Great Lakes Dredge & Dock CORP
Form 10-Q
May 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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: 001-33225

Great Lakes Dredge & Dock Corporation

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**20-5336063** **(I.R.S. Employer** **Identification No.)**
2122 York Road, Oak Brook, IL **(Address of principal executive offices)**	**60523** **(Zip Code)**

(630) 574-3000

(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 x No ¨

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

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

Large Accelerated Filer	¨	Accelerated Filer	x
Non-Accelerated Filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of May 3, 2013, 59,390,161 shares of the Registrant s Common Stock, par value $.0001 per share, were outstanding.

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Great Lakes Dredge & Dock Corporation and Subsidiaries

Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the Quarterly Period ended March 31, 2013

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PART I Financial Information

Item 1. Financial Statements.

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except per share amounts)

	March 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,643	$ 24,440
Accounts receivable net	141,250	149,142
Contract revenues in excess of billings	73,916	69,574
Inventories	26,629	28,726
Prepaid expenses and other current assets	40,479	41,808
Total current assets	288,917	313,690
PROPERTY AND EQUIPMENT Net	347,740	346,540
GOODWILL AND OTHER INTANGIBLE ASSETS Net	103,967	104,031
INVENTORIES Noncurrent	36,423	37,392
INVESTMENTS IN JOINT VENTURES	6,457	7,047
OTHER	17,509	17,695
TOTAL	$ 801,013	$ 826,395
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 88,624	$ 123,082
Accrued expenses	40,561	38,490
Billings in excess of contract revenues	9,529	11,280
Current portion of long term debt	2,526	13,098
Total current liabilities	141,240	185,950
7 3/8% SENIOR NOTES	250,000	250,000
REVOLVING CREDIT FACILITY	21,500	
DEFERRED INCOME TAXES	103,436	106,767
OTHER	10,252	10,253
Total liabilities	526,428	552,970
COMMITMENTS AND CONTINGENCIES (Note 8)		
EQUITY:		
Common stock $.0001 par value; 90,000 authorized, 59,391 and 59,359 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively.	6	6
Additional paid-in capital	272,156	271,418
Retained earnings	3,024	2,591
Accumulated other comprehensive loss	(369)	(380)

Total Great Lakes Dredge & Dock Corporation equity	274,817	273,635
NONCONTROLLING INTERESTS	(232)	(210)
Total equity	274,585	273,425
TOTAL	$ 801,013	$ 826,395

See notes to unaudited condensed consolidated financial statements.

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Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Contract revenues	$ 188,847	$ 154,907
Costs of contract revenues	163,064	134,885
Gross profit	25,783	20,022
General and administrative expenses	19,187	13,267
(Gain) loss on sale of assets net	2	(31)
Operating income	6,594	6,786
Interest expense net	(5,733)	(5,259)
Equity in loss of joint ventures	(590)	(16)
Gain on foreign currency transactions net	36	6
Income before income taxes	307	1,517
Income tax (provision) benefit	104	(564)
Net income	411	953
Net loss attributable to noncontrolling interests	22	115
Net income attributable to Great Lakes Dredge & Dock Corporation	$ 433	$ 1,068
Basic earnings per share attributable to Great Lakes Dredge & Dock Corporation	$ 0.01	$ 0.02
Basic weighted average shares	59,369	59,038
Diluted earnings per share attributable to Great Lakes Dredge & Dock Corporation	$ 0.01	$ 0.02
Diluted weighted average shares	60,017	59,434
Dividends declared per share	$	$ 0.02

See notes to unaudited condensed consolidated financial statements.

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Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net income	$ 411	$ 953
Currency translation adjustment net of tax (1)	(6)	4
Net unrealized gain on derivatives net of tax (2)	17	474
Other comprehensive income net of tax	11	478
Comprehensive income	422	1,431
Comprehensive loss attributable to noncontrolling interests	22	115
Comprehensive income attributable to Great Lakes Dredge & Dock Corporation	$ 444	$ 1,546

(1) Net of income tax (expense) benefit of $(4) and $3 for the three months ended March 31, 2013 and 2012, respectively.

(2) Net of income tax benefit of $11 and $315 for the three months ended March 31, 2013 and 2012, respectively.

See notes to unaudited condensed consolidated financial statements.

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Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited)

(in thousands)

	Great Lakes Dredge & Dock Corporation shareholders						
	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
BALANCE January 1, 2013	59,359	$ 6	$ 271,418	$ 2,591	$ (380)	$ (210)	$ 273,425
Share-based compensation	27		751				751
Vesting of restricted stock units, including impact of shares withheld for taxes	5		(28)				(28)
Excess income tax benefit from share-based compensation			15				15
Net income (loss)				433		(22)	411
Other comprehensive income net of tax					11		11
BALANCE March 31, 2013	59,391	$ 6	$ 272,156	$ 3,024	$ (369)	$ (232)	$ 274,585

	Great Lakes Dredge & Dock Corporation shareholders						
	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
BALANCE January 1, 2012	58,999	$ 6	$ 267,918	$ 24,042	$ 3	$ 568	$ 292,537
Share-based compensation	94		1,015				1,015
Vesting of restricted stock units, including impact of shares withheld for taxes	9		(2)				(2)
Exercise of stock options	8		40				40
Excess income tax benefit from share-based compensation			27				27
Dividends declared and paid				(1,240)			(1,240)
Dividend equivalents paid on restricted stock units				(12)			(12)
Net income (loss)				1,068		(115)	953
Other comprehensive income net of tax					478		478
BALANCE March 31, 2012	59,111	$ 6	$ 268,998	$ 23,858	$ 481	$ 453	$ 293,796

See notes to unaudited condensed consolidated financial statements.

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Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)

	Three Months Ended March 31, 2013	2012
OPERATING ACTIVITIES:		
Net income	$ 411	$ 953
Adjustments to reconcile net income to net cash flows used in operating activities:		
Depreciation and amortization	12,075	7,764
Equity in loss of joint ventures	590	16
Deferred income taxes	(2,585)	107
(Gain) Loss on dispositions of property and equipment	2	(31)
Amortization of deferred financing fees	288	334
Unrealized foreign currency (gain) loss	41	(133)
Share-based compensation expense	751	1,015
Excess income tax benefit from share-based compensation	(15)	(27)
Changes in assets and liabilities:		
Accounts receivable	8,408	(1,842)
Contract revenues in excess of billings	(4,351)	(5,819)
Inventories	3,066	(1,869)
Prepaid expenses and other current assets	1,343	(7,399)
Accounts payable and accrued expenses	(30,695)	(21,263)
Billings in excess of contract revenues	(1,751)	10,126
Other noncurrent assets and liabilities	(810)	(176)
Net cash flows used in operating activities	(13,232)	(18,244)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(15,514)	(8,101)
Proceeds from dispositions of property and equipment	58	68
Net cash flows used in investing activities	(15,456)	(8,033)
FINANCING ACTIVITIES:		
Repayments of long term note payable	(10,547)	
Dividends paid		(1,240)
Dividend equivalents paid on restricted stock units		(12)
Taxes paid on settlement of vested share awards	(28)	(2)
Repayments of equipment debt	(25)	(238)
Exercise of stock options		40
Excess income tax benefit from share-based compensation	15	27
Borrowings under revolving loans	79,500	
Repayments of revolving loans	(58,000)	
Net cash flows provided by (used in) financing activities	10,915	(1,425)
Effect of foreign currency exchange rates on cash and cash equivalents	(24)	32
Net decrease in cash and cash equivalents	(17,797)	(27,670)
Cash and cash equivalents at beginning of period	24,440	113,288

Cash and cash equivalents at end of period	$ 6,643	$ 85,618
Supplemental Cash Flow Information		
Cash paid for interest	$ 9,881	$ 9,582
Cash paid (refunded) for income taxes	$ 241	$ (2,926)
Non-cash Investing and Financing Activities		
Property and equipment purchased but not yet paid	$ 6,253	$ 4,957

See notes to unaudited condensed consolidated financial statements.

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(dollar amounts in thousands, except per share amounts or as otherwise noted)

1. Basis of presentation

The unaudited condensed consolidated financial statements and notes herein should be read in conjunction with the audited consolidated financial statements of Great Lakes Dredge & Dock Corporation and its subsidiaries (the Company or Great Lakes) and the notes thereto, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. The condensed consolidated financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the SEC s rules and regulations, although management believes that the disclosures are adequate and make the information presented not misleading. In the opinion of management, all adjustments, which are of a normal and recurring nature (except as otherwise noted), that are necessary to present fairly the Company s financial position as of March 31, 2013, and its results of operations for the three months ended March 31, 2013 and 2012 and cash flows for the three months ended March 31, 2013 and 2012 have been included.

The components of costs of contract revenues include labor, equipment (including depreciation, maintenance, insurance and long-term rentals), subcontracts, fuel and project overhead. Hourly labor is generally hired on a project-by-project basis. Costs of contract revenues vary significantly depending on the type and location of work performed and assets utilized. Generally, capital projects have the highest margins due to the complexity of the projects, while coastal protection projects have the most volatile margins because they are most often exposed to variability in weather conditions.

The Company s cost structure includes significant annual equipment-related costs, including depreciation, maintenance, insurance and long-term rentals. These costs have averaged approximately 20% to 23% of total costs of contract revenues over the prior three years. During the year, both equipment utilization and the timing of fixed cost expenditures fluctuate significantly. Accordingly, the Company allocates these fixed equipment costs to interim periods in proportion to revenues recognized over the year, to better match revenues and expenses. Specifically, at each interim reporting date the Company compares actual revenues earned to date on its dredging contracts to expected annual revenues and recognizes equipment costs on the same proportionate basis. In the fourth quarter, any over or under allocated equipment costs are recognized such that the expense for the year equals actual equipment costs incurred during the year.

The Company operates in four operating segments that, through aggregation, comprise two reportable segments: dredging and demolition. Four operating segments were aggregated into two reportable segments as the segments have similarity in economic margins, services, production processes, customer types, distribution methods and regulatory environment. The Company has determined that the operating segments are the Company s four reporting units.

The condensed consolidated results of operations and comprehensive income for the interim periods presented herein are not necessarily indicative of the results to be expected for the full year.

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2. Earnings per share

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. For the three months ended March 31, 2013 and 2012, zero options to purchase shares of common stock were excluded from the calculation of diluted earnings per share based on the application of the treasury stock method. The computations for basic and diluted earnings per share from continuing operations are as follows:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net income attributable to common shareholders of Great Lakes Dredge & Dock Corporation	$ 433	$ 1,068
Weighted-average common shares outstanding basic	59,369	59,038
Effect of stock options and restricted stock units	648	396
Weighted-average common shares outstanding diluted	60,017	59,434
Earnings per share basic	$ 0.01	$ 0.02
Earnings per share diluted	$ 0.01	$ 0.02

3. Accounts receivable and contracts in progress

Accounts receivable at March 31, 2013 and December 31, 2012 are as follows:

	March 31, 2013	December 31, 2012
Completed contracts	$ 56,984	$ 43,898
Contracts in progress	74,653	91,459
Retainage	20,119	24,419
	151,756	159,776
Allowance for doubtful accounts	(2,469)	(2,050)
Total accounts receivable net	$ 149,287	$ 157,726
Current portion of accounts receivable net	$ 141,250	$ 149,142
Long-term accounts receivable and retainage	8,037	8,584
Total accounts receivable net	$ 149,287	$ 157,726

The components of contracts in progress at March 31, 2013 and December 31, 2012 are as follows:

	March 31, 2013	December 31, 2012
Costs and earnings in excess of billings:		
Costs and earnings for contracts in progress	$ 346,231	$ 458,750
Amounts billed	(279,717)	(392,860)

Costs and earnings in excess of billings for contracts in progress	66,514	65,890
Costs and earnings in excess of billings for completed contracts	7,402	3,684
Total contract revenues in excess of billings	$ 73,916	$ 69,574
Billings in excess of costs and earnings:		
Amounts billed	$ (376,801)	$ (338,741)
Costs and earnings for contracts in progress	367,272	327,461
Total billings in excess of contract revenues	$ (9,529)	$ (11,280)

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4. Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established by GAAP that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The accounting guidance describes three levels of inputs that may be used to measure fair value:

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

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

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

The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. At March 31, 2013 and December 31, 2012, the Company held certain derivative contracts that it uses to manage commodity price risk. The Company does not hold or issue derivatives for speculative or trading purposes. The fair values of these financial instruments are summarized as follows:

		Fair Value Measurements at Reporting Date Using		
Description	**At March 31, 2013**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Fuel hedge contracts	$ 150	$	$ 150	$

		Fair Value Measurements at Reporting Date Using		
Description	**At December 31, 2012**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Fuel hedge contracts	$ 178	$	$ 178	$

Fuel hedge contracts

The Company is exposed to certain market risks, primarily commodity price risk as it relates to the diesel fuel purchase requirements, which occur in the normal course of business. The Company enters into heating oil commodity swap contracts to hedge the risk that fluctuations in diesel fuel prices will have an adverse impact on cash flows associated with its domestic dredging contracts. The Company s goal is to hedge approximately 80% of the fuel requirements for work in backlog.

As of March 31, 2013, the Company was party to various swap arrangements to hedge the price of a portion of its diesel fuel purchase requirements for work in its backlog to be performed through March 2014. As of March 31, 2013, there were 2.0 million gallons remaining on these contracts which represent approximately 80% of the Company s forecasted fuel purchases through March 2014. Under these swap agreements, the Company will pay fixed prices ranging from $3.01 to $3.26 per gallon.

At March 31, 2013, the fair value liability of the fuel hedge contracts was estimated to be $150 and is recorded in accrued expenses. At December 31, 2012 the fair value liability of the fuel hedge contracts was estimated to be $178 and is recorded in accrued expenses. The loss reclassified to earnings from changes in fair value of derivatives, net of cash settlements and taxes, for the three months ended March 31, 2013 was $137. The remaining gains and losses included in accumulated other comprehensive income (loss) at March 31, 2013 will be reclassified into earnings over the next twelve months, corresponding to the period during which the hedged fuel is expected to be utilized. The fair values of fuel hedges are corroborated using inputs that are readily observable in public markets; therefore, the Company determines fair value of these fuel hedges using Level 2 inputs.

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The fair value of the fuel hedge contracts outstanding as of March 31, 2013 and December 31, 2012 is as follows:

		Fair Value at	
	Balance Sheet Location	March 31, 2013	December 31, 2012
Liability derivatives:			
Derivatives designated as hedges			
Fuel hedge contracts	Accrued expenses	$ 150	$ 178

Accumulated other comprehensive income

Changes in the components of the accumulated balances of other comprehensive income are as follows:

	Three months ended, March 31,	
	2013	2012
Cumulative translation adjustments net of tax	$ (6)	$ 4
Derivatives:		
Reclassification of derivative losses (gains) to earnings net of tax	137	(406)
Change in fair value of derivatives net of tax	(120)	880
Net unrealized gain on derivatives net of tax	17	474
Total other comprehensive income net of tax	$ 11	$ 478

Adjustments reclassified from accumulated balances of other comprehensive income to earnings are as follows:

		Three months ended March 31,	
	Statement of Operations Location	2013	2012
Derivatives:			
Fuel hedge contracts	Costs of contract revenues	$ 228	$ (675)
	Income tax (provision) benefit	(91)	269
		$ 137	$ (406)

Other financial instruments

The carrying value of financial instruments included in current assets and current liabilities approximates fair value due to the short-term maturities of these instruments. Based on timing of the cash flows and comparison to current market interest rates, the carrying value of our senior revolving credit agreement approximates fair value. In January 2011, the Company issued $250,000 of 7.375% senior notes due February 1, 2019, which were outstanding at March 31, 2013. The senior notes are senior unsecured obligations of the Company and its subsidiaries that guarantee the senior notes. The fair value of the senior notes was $263,750 at March 31, 2013, which is a Level 1 fair value measurement as the senior notes value was obtained using quoted prices in active markets.

5. Accrued expenses

Accrued expenses at March 31, 2013 and December 31, 2012 are as follows:

	March 31, 2013	December 31, 2012
Insurance	$ 10,139	$ 9,070
Payroll and employee benefits	9,560	9,906
Construction liabilities	9,423	6,426
Interest	3,401	7,837
Income and other taxes	1,903	1,699
Plant & overhead accrual	1,898	
Percentage of completion adjustment	1,719	1,552
Other	2,518	2,000
Total accrued expenses	$ 40,561	$ 38,490

6. Long-term debt

On June 4, 2012, the Company entered into a senior revolving credit agreement (the Credit Agreement) with certain financial institutions from time to time party thereto as lenders, Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and an Issuing Lender, Bank of America, N.A., as Syndication Agent and PNC Bank, National Association, BMO Harris Bank N.A. and Fifth Third Bank, as Co-Documentation Agents. The Credit Agreement, which replaced the Company s former revolving credit agreement, provides for a senior revolving credit facility in an aggregate principal amount of up to $175,000, subfacilities for the issuance of standby letters of credit up to a $125,000 sublimit, multicurrency borrowings up to a $50,000 sublimit and swingline loans up to a $10,000 sublimit. The Credit Agreement also includes an incremental loans feature that will allow the Company to increase the senior revolving credit facility by an aggregate principal amount of up to $50,000. This is subject to lenders providing incremental commitments for such increase, provided that no default or event of default exists, and the Company will be in pro forma compliance with the existing financial covenants both before and after giving effect to the increase, and subject to other standard conditions. The prior credit agreement with Bank of America N.A. was terminated.

Depending on the Company s consolidated leverage ratio (as defined in the Credit Agreement), borrowings under the new revolving credit facility will bear interest at the option of the Company at either a LIBOR rate plus a margin of between 1.50% to 2.50% per annum or a base rate plus a margin of between 0.50% to 1.50% per annum.

The new credit facility contains affirmative, negative and financial covenants customary for financings of this type. The Credit Agreement also contains customary events of default (including non-payment of principal or interest on any material debt and breaches of covenants) as well as events of default relating to certain actions by the Company s surety bonding provider. The Credit Agreement requires the Company to maintain a net leverage ratio less than or equal to 4.50 to 1.00 as of the end of each fiscal quarter and a minimum fixed charge coverage ratio of 1.25 to 1.00. At December 31, 2012, the Company s fixed charge coverage ratio was 1.12x, resulting in an event of default under the Credit Agreement.

On March 15, 2013, the Company executed a Waiver and Amendment No. 2 to the Credit Agreement (the Credit Agreement Waiver and Amendment) pursuant to which the counterparties thereto agreed, among other things, to waive any default, event of default, or possible event of default, as applicable, related to the Company s failure to meet the above-described financial covenant in the Credit Agreement.

Separately, the Company determined that a perfection trigger event had occurred under the Credit Agreement as of December 31, 2012. As a result, the outstanding obligations under the Credit Agreement, which were previously unsecured, are now secured by liens on certain of the Company s vessels and all of its domestic accounts receivable, subject to the liens and interests of certain other parties holding first priority perfected liens. Under the original terms of the Credit Agreement, the obligations thereunder that became secured under these circumstances could again become unsecured provided that (i) no event of default has occurred and is continuing and (ii) the Company has maintained for two consecutive quarters, and is projected to maintain for the next two consecutive quarters, a total leverage ratio less than or equal to 3.75 to 1.0. Pursuant to the Credit Agreement Waiver and Amendment, this provision has been amended to add the additional condition that no release of the liens securing the obligations under the Credit Agreement can occur until the Company has delivered to the lenders its audited financial statements with respect to its fiscal year ending December 31, 2013.

The obligations of Great Lakes under the Credit Agreement are unconditionally guaranteed, on a joint and several basis, by each existing and subsequently acquired or formed material direct and indirect domestic subsidiary of the Company. During a year, the Company frequently borrows and repays amounts under its revolving credit facility. As of March 31, 2013, the Company had $21,500 of borrowings on the revolver and $33,420 of letters of credit outstanding, resulting in $120,080 of availability under the Credit Agreement. At March 31, 2013, the Company was in compliance with its various covenants under its Credit Agreement.

The Company has a $24,000 international letter of credit facility that it uses for the performance and advance payment guarantees on the Company s foreign contracts. As of March 31, 2013, Great Lakes had no letters of credit outstanding under this facility. At March 31, 2013, the Company also had $250,000 of 7.375% senior notes outstanding, which mature in February 2019.

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7. Segment information

The Company and its subsidiaries currently operate in two reportable segments: dredging and demolition. The Company s financial reporting systems present various data for management to run the business, including profit and loss statements prepared according to the segments presented. Management uses operating income to evaluate performance between the two segments. Segment information for the periods presented is provided as follows:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Dredging		
Contract revenues	$ 173,959	$ 123,673
Operating income	19,000	4,899
Demolition		
Contract revenues	$ 14,888	$ 32,546
Operating income (loss)	(12,406)	1,887
Intersegment revenues	$	$ (1,312)
Total		
Contract revenues	$ 188,847	$ 154,907
Operating income	6,594	6,786

Foreign dredging revenue of $38,385 and $18,025 for the three months ended March 31, 2013 and 2012, respectively, was primarily attributable to work done in the Middle East as well as for the Wheatstone LNG project in Western Australia.

The majority of the Company s long-lived assets are marine vessels and related equipment. At any point in time, the Company may employ certain assets outside of the U.S., as needed, to perform work on the Company s foreign projects.

8. Commitments and contingencies

Commercial commitments

Performance and bid bonds are customarily required for dredging and marine construction projects, as well as some demolition projects. In September 2011, the Company entered into a bonding agreement with Zurich American Insurance Company (Zurich) under which the Company can obtain performance, bid and payment bonds. Bid bonds are generally obtained for a percentage of bid value and amounts outstanding typically range from $1,000 to $10,000. At March 31, 2013, the Company had outstanding performance bonds valued at approximately $612,677; however, the revenue value remaining in backlog related to these projects totaled approximately $186,754. Certain foreign projects performed by the Company have warranty periods, typically spanning no more than one to three years beyond project completion, whereby the Company retains responsibility to maintain the project site to certain specifications during the warranty period. Generally, any potential liability of the Company is mitigated by insurance, shared responsibilities with consortium partners, and/or recourse to owner-provided specifications.

Legal proceedings and other contingencies

As is customary with negotiated contracts and modifications or claims to competitively bid contracts with the federal government, the government has the right to audit the books and records of the Company to ensure compliance with such contracts, modifications, or claims, and the applicable federal laws. The government has the ability to seek a price adjustment based on the results of such audit. Any such audits have not had, and are not expected to have, a material impact on the financial position, operations, or cash flows of the Company.

Various legal actions, claims, assessments and other contingencies arising in the ordinary course of business are pending against the Company and certain of its subsidiaries. These matters are subject to many uncertainties, and it is possible that some of these matters could ultimately be decided, resolved, or settled adversely to the Company. Although the Company is subject to various claims and legal actions that arise in the ordinary course of business, except as described below, the Company is not currently a party to any material legal proceedings or environmental claims. The Company records an accrual 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 effect on the Company s results of operations, cash flows or financial condition.

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On August 26, 2009, the Company s subsidiary, NASDI, LLC (NASDI), received a letter stating that the Attorney General for the Commonwealth of Massachusetts is investigating alleged violations of the Massachusetts Solid Waste Act. The Company believes that the Massachusetts Attorney General is investigating illegal dumping activities at a dump site NASDI contracted with to have waste materials disposed of between September 2007 and July 2008. Per the Massachusetts Attorney General s request, NASDI executed a tolling agreement regarding the matter in 2009 and engaged in further discussions with the Massachusetts Attorney General s office in the second quarter of 2011, but has had no further contact with the Massachusetts Attorney General s office since then. The matter remains open, and, to the Company s knowledge, no proceedings have currently been initiated against NASDI. Should a claim be brought, NASDI intends to defend itself vigorously. Based on consideration of all of the facts and circumstances now known, the Company does not believe this claim will have a material impact on its business, financial position, results of operations or cash flows.

On March 27, 2011, NASDI received a subpoena from a federal grand jury in the District of Massachusetts directing NASDI to furnish certain documents relating to certain projects performed by NASDI since January 2005. The Company conducted an internal investigation into this matter and continues to fully cooperate with the federal grand jury subpoena. Based on the early stage of the U.S. Department of Justice s investigation and the limited information known to the Company, the Company cannot predict the outcome of the investigation, the U.S. Attorney s views of the issues being investigated, any action the U.S. Attorney may take, or the impact, if any, that this matter may have on the Company s business, financial position, results of operations or cash flows.

On March 19, 2013, the Company and three of its current and former executives were sued in a securities class action in the Northern District of Illinois captioned *United Union of Roofers, Waterproofers & Allied Workers Local Union No. 8 v. Great Lakes Dredge & Dock Corporation et al.*, Case No. 1:13-cv-02115. The lawsuit, which was brought on behalf of all purchasers of the Company s securities between August 7, 2012 and March 14, 2013, primarily alleges that the defendants made false and misleading statements regarding the recognition of revenue in the demolition segment and with regard to the Company s internal control over financial reporting. This suit was filed following the Company s announcement on March 14, 2013 that it would restate its second and third quarter 2012 financial statements. Two additional, similar lawsuits captioned *Boozer v. Great Lakes Dredge & Dock Corporation et al.*, Case No. 1:13-cv-02339, and *Connors v. Great Lakes Dredge & Dock Corporation et al.*, Case No. 1:13-cv-02450, were filed in the Northern District of Illinois on March 28, 2013, and April 2, 2013, respectively. The Company denies liability and intends to vigorously defend these actions.

On March 28, 2013, the Company was named as a nominal defendant, and its directors were named as defendants, in a shareholder derivative action in DuPage County Circuit Court in Illinois captioned *Hammoud v. Berger et al.*, Case No. 2013CH001110. The lawsuit primarily alleges breaches of fiduciary duties related to allegedly false and misleading statements regarding the recognition of revenue in the demolition segment and with regard to the Company s internal control over financial reporting, which exposed the Company to securities litigation. A second, similar lawsuit captioned *The City of Haverhill Retirement System v. Leight et al.*, Case No. 1:13-cv-02470, was filed in the Northern District of Illinois on April 2, 2013.

The Company has not accrued any amounts with respect to the above matters as the Company does not believe, based on information currently known to it, that a loss relating to these matters is probable, and an estimate of a range of potential losses relating to these matters cannot reasonably be made.

During the quarter ended March 31, 2012, a favorable judgment was rendered in the Company s loss of use claim related to the dredge *New York* allision in the approach channel to Port Newark, New Jersey. In January 2008, the Company filed suit against the M/V *Orange Sun* and her owners for damages incurred by the Company in connection with the allision. Following a bench trial in the United States District Court in the Southern District of New York, the Court issued an opinion and order in the Company s favor, entitling Great Lakes to $11,736 in damages plus pre-judgment interest. Judgment was rendered in the aggregate amount of $13,272. Defendants timely appealed the judgment to the United States Court of Appeals for the Second Circuit. Oral argument was conducted on April 5, 2013 and on April 30, 2013 the appellate panel summarily affirmed the trial court s opinion in favor of Great Lakes. The defendants are entitled to appeal the decision to either the Second Circuit en banc or the Supreme Court of the United States. The Company cannot be assured whether defendants will continue to appeal the judgment or predict the outcome of any further appellate process.

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9. Subsidiary guarantors

The Company s long-term debt at March 31, 2013 includes $250,000 of 7.375% senior notes due February 1, 2019. The Company s obligations under these senior unsecured notes are guaranteed by the Company s 100% owned domestic subsidiaries. Such guarantees are full, unconditional and joint and several.

The following supplemental financial information sets forth for the Company s subsidiary guarantors (on a combined basis), the Company s non-guarantor subsidiaries (on a combined basis) and Great Lakes Dredge & Dock Corporation, exclusive of its subsidiaries (GLDD Corporation):

(i) balance sheets as of March 31, 2013 and December 31, 2012;

(ii) statements of operations and comprehensive income for the three months ended March 31, 2013 and 2012; and

(iii) statements of cash flows for the three months ended March 31, 2013 and 2012.

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF MARCH 31, 2013

(In thousands)

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 6,336	$ 307	$	$	$ 6,643
Accounts receivable net	137,857	3,393			141,250
Receivables from affiliates	87,422	5,982	3,514	(96,918)	
Contract revenues in excess of billings	73,450	534		(68)	73,916
Inventories	26,629				26,629
Prepaid expenses and other current assets	29,326	20	11,133		40,479
Total current assets	361,020	10,236	14,647	(96,986)	288,917
PROPERTY AND EQUIPMENT Net	347,706	34			347,740
GOODWILL AND OTHER INTANGIBLE ASSETS Net	103,633	334			103,967
INVENTORIES Noncurrent	36,423				36,423
INVESTMENTS IN JOINT VENTURES	6,457				6,457
INVESTMENTS IN SUBSIDIARIES	2,081		650,100	(652,181)	
OTHER	11,444	3	6,062		17,509
TOTAL	$ 868,764	$ 10,607	$ 670,809	$ (749,167)	$ 801,013
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Accounts payable	$ 86,909	$ 1,310	$ 405	$	$ 88,624
Payables to affiliates	75,529	4,720	16,525	(96,774)	
Accrued expenses	35,980	726	3,855		40,561
Billings in excess of contract revenues	9,474	267		(212)	9,529
Current portion of long term debt	2,526				2,526
Total current liabilities	210,418	7,023	20,785	(96,986)	141,240
7 3/8% SENIOR NOTES			250,000		250,000
REVOLVING CREDIT FACILITY			21,500		21,500
DEFERRED INCOME TAXES	45		103,391		103,436
OTHER	9,704		548		10,252
Total liabilities	220,167	7,023	396,224	(96,986)	526,428
Total Great Lakes Dredge & Dock Corporation Equity	648,597	3,584	274,817	(652,181)	274,817
NONCONTROLLING INTERESTS			(232)		(232)
TOTAL EQUITY	648,597	3,584	274,585	(652,181)	274,585
TOTAL	$ 868,764	$ 10,607	$ 670,809	$ (749,167)	$ 801,013

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2012

(In thousands)

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 24,272	$ 168	$	$	$ 24,440
Accounts receivable net	147,610	1,532			149,142
Receivables from affiliates	102,968	7,680	38,115	(148,763)	
Contract revenues in excess of billings	69,649	5		(80)	69,574
Inventories	28,726				28,726
Prepaid expenses and other current assets	27,147	28	14,633		41,808
Total current assets	400,372	9,413	52,748	(148,843)	313,690
PROPERTY AND EQUIPMENT Net	346,503	37			346,540
GOODWILL AND OTHER INTANGIBLE ASSETS Net	103,687	344			104,031
INVENTORIES Noncurrent	37,392				37,392
INVESTMENTS IN JOINT VENTURES	7,047				7,047
INVESTMENTS IN SUBSIDIARIES	2,127		618,070	(620,197)	
OTHER	11,350	2	6,343		17,695
TOTAL	$ 908,478	$ 9,796	$ 677,161	$ (769,040)	$ 826,395
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Accounts payable	$ 122,191	$ 891	$	$	$ 123,082
Payables to affiliates	105,303	4,843	38,647	(148,793)	
Accrued expenses	29,417	677	8,396		38,490
Billings in excess of contract revenues	11,207	123		(50)	11,280
Current portion of long term debt	13,098				13,098
Total current liabilities	281,216	6,534	47,043	(148,843)	185,950
7 3/8% SENIOR NOTES			250,000		250,000
DEFERRED INCOME TAXES	623		106,144		106,767
OTHER	9,704		549		10,253
Total liabilities	291,543	6,534	403,736	(148,843)	552,970
Total Great Lakes Dredge & Dock Corporation Equity	616,935	3,262	273,635	(620,197)	273,635
NONCONTROLLING INTERESTS			(210)		(210)
TOTAL EQUITY	616,935	3,262	273,425	(620,197)	273,425
TOTAL	$ 908,478	$ 9,796	$ 677,161	$ (769,040)	$ 826,395

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2013

(In thousands)

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
Contract revenues	$ 185,419	$ 3,759	$	$ (331)	$ 188,847
Costs of contract revenues	(159,932)	(3,463)		331	(163,064)
Gross profit	25,487	296			25,783
OPERATING EXPENSES:					
General and administrative expenses	18,996	191			19,187
(Gain) loss on sale of assets net	2				2
Operating income	6,489	105			6,594
Interest expense net	(19)	(42)	(5,672)		(5,733)
Equity in earnings (loss) of subsidiaries	(47)		9,556	(9,509)	
Equity in loss of joint ventures	(590)				(590)
Gain on foreign currency transactions net	36				36
Income (loss) before income taxes	5,869	63	3,884	(9,509)	307
Income tax (provision) benefit	3,577		(3,473)		104
Net income (loss)	9,446	63	411	(9,509)	411
Net loss attributable to noncontrolling interests			22		22
Net income (loss) attributable to Great Lakes Dredge & Dock Corporation	$ 9,446	$ 63	$ 433	$ (9,509)	$ 433
Comprehensive income (loss) attributable to Great Lakes Dredge & Dock Corporation	$ 9,463	$ 57	$ 444	$ (9,520)	$ 444

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2012

(In thousands)

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
Contract revenues	$ 155,444	$ 1,799	$	$ (2,336)	$ 154,907
Costs of contract revenues	(135,167)	(2,054)		2,336	(134,885)
Gross profit	20,277	(255)			20,022
OPERATING EXPENSES:					
General and administrative expenses	12,569	186	512		13,267
(Gain) loss on sale of assets net	(42)		11		(31)
Operating income (loss)					