month period, depreciation expense was \$11.2 million and \$10.5 million in 2014 and 2013, respectively. Substantially all depreciation expense is included in the cost of contract revenue in the Company's Condensed Consolidated Statements of Operations. The assets of the Company are pledged as collateral under the Company's Credit Agreement (as defined in Note 10).

In February 2014, the Company purchased approximately 340 acres of land located in the upper Houston Ship Channel, Harris County, Texas for approximately \$22 million. The site is being used as a private dredge material placement area, after certain improvements were completed in early 2014. The Company drew on the revolver portion of its credit facility to purchase the land.

The Company's long-lived assets are substantially located in the United States.

## 6. Inventory

Inventory at June 30, 2014 and December 31, 2013, of \$4.1 million and \$3.5 million respectively, consists of spare parts and small equipment held for use in the ordinary course of business.

Non-current inventory at June 30, 2014 and December 31, 2013 totaled \$5.6 million and \$4.8 million in each period, respectively, and consisted primarily of spare engines components kept on hand for the Company's dredging assets.

## 7. Fair Value

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. Due to their short term nature, the Company believes that the carrying value of its accounts receivables, other current assets, accounts payables and other current liabilities approximate their fair values.

The fair value of the Company's reporting units (as needed for purposes of determining indications of impairment to the carrying value of goodwill) is determined using a weighted average of valuations based on market multiples, discounted cash flows, and consideration of our market capitalization.

The fair value of the Company's debt at June 30, 2014 and December 31, 2013 approximated its carrying value of \$30.7 million and \$8.6 million, respectively, as interest is based on current market interest rates for debt with similar risk and maturity. If the Company's debt was measured at fair value, it would have been classified as Level 2 in the

fair value hierarchy.

In addition, we have a noncurrent receivable in the amount of \$1.4 million. We believe the carrying value of this receivable approximates its fair value.

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## 8. Goodwill and Intangible Assets

### Goodwill

The table below summarizes changes in goodwill recorded by the Company during the periods ended June 30, 2014 and December 31, 2013:

|                              | June 30,<br>2014 | December 31,<br>2013 |
|------------------------------|------------------|----------------------|
| Beginning balance, January 1 | \$33,798         | \$33,798             |
| Additions                    | —                | —                    |
| Ending balance               | \$33,798         | \$33,798             |

No indicators of goodwill impairment were identified during the six months ended June 30, 2014.

### Intangible assets

The tables below present the activity and amortizations of finite-lived intangible assets:

|  | Six months ended June 30, |           |
|--|---------------------------|-----------|
|  | 2014                      | 2013      |
| Intangible assets, January 1           | \$7,602                   | \$7,602   |
| Additions                              | —                         | —         |
| Total intangible assets, end of period | 7,602                     | 7,602     |
| Accumulated amortization               | \$(7,404)                 | \$(6,975) |
| Current year amortization              | (56)                      | (241)     |
| Total accumulated amortization         | (7,460)                   | (7,216)   |
| Net intangible assets, end of period   | \$142                     | \$386     |

Intangible assets that were acquired in 2012 as part of the purchase of West Construction amortize over a period of one to three years, as follows:

|              | 2014 | 2015 |
|--------------|------|------|
| Amortization | \$55 | \$87 |

## 9. Accrued Liabilities

Accrued liabilities at June 30, 2014 and December 31, 2013 consisted of the following:

|  | June 30, 2014 | December 31, 2013 |
|--|---------------|-------------------|
| Accrued salaries, wages and benefits   | \$5,775       | \$3,604           |
| Accrual for self-insurance liabilities | 5,715         | 5,787             |
| Property taxes                         | 1,320         | 584               |
| Sales taxes                            | 358           | 481               |
| Other accrued expenses                 | 1,325         | 959               |
|  | \$14,493      | \$11,415          |



## 10. Long-term Debt and Line of Credit

The Company has a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent, and Wells Fargo Securities, LLC. The Credit Agreement, as amended, provides for borrowings under a revolving line of credit and swingline loans, an accordion, and a term loan (together, the "Credit Facility"). The Credit Facility is guaranteed by the subsidiaries of the Company, secured by the assets of the Company, including stock held in its subsidiaries, and may be used to finance working capital, repay indebtedness, fund acquisitions, and for other general corporate purposes. Interest is computed based on the designation of the loans, and bear interest at either a prime-based interest rate or a LIBOR-based interest rate. Principal balances drawn under the Credit Facility may be prepaid at any time, in whole or in part, without premium or penalty. Amounts repaid under the revolving line of credit may be re-borrowed. The Credit Facility matures on June 30, 2015.

### Provisions of the revolving line of credit and accordion

The Company has a maximum borrowing availability under the revolving line of credit and swingline loans (as defined in the Credit Agreement) of \$35 million, with a \$20 million sublimit for the issuance of letters of credit. An additional \$25 million is available subject to the Lender's discretion.

Revolving loans may be designated as prime rate based loans ("ABR Loans") or Eurodollar Loans, at the Company's request, and may be made in an integral multiple of \$500,000, in the case of an ABR Loan, or \$1 million in the case of a Eurodollar Loan. Swingline loans may only be designated as ABR Loans, and may be made in amounts equal to integral multiples of \$100,000. The Company may convert, change or modify such designations from time to time.

Borrowings are subject to a borrowing base, which is calculated as the sum of 80% of eligible accounts receivable, plus 90% of adjusted cash balances, as defined in the Credit Agreement. At June 30, 2014, our borrowing base reflected no limitation in borrowing availability.

At June 30, 2014, \$22.5 million was outstanding on the revolver, reflecting the draw in February 2014 to fund the purchase of the dredge material placement area in Houston, Texas. Outstanding letters of credit, which totaled \$742,000 at June 30, 2014, reduced our maximum borrowing availability to approximately \$11.8 million.

### Provisions of the term loan

At June 30, 2014, the term loan component of the Credit Facility totaled \$8.2 million and is secured by specific dredge assets of the Company. Principal payments on the term loan, in the amount of \$389,000, are due quarterly.

### Financial covenants

Restrictive financial covenants under the Credit Facility include:

- ▲ Fixed Charge Coverage Ratio of not less than 1.50 to 1.00 at all times;
- ▲ Leverage Ratio of not greater than 2.50 to 1.00 at all times;
- ▲ Profitability Covenant such that the Company shall not have a consolidated quarterly loss of greater than \$3,250,000 for the second fiscal quarter of 2014 and;
- ▲ Profitability Covenant such that the Company and its Subsidiaries shall not sustain a consolidated net loss in respect of any four consecutive fiscal quarter periods commencing with the third quarter of 2014.

In addition, the Credit Facility contains events of default that are usual and customary for similar transactions, including non-payment of principal, interest or fees; inaccuracy of representations and warranties; violation of covenants; bankruptcy and insolvency events; and events constituting a change of control.

The Company is subject to a commitment fee, at a current rate of 0.25% of the unused portion of the maximum available to borrow under the Credit Facility. The commitment fee is payable quarterly in arrears.

Interest at June 30, 2014, based on the Eurodollar-option interest rate, was 2.19%. For the year ended December 31, 2013, the weighted average interest rate was 2.40%.

At June 30, 2014, the Company was in compliance with its financial covenants and expects to be in compliance through the maturity date.

The Company expects to meet its future internal liquidity and working capital needs, and maintain or replace its equipment fleet through capital expenditure purchases and major repairs, from funds generated by its operating activities for at least the next 12 months. The Company believes that its cash position is adequate for general business requirements and to service its debt.

## 11. Income Taxes

The Company's effective tax rate is based on expected income, statutory rates and tax planning opportunities available to it. For interim financial reporting, the Company estimates its annual tax rate based on projected taxable income (or loss) for the full year and records a quarterly tax provision in accordance with the anticipated annual rate. The effective rate for the six months ended June 30, 2014 and 2013 was 38.8% and 42.8% in each period, respectively. This differed from the Company's statutory rate of 35% primarily due to state income taxes and the non-deductibility of certain permanent items, such as incentive stock compensation expense, offset by a benefit related to state income taxes.

The Company assessed the realizability of its deferred tax assets at June 30, 2014, and considered whether it was more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets depends upon the generation of future taxable income, which includes the reversal of deferred tax liabilities related to depreciation, during the periods in which these temporary differences become deductible. As of June 30, 2014, the Company believes that all of the deferred tax assets will be utilized and therefore has not recorded a valuation allowance.

The Company has a tax effected net operating loss carryforward ("NOL") of approximately \$2.6 million for state income tax reporting purposes due to the losses sustained in various states. The Company believes it will be able to utilize these NOL's against future income, due to expiration dates well into the future, and therefore no valuation allowance has been established. For federal tax reporting purposes, the Company has utilized its ability to carry back losses to 2009 and 2010. Approximately \$7.7 million remains as a tax carryforward, which the Company believes it will be able to utilize before expiration.

The Company does not believe that its tax positions will significantly change due to any settlement and/or expiration of statutes of limitations prior to June 30, 2015.

In September 2013, the IRS issued its final regulations governing expenditures made on tangible property, and provides guidance on amounts paid to improve tangible property and acquire or produce tangible property, as well as guidance regarding the disposition of property and the expensing of supplies and materials (the "Repair Regulations"). Adoption and implementation is required for tax years beginning on or after January 1, 2014. The Company adopted the Repair Regulations on January 1, 2014. The adoption did not have a material impact on the Company's consolidated results of operations, cash flows or financial position.

## 12. Earnings (Loss) Per Share

Basic earnings (loss) per share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per share are based on the weighted average number of common shares outstanding and the effect of all dilutive common stock equivalents during each period. The exercise price for certain stock options awarded by the Company exceeds the average market price of the Company's common stock. Such stock options are antidilutive and are not included in the computation of earnings (loss) per share. In the three months ended June 30, 2014, as well as in the six month periods ended June 30, 2014 and 2013, no potential common stock equivalents were included as the effect of such would be anti-dilutive. During the three month period ended June 30, 2013, incremental shares related to 1,344,211 potential common stock equivalents were included in the computation of diluted earnings per share.

The following table reconciles the denominators used in the computations of both basic and diluted loss per share:





|  | Three months ended June 30, |            | Six months ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2014                        | 2013       | 2014                      | 2013       |
| Basic:   |                             |            |                           |            |
| Weighted average shares outstanding                              | 27,422,658                  | 27,270,367 | 27,410,384                | 27,250,268 |
| Diluted:   |                             |            |                           |            |
| Total basic weighted average shares outstanding                  | 27,422,658                  | 27,270,367 | 27,410,384                | 27,250,268 |
| Effect of dilutive securities:                                   |                             |            |                           |            |
| Common stock options   | —                           | 330,294    | —                         | —          |
| Total weighted average shares outstanding assuming dilution      | 27,422,658                  | 27,600,661 | 27,410,384                | 27,250,268 |
| Anti-dilutive stock options                                      | 795,133                     | 784,294    | 795,133                   | 798,345    |
| Shares of common stock issued from the exercise of stock options | 33,908                      | 63,134     | 54,922                    | 97,100     |

### 13. Stock-Based Compensation

The Company's stock incentive plan, known as the 2011 Long Term Incentive Plan, or the "2011 LTIP", was approved by shareholders in May 2011 and is administered by the Compensation Committee of the Company's Board of Directors. The 2011 LTIP authorized 3,000,000 shares to be issued under this plan. In general, the 2011 LTIP provides for grants of restricted stock and stock options to be issued with a per-share price equal to the fair market value of a share of common stock on the date of grant. Option terms are specified at each grant date, but are generally are 10 years from the date of issuance. Options generally vest over a three to five year period.

In the three months ended June 30, 2014 and 2013, compensation expense related to stock based awards outstanding was \$375,000 and \$548,000, respectively, and for the six month period, compensation expense was \$0.8 million and \$1.1 million, respectively.

In the three months ended June 30, 2014, 33,908 options were exercised, generating proceeds to the Company of approximately \$203,000. In the three months ended June 30, 2013, the Company received proceeds of approximately \$302,000 upon the exercise of 63,134 options. In the six months ended June 30, 2014, 54,922 options were exercised, generating proceeds to the Company of approximately \$340,000. In the six months ended June 30, 2013, the Company received proceeds of approximately \$510,000 upon the exercise of 97,100 options.

At June 30, 2014, total unrecognized compensation expense related to unvested stock and options was approximately \$1.6 million, which is expected to be recognized over a period of approximately two years.

### 14. Commitments and Contingencies

From time to time the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to such lawsuits, the Company accrues reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on results of operations, cash flows or financial condition.



Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Unless the context otherwise indicates, all references in this quarterly report to "Orion," "the company," "we," "our," or "us" are to Orion Marine Group, Inc. and its subsidiaries taken as a whole.

Certain information in this Quarterly Report on Form 10-Q, including but not limited to Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), may constitute forward-looking statements as such term is defined within the meaning of the "safe harbor" provisions of Section 27A of the Securities Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

All statements other than statements of historical facts, including those that express a belief, expectation, or intention are forward-looking statements. The forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future production, revenues, income and capital spending. Our forward-looking statements are generally accompanied by words such as "estimate," "project," "predict," "believe," "expect," "anticipate," "potential," "plan," "goal" or other words that convey the uncertainty of future events or outcomes.

We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control, including unforeseen productivity delays, levels of government funding or other governmental budgetary constraints, and contract cancellation at the discretion of the customer. These and other important factors, including those described under "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 ("2013 Form 10-K") may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements in this quarterly report on Form 10-Q speak only as of the date of this report; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly.

MD&A provides a narrative analysis explaining the reasons for material changes in the Company's (i) financial condition since the most recent fiscal year-end, and (ii) results of operations during the current fiscal year-to-date period and current fiscal quarter as compared to the corresponding periods of the preceding fiscal year. In order to better understand such changes, this MD&A should be read in conjunction with the Company's fiscal 2013 audited consolidated financial statements and notes thereto included in its 2013 Form 10-K, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2013 Form 10-K and with our unaudited financial statements and related notes appearing elsewhere in this quarterly report.

Overview

Orion Marine Group, Inc., its subsidiaries and affiliates (hereafter collectively referred to as "Orion" or the "Company") provide a broad range of heavy civil marine construction and specialty services on, over and under the water along the Gulf Coast, the Atlantic Seaboard, the West Coast, and in Alaska, Canada and the Caribbean Basin and acts as a single source turn-key solution for its customers' marine contracting needs. Our heavy civil marine construction services include marine transportation facility construction, marine pipeline construction, marine environmental structures, dredging of waterways, channels and ports, environmental dredging, and specialty services. We are headquartered in Houston, Texas. Our customers include federal, state and municipal governments, the combination of which accounted for approximately 42% of our revenue in the three months ended June 30, 2014, as well as private

commercial and industrial enterprises.

Our contracts are obtained primarily through competitive bidding in response to “requests for proposals” by federal, state and local agencies and through negotiation with private parties. Our bidding activity and strategies are affected by such factors as our backlog, current utilization of equipment and other resources, our ability to obtain necessary surety bonds and competitive considerations. The timing and location of awarded contracts may result in unpredictable fluctuations in the results of our operations.

Most of our revenue is derived from fixed-price contracts. There are a number of factors that can create variability in contract performance and therefore impact the results of our operations. The most significant of these include the following:

- completeness and accuracy of the original bid;
- increases in commodity prices such as concrete, steel and fuel;
- customer delays, work stoppages, and other costs due to weather and environmental restrictions;
- availability, skill level of workers; and

a change in availability and proximity of equipment and materials.

All of these factors can contribute to inefficiencies in contract performance, which can adversely affect the timing of revenue recognition and ultimate contract profitability. We plan our operations and bidding activity with these factors in mind and they have not had a material adverse impact on the results of our operations in the past.

#### Second quarter 2014 recap and 2014 Outlook

As expected, fluctuations in the mix of projects in the second quarter led to gaps in project schedules which put pressure on margins due to idle labor and equipment. However, we ended the quarter with a record level backlog of \$281.6 million, which does not include jobs in which we are apparent low bidder.

Our tracking database of future projects of interest remains strong for the foreseeable future, with a steady demand for our heavy civil marine construction services. We continue to identify new bid opportunities in the private sector, reflecting increases in capital projects, both in new construction and refurbishment of existing infrastructure. Additionally, we expect to continue to see some lettings from the Corps of Engineers before the end of the Corps' fiscal year. As a result, we expect to see improvement in the utilization of our assets in the back half of the year. The second half will also benefit from the revenues generated from our Dredge Material Placement Area (DMPA) fees.

In the long-term, and subject to the funding constraints described above, we see positive trends in demands for our services in our end markets, including:

- General demand to repair and improve degrading US marine infrastructure;
- Improving economic conditions and increased activity in the petrochemical industry and energy related companies will necessitate capital expenditures, including larger projects, as well as maintenance call-out work;
- Expected increases in cargo volume and future demands from larger ships transiting the Panama Canal will require ports along the Gulf Coast and Atlantic Seaboard to expand port infrastructure as well as perform additional dredging services;
- The WRDA/WRRDA bills which passed; authorizing expenditures for the conservation and development of the nation's waterways, as well as address funding deficiencies within the Harbor Maintenance Trust Fund; and
  - Renewed focus on coastal rehabilitation along the Gulf Coast, particularly through the use of RESTORE Act funds based on fines collected related to the 2010 Gulf of Mexico oil spill.

#### Consolidated Results of Operations

##### Backlog Information

Our contract backlog represents our estimate of the revenues we expect to realize under the portion of contracts remaining to be performed. Given the typical duration of our contracts, which is generally less than a year, our backlog at any point in time usually represents only a portion of the revenue that we expect to realize during a twelve month period. Many projects that make up our backlog may be canceled at any time without penalty; however, we can generally recover actual committed costs and profit on work performed up to the date of cancellation. Although we have not been materially adversely affected by contract cancellations or modifications in the past, we may be in the future, especially in economically uncertain periods. Consequently, backlog is not necessarily indicative of future results. In addition to our backlog under contract, we also have a substantial number of projects in negotiation or pending award at any time.

Backlog at June 30, 2014 was \$281.6 million, as compared with \$247.3 million at December 31, 2013.



Three months ended June 30, 2014 compared with three months ended June 30, 2013

|   | Three months ended June 30,   |         | 2013       |         |   |
|---|-------------------------------|---------|------------|---------|---|
|   | 2014                          | Percent | Amount     | Percent |   |
|   | (dollar amounts in thousands) |         |            |         |   |
| Contract revenues   | \$90,251                      | 100.0   | % \$84,081 | 100.0   | % |
| Cost of contract revenues                                   | 84,378                        | 93.5    | 76,205     | 90.6    |   |
| Gross profit  | 5,873                         | 6.5     | 7,876      | 9.4     |   |
| Selling, general and administrative expenses                | 8,129                         | 9.0     | 7,826      | 9.3     |   |
| (Loss) income from operations                               | (2,256                        | ) (2.5  | ) 50       | 0.1     |   |
| Other income (expense)                                      |                               |         |            |         |   |
| Gain on sale of assets, net                                 | 84                            | 0.1     | 45         | 0.1     |   |
| Other income  | 467                           | 0.5     | 316        | 0.4     |   |
| Interest income   | —                             | —       | 1          | —       |   |
| Interest expense  | (194                          | ) (0.2  | ) (132     | ) (0.2  | ) |
| Other income, net   | 357                           | 0.4     | 230        | 0.3     |   |
| (Loss) income before income taxes                           | (1,899                        | ) (2.1  | ) 280      | 0.3     |   |
| Income tax benefit  | (736                          | ) (0.8  | ) (22      | ) (0.1  | ) |
| Net (loss) income   | (1,163                        | ) (1.3  | ) 302      | 0.2     |   |
| Net loss attributable to noncontrolling interest            | —                             | —       | (18        | ) —     |   |
| Net (loss) income attributable to Orion common stockholders | \$(1,163                      | ) (1.3  | ) \$320    | 0.2     | % |

**Contract Revenues.** Revenues for the three months ended June 30, 2014 increased approximately 7% as compared with the second quarter of 2013. The increase resulted from the volume of work in backlog at the end of 2013, as well as work performed on new project awards during the quarter.

Revenue generated from private sector customers represented 58% of total revenues in the period, which is comparable with the prior year period. Revenue from private sector customers totaled approximately \$52 million, or an increase of 7% compared with the second quarter of 2013. Improvement in the economy resulted in additional spending by private sector customers on capital infrastructure, particularly those customers in the petrochemical industry.

Contract revenue generated from public sector customers totaled \$38 million, and represented 42% of total revenues in the second quarter of 2014, as compared with \$35.2 million, or 42% of total revenues in the comparable period last year.

**Gross Profit.** Gross profit was \$5.9 million in the second quarter ended June 30, 2014, as compared with \$7.9 million in the second quarter last year. During the second quarter of 2014, gross profit margin decreased as a result of idle labor and equipment as start dates on certain projects were delayed, creating gaps in project schedules. Gross margin in the second quarter was 6.5%, as compared with 9.4% last year, reflecting the mix of contracts in progress, resulting in idle labor and equipment. As measured by cost, our self performance was 83% in the six months ended of both 2014 and 2013. A higher level of job self-performance typically reflects less reliance on third party subcontractors.

**Selling, General and Administrative Expense.** Selling, general and administrative ("SG&A") expenses in the second quarter of 2014 were \$8.1 million, an increase of 3.9% compared with last year. The increase was due generally to additional personnel and related expenses, including group medical expense.

Other income, net of expense. Other expense primarily reflects interest on our borrowings.

Income Tax Benefit. We have estimated our annual effective tax rate at 39% for 2014. This differs from the statutory rate of 35%, due to permanent differences, including incentive stock option expense, and to state income taxes. Our effective rate for the period ended June 30, 2014 was 38.8%.



## Liquidity and Capital Resources

Our primary liquidity needs are to finance our working capital, fund capital expenditures, and pursue strategic acquisitions. Historically, our source of liquidity has been cash provided by our operating activities and borrowings under our Credit Facility (as defined below).

Our working capital position fluctuates from period to period due to normal increases and decreases in operational activity. At June 30, 2014, our working capital was \$41.9 million, as compared with \$65.5 million at December 31, 2013. As of June 30, 2014, we had cash on hand of \$34.4 million. Availability under our revolving credit facility was subject to a borrowing base, which did not limit our borrowing availability. Due to the purchase of the land in February 2014 through a draw on the credit facility, our borrowing capacity at June 30, 2014 was limited to approximately \$11.8 million.

We expect to meet our future internal liquidity and working capital needs, and maintain or replace our equipment fleet through capital expenditure purchases and major repairs, from funds generated by our operating activities for at least the next 12 months. We believe our cash position is adequate for our general business requirements discussed above and to service our debt.

The following table provides information regarding our cash flows and our capital expenditures for the six months ended June 30, 2014 and 2013:

|   | Six months ended June 30, |           |
|---|---------------------------|-----------|
|   | 2014                      | 2013      |
| Cash flows provided by operating activities                   | \$3,639                   | \$7,071   |
| Cash flows used in investing activities                       | \$(32,579)                | \$(6,836) |
| Cash flows provided by (used in) financing activities         | \$22,451                  | \$(2,735) |
| Capital expenditures (included in investing activities above) | \$(10,718)                | \$(6,917) |

**Operating Activities.** In the first six months of 2014, our operations provided approximately \$3.6 million in net cash inflows, as compared with cash provided by operations in the prior year period of \$7.1 million. The change in cash between periods was related to:

- an increase in our net loss of approximately \$0.5 million;
- a decrease in trade account receivable balances, reflecting collections on accounts as well as the timing of billings to customers; however this decrease was more significant in the prior year period, resulting in a net outflow between periods of \$7.2 million;
- net inflow of cash of \$3.0 million between periods related to billings to and payments from customers for costs that cannot be billed, or receipt of payments for items such as mobilization at project commencement;

Changes in working capital are normal within our business and are not necessarily indicative of any fundamental change within working capital components or trend in the underlying business.

**Investing Activities.** Capital asset additions and betterments to our fleet were \$10.7 million in the first six months of 2014, as compared with \$6.9 million in 2013. In addition, in February 2014, we purchased a dredge material placement area in the upper Houston Ship Channel for approximately \$22 million.

**Financing Activities.** In the current year period, we funded the purchase of land in Houston, Texas from our Credit Facility through draws totaling \$22.5 million. In addition, we made scheduled installment payments on the term loan

which reduced the balance to \$8.2 million.

#### Sources of Capital

The Company has a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent, and Wells Fargo Securities, LLC. The Credit Agreement, as amended, provides for borrowings under a revolving line of credit and swingline loans, an accordion, and a term loan (together, the "Credit Facility"). The Credit Facility is guaranteed by the subsidiaries of the Company, secured by the assets of the Company, including stock held in its subsidiaries, and may be used to finance working capital, repay indebtedness, fund acquisitions, and for other general corporate purposes. Interest is computed based on the designation of the loans, and bear interest at either a prime-based interest rate or a LIBOR-based interest rate. Principal

balances drawn under the Credit Facility may be prepaid at any time, in whole or in part, without premium or penalty. Amounts repaid under the revolving line of credit may be re-borrowed. The Credit Facility matures on June 30, 2015.

#### Provisions of the revolving line of credit and accordion

The Company has a maximum borrowing availability under the revolving line of credit and swingline loans (as defined in the Credit Agreement) of \$35 million, with a \$20 million sublimit for the issuance of letters of credit. An additional \$25 million is available subject to the Lender's discretion.

Revolving loans may be designated as prime rate based loans ("ABR Loans") or Eurodollar Loans, at the Company's request, and may be made in an integral multiple of \$500,000, in the case of an ABR Loan, or \$1 million in the case of a Eurodollar Loan. Swingline loans may only be designated as ABR Loans, and may be made in amounts equal to integral multiples of \$100,000. The Company may convert, change or modify such designations from time to time.

Borrowings are subject to a borrowing base, which is calculated as the sum of 80% of eligible accounts receivable, plus 90% of adjusted cash balances, as defined in the Credit Agreement. At June 30, 2014, our borrowing base reflected no limitation in borrowing availability.

At June 30, 2014, \$22.5 million was outstanding under the revolver, reflecting the draw in February 2014 to fund the purchase of the dredge material placement area in Houston, Texas. Outstanding letters of credit, which totaled \$742,000 at June 30, 2014, reduced our maximum borrowing availability to approximately \$11.8 million.

#### Provisions of the term loan

At June 30, 2014, the term loan component of the Credit Facility totaled \$8.2 million and is secured by specific dredge assets of the Company. Principal payments on the term loan, in the amount of \$389,000, are due quarterly.

#### Financial covenants

Restrictive financial covenants under the Credit Facility include:

- ▲ Fixed Charge Coverage Ratio of not less than 1.50 to 1.00 at all times;
- ▲ Leverage Ratio of not greater than 2.50 to 1.00 at all times;
- ▲ Profitability Covenant such that the Company shall not have a consolidated quarterly loss of greater than \$3,250,000 for the second fiscal quarter of 2014, and;
- ▲ Profitability Covenant such that the Company and its Subsidiaries shall not sustain a consolidated net loss in respect of any four consecutive fiscal quarter periods commencing with the third quarter of 2014.

In addition, the Credit Facility contains events of default that are usual and customary for similar transactions, including non-payment of principal, interest or fees; inaccuracy of representations and warranties; violation of covenants; bankruptcy and insolvency events; and events constituting a change of control.

The Company is subject to a commitment fee, at a current rate of 0.25% of the unused portion of the maximum available to borrow under the Credit Facility. The commitment fee is payable quarterly in arrears.

Interest at June 30, 2014, based on a Eurodollar-option interest rate, was 2.19%. For the year ended December 31, 2013, the weighted average interest rate was 2.40%.

At June 30, 2014, the Company was in compliance with its financial covenants and expects to be in compliance through the maturity date.

The Company expects to meet its future internal liquidity and working capital needs, and maintain or replace its equipment fleet through capital expenditure purchases and major repairs, from funds generated by its operating activities for at least the next 12 months. The Company believes its cash position is adequate for general business requirements and to service its debt.

#### Bonding Capacity

We are generally required to provide various types of surety bonds that provide additional security to our customers for our performance under certain government and private sector contracts. Our ability to obtain surety bonds depends on our capitalization, working capital, past performance and external factors, including the capacity of the overall surety market. At June 30, 2014, we believe our capacity under our current bonding arrangement was in excess of \$400 million, of which we had approximately \$190 million in surety bonds outstanding. We believe our strong balance sheet and working capital position will allow us to continue to access our bonding capacity.

#### Effect of Inflation

We are subject to the effects of inflation through increases in the cost of raw materials, and other items such as fuel. Due to the relative short-term duration of our projects, we are generally able to include anticipated price increases in the cost of our bids.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

We do not enter into derivative financial instruments for trading, speculation or other purposes that would expose the Company to market risk. In the normal course of business, our results of operations are subject to risks related to fluctuation in commodity prices and fluctuations in interest rates.

##### Commodity price risk

We are subject to fluctuations in commodity prices for concrete, steel products and fuel. Although we attempt to secure firm quotes from our suppliers, we generally do not hedge against increases in prices for concrete, steel and fuel. Commodity price risks may have an impact on our results of operations due to the fixed-price nature of many of our contracts, although the short-term duration of our projects may allow us to include price increases in the costs of our bids.

##### Interest rate risk

At June 30, 2014, we had \$30.7 million in outstanding borrowings under our revolving credit facility, with a weighted average interest rate over the three month period of 2.19%. Our objectives in managing interest rate risk are to lower our overall borrowing costs and limit interest rate changes on our earnings and cash flows. To achieve this, we closely monitor changes in interest rates and we utilize cash from operations to reduce our debt position, if warranted.

#### Item 4. Controls and Procedures

**Evaluation of Disclosure Controls and Procedures.** As required, the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based on that evaluation, such officers have concluded that the disclosure controls and procedures are effective.

**Changes in Internal Controls.** There have been no changes in our internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II -- Other Information

#### Item 1. Legal Proceedings

For information about litigation involving us, see Note 14 to the condensed consolidated financial statements in Part I of this report, which we incorporate by reference into this Item 1 of Part II.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in our 2013 Form 10-K

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of equity securities in the period ended June 30, 2014.

Item 3. Defaults upon Senior Securities

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None.

Item 4. Mine Safety Disclosure

None.

Item 5. Other Information

None.

Item 6. Exhibits

| Exhibit Number | Description  |
|----------------|--|
| 3.1            | Amended and Restated Certificate of Incorporation of Orion Marine Group, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Form S-1 filed with the Securities and Exchange Commission on August 20, 2007 (File No. 333-145588)).  |
| 3.2            | Amended and Restated Bylaws of Orion Marine Group, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Form S-1 filed with the Securities and Exchange Commission on August 20, 2007 (File No. 333-145588)).  |
| 4.1            | Registration Rights Agreement between Friedman, Billings, Ramsey & Co., Inc. and Orion Marine Group, Inc. dated May 17, 2007 (incorporated herein by reference to Exhibit 4.1 to the Company's Form S-1 filed with the Securities and Exchange Commission on August 20, 2007 (File No. 333-145588)). |
| 10.1           | Second Amendment to Credit Agreement dated as of June 27, 2014 between Orion Marine Group, Inc. and Wells Fargo Bank, National Association, as Administrative Agent; Wells Fargo Securities, LLC as Sole Lead Arranger and Bookrunner  |
| 31.1*          | Certification of the Chief Executive Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2*          | Certification of the Chief Financial Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 20  |
| 32.1*          | Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101.INS        | XBRL Instance Document   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* filed herewith

+ management or compensatory arrangement





SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ORION MARINE GROUP, INC.

By:  
August 1, 2014

/s/ J. Michael Pearson  
J. Michael Pearson  
Chief Executive Officer

By:  
August 1, 2014

/s/ Mark R. Stauffer  
Mark R. Stauffer  
President

By:  
August 1, 2014

/s/ Christopher J. DeAlmeida  
Christopher J. DeAlmeida  
Vice President and Chief Financial Officer