

Great Lakes Dredge & Dock CORP
Form 10-Q
August 06, 2014
Table of Contents

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 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: 001-33225

Great Lakes Dredge & Dock Corporation
(Exact name of registrant as specified in its charter)

| | |
|---|--|
| Delaware (State or other jurisdiction of | 20-5336063 (I.R.S. Employer |
| incorporation or organization) | 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 No

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

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

Large Accelerated Filer Accelerated Filer

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

As of August 1, 2014, 59,959,231 shares of the Registrant's Common Stock, par value \$.0001 per share, were outstanding.

Table of Contents

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 June 30, 2014

INDEX

| | Page |
|--|-------------|
| <u>Part I Financial Information (Unaudited)</u> | 3 |
| Item 1 <u>Financial Statements</u> | 3 |
| <u>Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013</u> | 3 |
| <u>Condensed Consolidated Statements of Operations for the Three and Six Months ended June 30, 2014 and 2013</u> | 4 |
| <u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months ended June 30, 2014 and 2013</u> | 5 |
| <u>Condensed Consolidated Statements of Equity for the Six Months ended June 30, 2014 and 2013</u> | 6 |
| <u>Condensed Consolidated Statements of Cash Flows for the Six Months ended June 30, 2014 and 2013</u> | 7 |
| <u>Notes to Condensed Consolidated Financial Statements</u> | 8 |
| Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 25 |
| Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 34 |
| Item 4 <u>Controls and Procedures</u> | 35 |
| <u>Part II Other Information</u> | 36 |
| Item 1 <u>Legal Proceedings</u> | 36 |
| Item 1A <u>Risk Factors</u> | 36 |
| Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 36 |
| Item 3 <u>Defaults Upon Senior Securities</u> | 36 |
| Item 4 <u>Mine Safety Disclosures</u> | 36 |
| Item 5 <u>Other Information</u> | 36 |
| Item 6 <u>Exhibits</u> | 37 |
| <u>Signature</u> | 38 |
| <u>Exhibit Index</u> | 39 |

Table of Contents**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)**

| | June 30, 2014 | December 31, 2013 |
|---|--------------------------|------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 38,067 | \$ 75,338 |
| Accounts receivable net | 74,906 | 96,515 |
| Contract revenues in excess of billings | 89,070 | 67,432 |
| Inventories | 33,643 | 32,500 |
| Prepaid expenses and other current assets | 57,310 | 44,164 |
| Assets held for sale | 1,704 | 45,104 |
| Total current assets | 294,700 | 361,053 |
| PROPERTY AND EQUIPMENT Net | 366,271 | 345,620 |
| GOODWILL AND OTHER INTANGIBLE ASSETS Net | 81,031 | 81,302 |
| INVENTORIES Noncurrent | 38,568 | 38,496 |
| INVESTMENTS IN JOINT VENTURES | 5,619 | 8,256 |
| ASSETS HELD FOR SALE Noncurrent | | 8,856 |
| OTHER | 9,147 | 9,062 |
| TOTAL | \$ 795,336 | \$ 852,645 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 101,672 | \$ 116,121 |
| Accrued expenses | 45,079 | 38,531 |
| Billings in excess of contract revenues | 12,298 | 6,754 |
| Current portion of long term debt | 278 | |
| Liabilities held for sale | | 32,493 |
| Total current liabilities | 159,327 | 193,899 |
| 7 3/8% SENIOR NOTES | 250,000 | 250,000 |
| REVOLVING CREDIT FACILITY | 35,000 | 35,000 |
| DEFERRED INCOME TAXES | 104,590 | 108,511 |

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

| | | |
|---|------------|------------|
| LIABILITIES HELD FOR SALE Noncurrent | | 1,212 |
| OTHER | 9,909 | 21,922 |
| Total liabilities | 558,826 | 610,544 |
| COMMITMENTS AND CONTINGENCIES (Note 8) | | |
| EQUITY: | | |
| Common stock \$.0001 par value; 90,000 authorized, 59,955 and 59,670 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively | 6 | 6 |
| Additional paid-in capital | 275,382 | 275,183 |
| Accumulated deficit | (38,402) | (31,770) |
| Accumulated other comprehensive loss | (476) | (473) |
| Total Great Lakes Dredge & Dock Corporation equity | 236,510 | 242,946 |
| NONCONTROLLING INTERESTS | | (845) |
| Total equity | 236,510 | 242,101 |
| TOTAL | \$ 795,336 | \$ 852,645 |

See notes to unaudited condensed consolidated financial statements.

Table of Contents**Great Lakes Dredge & Dock Corporation and Subsidiaries****Condensed Consolidated Statements of Operations****(Unaudited)****(in thousands, except per share amounts)**

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Contract revenues | \$ 184,709 | \$ 147,125 | \$ 359,091 | \$ 327,278 |
| Costs of contract revenues | 158,506 | 133,353 | 311,981 | 282,772 |
| Gross profit | 26,203 | 13,772 | 47,110 | 44,506 |
| General and administrative expenses | 15,918 | 15,343 | 33,788 | 31,579 |
| Proceeds from loss of use claim | | (13,272) | | (13,272) |
| Loss on sale of assets net | 16 | 71 | 168 | 73 |
| Operating income | 10,269 | 11,630 | 13,154 | 26,126 |
| Interest expense net | (5,012) | (5,396) | (10,028) | (11,129) |
| Equity in loss of joint ventures | (1,435) | (384) | (3,278) | (975) |
| Gain on bargain purchase acquisition | 2,197 | | 2,197 | |
| Gain (loss) on foreign currency transactions net | (39) | (261) | 26 | (225) |
| Income from continuing operations before income taxes | 5,980 | 5,589 | 2,071 | 13,797 |
| Income tax provision | (2,097) | (1,810) | (644) | (5,266) |
| Income from continuing operations | 3,883 | 3,779 | 1,427 | 8,531 |
| Loss from discontinued operations, net of income taxes | (5,320) | (28,967) | (8,059) | (33,308) |
| Net loss | (1,437) | (25,188) | (6,632) | (24,777) |
| Net income attributable to noncontrolling interest | | (53) | | (31) |
| Net loss attributable to common stockholders of Great Lakes Dredge & Dock Corporation | \$ (1,437) | \$ (25,241) | \$ (6,632) | \$ (24,808) |
| Basic earnings per share attributable to continuing operations | 0.06 | 0.06 | 0.02 | 0.14 |
| Basic loss per share attributable to discontinued operations, net of tax | (0.08) | (0.49) | (0.13) | (0.56) |
| Basic loss per share attributable to Great Lakes Dredge & Dock Corporation | \$ (0.02) | \$ (0.43) | \$ (0.11) | \$ (0.42) |
| Basic weighted average shares | 59,863 | 59,436 | 59,786 | 59,403 |
| Diluted earnings per share attributable to continuing operations | 0.06 | 0.06 | 0.02 | 0.14 |
| | (0.08) | (0.48) | (0.13) | (0.55) |

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

Diluted loss per share attributable to discontinued operations,
net of tax

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Diluted loss per share attributable to Great Lakes Dredge & Dock Corporation | \$ (0.02) | \$ (0.42) | \$ (0.11) | \$ (0.41) |
| Diluted weighted average shares | 60,538 | 59,958 | 60,459 | 59,957 |

See notes to unaudited condensed consolidated financial statements.

Table of Contents

Great Lakes Dredge & Dock Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)
(in thousands)

| | Three Months | | Six Months Ended | |
|---|---------------------|--------------------|-------------------------|--------------------|
| | Ended | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Net loss | \$ (1,437) | \$ (25,188) | \$ (6,632) | \$ (24,777) |
| Currency translation adjustment net of tax (1) | 216 | (75) | 27 | (81) |
| Net unrealized (gain) loss on derivatives net of tax (2) | 259 | (51) | (30) | (34) |
| Other comprehensive income (loss) net of tax | 475 | (126) | (3) | (115) |
| Comprehensive loss | (962) | (25,314) | (6,635) | (24,892) |
| Comprehensive income attributable to noncontrolling interests | | (53) | | (31) |
| Comprehensive loss attributable to Great Lakes Dredge & Dock Corporation | \$ (962) | \$ (25,367) | \$ (6,635) | \$ (24,923) |

(1) Net of income tax expense of \$143 and \$48 for the three months ended June 30, 2014 and 2013, respectively, and \$17 and \$52 for six months ended June 30, 2014 and 2013, respectively.

(2) Net of income tax (expense) benefit of \$173 and \$(34) for the three months ended June 30, 2014 and 2013, respectively, and \$(21) and \$(23) for the six months ended June 30, 2014 and 2013, respectively.

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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 | Accumulated Deficit | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total |
|--|------------------------------|-----------------|----------------------------------|------------------------|---|-----------------------------|------------|
| BALANCE January 1, 2014 | 59,670 | \$ 6 | \$ 275,183 | \$ (31,770) | \$ (473) | \$ (845) | \$ 242,101 |
| Share-based compensation | 63 | | 987 | | | | 987 |
| Vesting of restricted stock units, including impact of shares withheld for taxes | 110 | | (484) | | | | (484) |
| Exercise of options and purchases from employee stock plans | 112 | | 620 | | | | 620 |
| Excess income tax benefit from share-based compensation | | | 64 | | | | 64 |
| Purchase of noncontrolling interest | | | (988) | | | 845 | (143) |
| Net loss | | | | (6,632) | | | (6,632) |
| Other comprehensive loss net of tax | | | | | (3) | | (3) |
| BALANCE June 30, 2014 | 59,955 | \$ 6 | \$ 275,382 | \$ (38,402) | \$ (476) | \$ | \$ 236,510 |

Great Lakes Dredge & Dock Corporation
shareholders

| | Shares of Common Stock | Common Stock | Additional Paid-In Capital | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total |
|--|------------------------------|-----------------|----------------------------------|--|---|-----------------------------|------------|
| BALANCE January 1, 2013 | 59,359 | \$ 6 | \$ 271,418 | \$ 2,591 | \$ (380) | \$ (210) | \$ 273,425 |
| Share-based compensation | 49 | | 1,452 | | | | 1,452 |
| Vesting of restricted stock units, including impact of shares withheld for taxes | 62 | | (277) | | | | (277) |

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

| | | | |
|---|--------|----------|---|
| Exercise of stock options | 1 | 2 | 2 |
| Excess income tax benefit from share-based compensation | | 93 | 93 |
| Distributions paid to noncontrolling interests | | | (3) (3) |
| Net income (loss) | | (24,808) | 31 (24,777) |
| Other comprehensive income net of tax | | | (115) (115) |
| BALANCE June 30, 2013 | 59,471 | \$ 6 | \$ 272,688 \$ (22,217) \$ (495) \$ (182) \$ 249,800 |

See notes to unaudited condensed consolidated financial statements.

Table of Contents**Great Lakes Dredge & Dock Corporation and Subsidiaries****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(in thousands)**

| | Six Months Ended June 30, | |
|---|--------------------------------------|-------------|
| | 2014 | 2013 |
| OPERATING ACTIVITIES: | | |
| Net loss | \$ (6,632) | \$ (24,777) |
| Loss from discontinued operations, net of income taxes | (8,059) | (33,308) |
| Income from continuing operations | 1,427 | 8,531 |
| Adjustments to reconcile net loss to net cash flows used in operating activities: | | |
| Depreciation and amortization | 21,921 | 22,480 |
| Equity in loss of joint ventures | 3,278 | 975 |
| Deferred income taxes | (6,292) | (1,463) |
| Loss on sale of assets | 168 | 73 |
| Gain on bargain purchase acquisition | (2,197) | |
| Amortization of deferred financing fees | 576 | 576 |
| Unrealized foreign currency (gain) loss | (56) | 68 |
| Share-based compensation expense | 987 | 1,452 |
| Excess income tax benefit from share-based compensation | (64) | (93) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 21,052 | (6,435) |
| Contract revenues in excess of billings | (21,387) | (9,921) |
| Inventories | (1,188) | (167) |
| Prepaid expenses and other current assets | 5,217 | (3,361) |
| Accounts payable and accrued expenses | (12,611) | (21,050) |
| Billings in excess of contract revenues | 5,266 | (2,534) |
| Other noncurrent assets and liabilities | (1,106) | (715) |
| Net cash flows provided by operating activities of continuing operations | 14,991 | (11,584) |
| Net cash flows used in operating activities of discontinued operations | (3,965) | (7,304) |
| Cash provided by (used in) operating activities | 11,026 | (18,888) |
| INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (48,525) | (27,693) |
| Proceeds from dispositions of property and equipment | 341 | 208 |
| Proceeds from (payments on) vendor performance obligations | (3,100) | 13,600 |
| Payments for acquisitions of businesses | (2,048) | |
| Net cash flows used in investing activities of continuing operations | (53,332) | (13,885) |

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

| | | |
|--|-------------|-----------|
| Net cash flows provided by (used in) investing activities of discontinued operations | 5,275 | (246) |
| Cash used in investing activities | (48,057) | (14,131) |
| FINANCING ACTIVITIES: | | |
| Repayments of long term note payable | | (10,547) |
| Taxes paid on settlement of vested share awards | (484) | (277) |
| Repayments of equipment debt | (41) | |
| Purchase of noncontrolling interest | (205) | |
| Exercise of options and purchases from employee stock plans | 620 | 2 |
| Excess income tax benefit from share-based compensation | 64 | 93 |
| Borrowings under revolving loans | 69,500 | 144,000 |
| Repayments of revolving loans | (69,500) | (103,000) |
| Net cash flows provided by (used in) financing activities of continuing operations | (46) | 30,271 |
| Net cash flows used in financing activities of discontinued operations | | (39) |
| Cash provided by financing activities | (46) | 30,232 |
| Effect of foreign currency exchange rates on cash and cash equivalents | (194) | (30) |
| Net decrease in cash and cash equivalents | (37,271) | (2,817) |
| Cash and cash equivalents at beginning of period | 75,338 | 24,440 |
| Cash and cash equivalents at end of period | \$ 38,067 | \$ 21,623 |
| Supplemental Cash Flow Information | | |
| Cash paid for interest | \$ 9,521 | \$ 9,768 |
| Cash paid (refunded) for income taxes | \$ (11,033) | \$ 431 |
| Non-cash Investing and Financing Activities | | |
| Property and equipment purchased but not yet paid | \$ 9,197 | \$ 7,720 |
| Property and equipment purchased on capital leases and equipment notes | \$ 1,309 | \$ |
| Purchase of noncontrolling interest | \$ 988 | |

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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 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, 2013. 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 June 30, 2014, and its results of operations for the three and six months ended June 30, 2014 and 2013 and cash flows for the six months ended June 30, 2014 and 2013 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 22% 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 has four operating segments that, through aggregation, comprise two reportable segments: dredging and environmental & remediation, previously referred to as the demolition segment. The historical demolition business has been retrospectively presented as discontinued operations and is no longer reflected in continuing operations. 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.

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

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.

Table of Contents**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 and six months ended June 30, 2014, 518 thousand and 420 thousand, respectively, of stock options or restricted stock units 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:

| (shares in thousands) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------|------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Income from continuing operations | \$ 3,883 | \$ 3,779 | \$ 1,427 | \$ 8,531 |
| Loss on discontinued operations, net of income taxes, attributable to Great Lakes Dredge & Dock Corporation | (5,320) | (29,020) | (8,059) | (33,339) |
| Net loss attributable to common stockholders of Great Lakes Dredge & Dock Corporation | (1,437) | (25,241) | (6,632) | (24,808) |
| Weighted-average common shares outstanding basic | 59,863 | 59,436 | 59,786 | 59,403 |
| Effect of stock options and restricted stock units | 675 | 522 | 673 | 554 |
| Weighted-average common shares outstanding diluted | 60,538 | 59,958 | 60,459 | 59,957 |
| Earnings per share from continuing operations basic | \$ 0.06 | \$ 0.06 | \$ 0.02 | \$ 0.14 |
| Earnings per share from continuing operations diluted | \$ 0.06 | \$ 0.06 | \$ 0.02 | \$ 0.14 |

3. Accounts receivable and contracts in progress

Accounts receivable at June 30, 2014 and December 31, 2013 are as follows:

| | June 30, 2014 | December 31, 2013 |
|---------------------------------|------------------|----------------------|
| Completed contracts | \$ 11,790 | \$ 17,361 |
| Contracts in progress | 46,217 | 62,177 |
| Retainage | 18,835 | 18,506 |
| | 76,842 | 98,044 |
| Allowance for doubtful accounts | (1,528) | (1,529) |

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

| | | |
|---|-----------|-----------|
| Total accounts receivable net | \$ 75,314 | \$ 96,515 |
| Current portion of accounts receivable net | \$ 74,906 | \$ 96,515 |
| Long-term accounts receivable and retainage | 408 | |
| Total accounts receivable net | \$ 75,314 | \$ 96,515 |

Table of Contents

The components of contracts in progress at June 30, 2014 and December 31, 2013 are as follows:

| | June 30, 2014 | December 31, 2013 |
|--|--------------------------|------------------------------|
| Costs and earnings in excess of billings: | | |
| Costs and earnings for contracts in progress | \$ 633,048 | \$ 435,470 |
| Amounts billed | (548,903) | (370,730) |
| | | |
| Costs and earnings in excess of billings for contracts in progress | 84,145 | 64,740 |
| Costs and earnings in excess of billings for completed contracts | 4,925 | 2,692 |
| | | |
| Total contract revenues in excess of billings | \$ 89,070 | \$ 67,432 |
| Billings in excess of costs and earnings: | | |
| Amounts billed | \$ (243,507) | \$ (156,794) |
| Costs and earnings for contracts in progress | 231,209 | 150,040 |
| | | |
| Total billings in excess of contract revenues | \$ (12,298) | \$ (6,754) |

4. Accrued expenses

Accrued expenses at June 30, 2014 and December 31, 2013 are as follows:

| | June 30, 2014 | December 31, 2013 |
|-------------------------------------|--------------------------|------------------------------|
| Insurance | \$ 9,758 | \$ 8,649 |
| Payroll and employee benefits | 8,572 | 13,664 |
| Interest | 8,005 | 8,066 |
| Income and other taxes | 5,180 | 3,709 |
| Percentage of completion adjustment | 1,475 | 2,135 |
| Other | 12,089 | 2,308 |
| | | |
| Total accrued expenses | \$ 45,079 | \$ 38,531 |

5. 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 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 being in pro forma compliance with the existing financial covenants both before and after giving effect to the increase, and subject to other standard conditions.

Depending on the Company's consolidated leverage ratio (as defined in the Credit Agreement), borrowings under the revolving credit facility will bear interest at the option of the Company of 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.

Table of Contents

The 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.

In 2013, outstanding obligations under the Credit Agreement, which were previously unsecured, were 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 terms of the Credit Agreement, the obligations thereunder that became secured could again become unsecured provided that (i) no event of default has occurred and is continuing, (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 and (iii) the Company has delivered to the lenders its audited financial statements with respect to its fiscal year ending December 31, 2013. At June 30, 2014, the Credit Agreement remains secured by liens on certain of the Company's vessels and all of its domestic accounts receivable.

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 June 30, 2014, the Company had \$35,000 of borrowings on the revolver and \$114,921 of letters of credit outstanding, resulting in \$25,079 of availability under the Credit Agreement. At June 30, 2014, the Company was in compliance with its various financial covenants under its Credit Agreement.

In addition to 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 June 30, 2014, the Company had no letters of credit outstanding under this facility. At June 30, 2014, the Company also had \$250,000 of 7.375% senior notes outstanding, which mature in February 2019.

6. 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 June 30, 2014 and December 31, 2013, the Company held certain derivative

contracts that it uses to manage foreign currency risk and commodity price risk. The Company does not hold or issue derivatives for speculative or trading purposes. In addition, other nonfinancial assets and liabilities are measured at fair value in the financial statements on a nonrecurring basis. The fair values of these financial instruments and nonfinancial assets and liabilities measured at the reporting date are summarized as follows:

Table of Contents

| Description | Fair Value Measurements at Reporting Date Using | | | |
|----------------------|---|--|---|---|
| | At June 30, 2014 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Fuel hedge contracts | \$ 282 | \$ | \$ 282 | \$ |

| Description | Fair Value Measurements at Reporting Date Using | | | |
|----------------------|---|--|---|---|
| | At December 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 | \$ 332 | \$ | \$ 332 | \$ |

Foreign exchange contracts

The Company has exposure to foreign currencies that fluctuate in relation to the U.S. dollar. The Company periodically enters into foreign exchange forward contracts to hedge this risk. At June 30, 2014, there were no outstanding contracts.

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 June 30, 2014, 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 April 2015. As of June 30, 2014, there were 4.8 million gallons remaining on these contracts which represent approximately 80% of the Company's forecasted fuel purchases through April 2015. Under these swap agreements, the Company will pay fixed prices ranging from \$2.87 to \$3.06 per gallon.

At June 30, 2014, the fair value asset of the fuel hedge contracts was estimated to be \$282 and is recorded in prepaid expenses and other current assets. The gain reclassified to earnings from changes in fair value of derivatives, net of cash settlements and taxes, for the six months ended June 30, 2014 was \$26. The remaining gains and losses included in accumulated other comprehensive loss at June 30, 2014 will be reclassified into earnings over the next ten 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.

The fair value of the fuel hedge contracts outstanding as of June 30, 2014 and December 31, 2013 is as follows:

| | Balance Sheet Location | Fair Value at | |
|-----------------------------|---|---------------|-------------------|
| | | June 30, 2014 | December 31, 2013 |
| Asset derivatives: | | | |
| Derivatives designated as | | | |
| hedges Fuel hedge contracts | Prepaid expenses and other current assets | \$ 282 | \$ 332 |

Table of Contents**Accumulated other comprehensive loss**

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Cumulative translation adjustments net of tax | \$ 216 | \$ (75) | \$ 27 | \$ (81) |
| Derivatives: | | | | |
| Reclassification of derivative losses (gains) to earnings net of tax | 20 | 154 | (26) | 291 |
| Change in fair value of derivatives net of tax | 239 | (205) | (4) | (325) |
| Net unrealized (gain) loss on derivatives net of tax | 259 | (51) | (30) | (34) |
| Total other comprehensive income (loss) | \$ 475 | \$ (126) | \$ (3) | \$ (115) |

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

| | Statement of Operations Location | Three Months Ended | | Six Months Ended | |
|----------------------|----------------------------------|--------------------|--------|------------------|--------|
| | | June 30, | | June 30, | |
| | | 2014 | 2013 | 2014 | 2013 |
| Derivatives: | | | | | |
| Fuel hedge contracts | Costs of contract revenues | \$ 33 | \$ 256 | \$ (44) | \$ 484 |
| | Income tax (provision) benefit | 13 | 102 | (18) | 193 |
| | | \$ 20 | \$ 154 | \$ (26) | \$ 291 |

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 June 30, 2014. 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 \$262,500 at June 30, 2014, which is a Level 1 fair value measurement as the senior notes value was obtained using quoted prices in active markets.

7. Share-based compensation

The Company's 2007 Long-Term Incentive Plan permits the granting of stock options, stock appreciation rights, restricted stock and restricted stock units to its employees and directors for up to 5.8 million shares of common stock.

In May 2014, the Company granted 337 thousand options to purchase shares of common stock and 182 thousand restricted stock units to certain employees pursuant to the plan. In addition, all non-employee directors on the Company's board of directors are paid a portion of their board-related compensation in stock grants. Compensation cost charged to expense related to share-based compensation arrangements was \$987 and \$1,452, respectively, for the six months ended June 30, 2014 and 2013.

8. Commitments and contingencies

Commercial commitments

Performance and bid bonds are customarily required for dredging and marine construction projects, as well as some environmental & remediation projects. The Company has a bonding agreement with Zurich American Insurance Company (Zurich) under which the Company can obtain performance, bid and payment bonds. The Company also has outstanding bonds with Travelers Casualty and Surety Company of America. Bid bonds are generally obtained for a percentage of bid value and amounts outstanding typically range from \$1,000 to \$10,000. At June 30, 2014, the Company had outstanding performance bonds valued at approximately \$852,001 of which \$39,164 relates to projects accounted for in discontinued operations. The revenue value remaining in backlog related to the projects of continuing operations totaled approximately \$333,331.

Table of Contents

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 results of operations, cash flows or financial condition.

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. These three actions were consolidated and recaptioned In re Great Lakes Dredge & Dock Corporation Securities Litigation, Case No. 1:13-cv-02115, on June 10, 2013. The plaintiffs filed an amended class action complaint on August 9, 2013, which the defendants moved to dismiss on October 8, 2013. The Company denies liability and intends to vigorously defend this action.

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 and was voluntarily dismissed on June 10, 2013. A third, similar lawsuit captioned St. Lucie County Fire District Firefighters Pension Trust Fund v. Leight et al., Case No. 13 CH 15483, was filed in Cook County Circuit Court in Illinois on July 8, 2013, and has since been transferred to DuPage County Circuit Court and consolidated with the Hammoud action. The Hammoud/St. Lucie plaintiffs have filed a consolidated amended complaint on December 9, 2013, but the action is otherwise stayed until there is a ruling on the

motion to dismiss the securities class action. A fourth, similar lawsuit (that additionally named one current and one former executive as defendants) captioned Griffin v. Berger et al., Case No. 1:13-cv-04907, was filed in the Northern District of Illinois on July 9, 2013. The Griffin action is also stayed pending a ruling on the motion to dismiss the securities class action.

As discussed in Note 9, on April 23, 2014, the Company completed the sale of NASDI, LLC (NASDI) and Yankee Environmental Services, LLC, which together comprised the Company's historical demolition business, to a privately owned demolition company. Under the terms of the divestiture, the Company retained certain pre-closing liabilities relating to the disposed business. Certain of these liabilities are described below.

In 2009, 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 waste disposal activities at an allegedly unpermitted disposal site owned by a third party with whom NASDI contracted for the disposal of waste materials in 2007 and 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. Should a claim be brought, the Company intends to defend this matter vigorously.

Table of Contents

In 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 has cooperated with the grand jury's investigation. Based on 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, and any action the U.S. Attorney may take.

On April 24, 2014, NASDI received a subpoena from a federal grand jury in the District of Massachusetts directing NASDI to furnish certain emails for the years 2004 to the present for the email accounts of certain former and present NASDI employees. The Company is cooperating with the grand jury's investigation. Based on 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, and any action the U.S. Attorney may take.

9. Business dispositions

On April 23, 2014, the Company entered into an agreement and completed the sale of NASDI, LLC and Yankee Environmental Services, LLC, its two former subsidiaries that comprised the historical demolition business. Under the terms of the agreement, the Company received cash of \$5,309 and retained the right to receive additional proceeds based upon future collections of outstanding accounts receivable and work in process existing at the date of close, including recovery of outstanding claims for additional compensation from customers, and net of future payments of accounts payable existing at the date of close, including any future payments of obligations associated with outstanding claims. These amounts remain subject to change based upon final adjustments to the purchase price. In the fourth quarter of 2013, the Company recorded a preliminary loss on disposal of assets held for sale in discontinued operations based on the estimated fair value of the consideration to be received at closing. No changes to the loss on disposal of assets held for sale were recorded for the six months ended June 30, 2014.

The results of the businesses have been reported in discontinued operations as follows:

| | Three Months | | Six Months Ended | |
|--|---------------------|-------------|-------------------------|-------------|
| | Ended | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | \$ 2,315 | \$ 5,738 | \$ 14,439 | \$ 14,432 |
| Loss before income taxes from discontinued operations | \$ (7,720) | \$ (33,020) | \$ (17,340) | \$ (40,921) |
| Income tax benefit | 2,400 | 4,053 | 9,281 | 7,613 |
| Loss from discontinued operations, net of income taxes | \$ (5,320) | \$ (28,967) | \$ (8,059) | \$ (33,308) |

Table of Contents**10. Segment information**

The Company and its subsidiaries currently operate in two reportable segments: dredging and environmental & remediation. 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 June 30, | | Six Months Ended June 30, | |
|--|--|-----------------|--------------------------------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| Dredging | | | | |
| Contract revenues | \$ 157,114 | \$ 136,487 | \$ 319,074 | \$ 310,446 |
| Operating income | 10,995 | 14,569 | 18,424 | 33,569 |
| Environmental & remediation | | | | |
| Contract revenues | \$ 29,312 | \$ 10,907 | \$ 42,042 | \$ 17,101 |
| Operating loss | (726) | (2,939) | (5,270) | (7,443) |
| Intersegment revenues | \$ (1,717) | \$ (269) | (2,025) | (269) |
| Total | | | | |
| Contract revenues | \$ 184,709 | \$ 147,125 | \$ 359,091 | \$ 327,278 |
| Operating income | 10,269 | 11,630 | 13,154 | 26,126 |

Foreign dredging revenue of \$29,181 and \$45,651 for the three and six months ended June 30, 2014 respectively, was primarily attributable to work on the Wheatstone LNG project in Western Australia as well as work done in Brazil. Foreign dredging revenue for the three and six months ended June 30, 2013 was \$33,348 and \$71,733 respectively.

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.

11. Subsidiary guarantors

The Company's long-term debt at June 30, 2014 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 June 30, 2014 and December 31, 2013;
- (ii) statements of operations and comprehensive loss for the three and six months ended June 30, 2014 and 2013;
and

(iii) statements of cash flows for the six months ended June 30, 2014 and 2013.

Certain amounts included in the following statements of cash flows for the six months ended June 30, 2013 have been revised to conform with current year presentation reflecting intercompany borrowings and payments as either investing or financing activities.

Table of Contents**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF JUNE 30, 2014****(In thousands)**

| | Subsidiary Guarantors | Non-Guarantor Subsidiaries | GLDD Corporation | Eliminations | Consolidated Totals |
|---|--------------------------|-------------------------------|---------------------|---------------------|------------------------|
| ASSETS | | | | | |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | \$ 35,898 | \$ 2,166 | \$ 3 | \$ | \$ 38,067 |
| Accounts receivable net | 71,650 | 3,256 | | | 74,906 |
| Receivables from affiliates | 158,814 | 3,540 | 43,823 | (206,177) | |
| Contract revenues in excess of billings | 85,103 | 3,967 | | | 89,070 |
| Inventories | 33,643 | | | | 33,643 |
| Prepaid expenses and other current assets | 47,464 | 362 | 9,484 | | 57,310 |
| Assets held for sale | 1,704 | | | | 1,704 |
| Total current assets | 434,276 | 13,291 | 53,310 | (206,177) | 294,700 |
| PROPERTY AND EQUIPMENT Net | 366,265 | 6 | | | 366,271 |
| GOODWILL AND OTHER | | | | | |
| INTANGIBLE ASSETS Net | 81,031 | | | | 81,031 |
| INVENTORIES Noncurrent | 38,568 | | | | 38,568 |
| INVESTMENTS IN JOINT VENTURES | | | | | |
| INVESTMENTS IN SUBSIDIARIES | 5,619 | | | | 5,619 |
| OTHER | 3,712 | | 592,435 | (596,147) | |
| OTHER | 4,523 | 3 | 4,621 | | 9,147 |
| TOTAL | \$ 933,994 | \$ 13,300 | \$ 650,366 | \$ (802,324) | \$ 795,336 |
| LIABILITIES AND EQUITY | | | | | |
| CURRENT LIABILITIES: | | | | | |
| Accounts payable | \$ 99,755 | \$ 1,639 | \$ 278 | \$ | \$ 101,672 |
| Payables to affiliates | 180,717 | 11,331 | 14,129 | (206,177) | |
| Accrued expenses | 36,174 | 16 | 8,889 | | 45,079 |
| Billings in excess of contract revenues | 12,020 | 278 | | | 12,298 |
| Current portion of long term debt | 278 | | | | 278 |
| Total current liabilities | 328,944 | 13,264 | 23,296 | (206,177) | 159,327 |
| 7 3/8% SENIOR NOTES | | | 250,000 | | 250,000 |
| REVOLVING CREDIT FACILITY | | | 35,000 | | 35,000 |
| DEFERRED INCOME TAXES | (424) | | 105,014 | | 104,590 |
| OTHER | 9,363 | | 546 | | 9,909 |

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

| | | | | | |
|--|------------|-----------|------------|--------------|------------|
| Total liabilities | 337,883 | 13,264 | 413,856 | (206,177) | 558,826 |
| Total Great Lakes Dredge & Dock Corporation Equity | 596,111 | 36 | 236,510 | (596,147) | 236,510 |
| TOTAL EQUITY | 596,111 | 36 | 236,510 | (596,147) | 236,510 |
| TOTAL | \$ 933,994 | \$ 13,300 | \$ 650,366 | \$ (802,324) | \$ 795,336 |

Table of Contents**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF DECEMBER 31, 2013****(In thousands)**

| | Subsidiary Guarantors | Non-Guarantor Subsidiaries | GLDD Corporation | Eliminations | Consolidated Totals |
|---|--------------------------|-------------------------------|---------------------|--------------|------------------------|
| ASSETS | | | | | |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | \$ 71,939 | \$ 3,399 | \$ | \$ | \$ 75,338 |
| Accounts receivable net | 95,476 | 1,039 | | | 96,515 |
| Receivables from affiliates | 131,984 | 7,337 | 12,205 | (151,526) | |
| Contract revenues in excess of billings | 63,591 | 3,841 | | | 67,432 |
| Inventories | 32,500 | | | | 32,500 |
| Prepaid expenses and other current assets | 23,549 | 137 | 20,478 | | 44,164 |
| Assets held for sale | 41,763 | 11,877 | | (8,536) | 45,104 |
| Total current assets | 460,802 | 27,630 | 32,683 | (160,062) | 361,053 |
| PROPERTY AND EQUIPMENT Net | 345,612 | 8 | | | 345,620 |
| GOODWILL AND OTHER | | | | | |
| INTANGIBLE ASSETS Net | 81,302 | | | | 81,302 |
| INVENTORIES Noncurrent | 38,496 | | | | 38,496 |
| INVESTMENTS IN JOINT | | | | | |
| VENTURES | 8,256 | | | | 8,256 |
| INVESTMENTS IN SUBSIDIARIES | 1,212 | | 638,955 | (640,167) | |
| ASSETS HELD FOR SALE Noncurrent | 8,796 | 60 | | | 8,856 |
| OTHER | 3,886 | 3 | 5,193 | (20) | 9,062 |
| TOTAL | \$ 948,362 | \$ 27,701 | \$ 676,831 | \$ (800,249) | \$ 852,645 |
| LIABILITIES AND EQUITY | | | | | |
| CURRENT LIABILITIES: | | | | | |
| Accounts payable | \$ 115,235 | \$ 754 | \$ 132 | \$ | \$ 116,121 |
| Payables to affiliates | 96,270 | 24,862 | 30,394 | (151,526) | |
| Accrued expenses | 28,086 | 15 | 10,430 | | 38,531 |
| Billings in excess of contract revenues | 6,754 | | | | 6,754 |
| Liabilities held for sale | 38,158 | 2,871 | | (8,536) | 32,493 |
| Total current liabilities | 284,503 | 28,502 | 40,956 | (160,062) | 193,899 |
| 7 3/8% SENIOR NOTES | | | 250,000 | | 250,000 |
| REVOLVING CREDIT FACILITY | | | 35,000 | | 35,000 |
| DEFERRED INCOME TAXES | | | 108,531 | (20) | 108,511 |
| | 1,212 | | | | 1,212 |

LIABILITIES HELD FOR

SALE Noncurrent

| | | | | | |
|--|------------|-----------|------------|--------------|------------|
| OTHER | 21,679 | | 243 | | 21,922 |
| Total liabilities | 307,394 | 28,502 | 434,730 | (160,082) | 610,544 |
| Total Great Lakes Dredge & Dock Corporation Equity | 640,968 | (801) | 242,946 | (640,167) | 242,946 |
| NONCONTROLLING INTERESTS | | | (845) | | (845) |
| TOTAL EQUITY | 640,968 | (801) | 242,101 | (640,167) | 242,101 |
| TOTAL | \$ 948,362 | \$ 27,701 | \$ 676,831 | \$ (800,249) | \$ 852,645 |

Table of Contents**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME****FOR THE THREE MONTHS ENDED JUNE 30, 2014****(In thousands)**

| | Subsidiary Guarantors | Non-Guarantor Subsidiaries | GLDD Corporation | Eliminations | Consolidated Totals |
|--|----------------------------------|---------------------------------------|-----------------------------|---------------------|--------------------------------|
| Contract revenues | \$ 167,943 | \$ 11,797 | \$ | \$ 4,969 | \$ 184,709 |
| Costs of contract revenues | (142,070) | (11,467) | | (4,969) | (158,506) |
| Gross profit | 25,873 | 330 | | | 26,203 |
| OPERATING EXPENSES: | | | | | |
| General and administrative expenses | 15,918 | | | | 15,918 |
| Loss on sale of assets net | 16 | | | | 16 |
| Operating income | 9,939 | 330 | | | 10,269 |
| Interest expense net | 82 | (132) | (4,962) | | (5,012) |
| Equity in earnings of subsidiaries | 1,037 | | 9,094 | (10,131) | |
| Equity in loss of joint ventures | (1,435) | | | | (1,435) |
| Gain on bargain purchase acquisition | 2,197 | | | | 2,197 |
| Gain on foreign currency transactions, net | (39) | | | | (39) |
| Income from continuing operations before income taxes | 11,781 | 198 | 4,132 | (10,131) | 5,980 |
| Income tax (provision) benefit | 130 | | (2,227) | | (2,097) |
| Income from continuing operations | 11,911 | 198 | 1,905 | (10,131) | 3,883 |
| Loss from discontinued operations, net of income taxes | (5,191) | (319) | (3,342) | 3,532 | (5,320) |
| Net income (loss) | 6,720 | (121) | (1,437) | (6,599) | (1,437) |
| Net (income) loss attributable to noncontrolling interest | | | | | |
| Net income (loss) attributable to common stockholders of Great Lakes Dredge & Dock Corporation | \$ 6,720 | \$ (121) | \$ (1,437) | \$ (6,599) | \$ (1,437) |
| Comprehensive income (loss) attributable to Great Lakes Dredge & Dock Corporation | \$ 6,979 | \$ 95 | \$ (962) | \$ (7,074) | \$ (962) |

Table of Contents**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME****FOR THE THREE MONTHS ENDED JUNE 30, 2013****(In thousands)**

| | Subsidiary Guarantors | Non-Guarantor Subsidiaries | GLDD Corporation | Eliminations | Consolidated Totals |
|---|--------------------------|-------------------------------|---------------------|--------------|------------------------|
| Contract revenues | \$ 140,065 | \$ 7,060 | \$ | \$ | \$ 147,125 |
| Costs of contract revenues | (125,515) | (7,838) | | | (133,353) |
| Gross profit | 14,550 | (778) | | | 13,772 |
| OPERATING EXPENSES: | | | | | |
| General and administrative expenses | 15,338 | 5 | | | 15,343 |
| Proceeds from loss of use claim | (13,272) | | | | (13,272) |
| Loss on sale of assets net | 71 | | | | 71 |
| Operating income (loss) | 12,413 | (783) | | | 11,630 |
| Interest expense net | (130) | (47) | (5,219) | | (5,396) |
| Equity in earnings of subsidiaries | 1,672 | | 10,858 | (12,530) | |
| Equity in loss of joint ventures | (384) | | | | (384) |
| Gain (loss) on foreign currency transactions, net | 96 | (357) | | | (261) |
| Income (loss) from continuing operations before income taxes | 13,667 | (1,187) | 5,639 | (12,530) | 5,589 |
| Income tax (provision) benefit | 2,359 | 2 | (4,171) | | (1,810) |
| Income (loss) from continuing operations | 16,026 | (1,185) | 1,468 | (12,530) | 3,779 |
| Loss from discontinued operations, net of income taxes | (28,925) | (62) | (26,656) | 26,676 | (28,967) |
| Net loss | (12,899) | (1,247) | (25,188) | 14,146 | (25,188) |
| Net income attributable to noncontrolling interest | | | (53) | | (53) |
| Net loss attributable to common stockholders of Great Lakes Dredge & Dock Corporation | (12,899) | (1,247) | (25,241) | 14,146 | (25,241) |
| Comprehensive loss attributable to Great Lakes Dredge & Dock Corporation | \$ (12,950) | \$ (1,322) | \$ (25,367) | \$ 14,272 | \$ (25,367) |

Table of Contents**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME****FOR THE SIX MONTHS ENDED JUNE 30, 2014****(In thousands)**

| | Subsidiary Guarantors | Non-Guarantor Subsidiaries | GLDD Corporation | Eliminations | Consolidated Totals |
|--|----------------------------------|---------------------------------------|-----------------------------|---------------------|--------------------------------|
| Contract revenues | \$ 341,265 | \$ 17,826 | \$ | \$ | \$ 359,091 |
| Costs of contract revenues | (292,807) | (19,174) | | | (311,981) |
| Gross profit | 48,458 | (1,348) | | | 47,110 |
| OPERATING EXPENSES: | | | | | |
| General and administrative expenses | 33,788 | | | | 33,788 |
| Loss on sale of assets net | 168 | | | | 168 |
| Operating income (loss) | 14,502 | (1,348) | | | 13,154 |
| Interest expense net | 151 | (261) | (9,918) | | (10,028) |
| Equity in earnings (loss) of subsidiaries | (106) | | 12,599 | (12,493) | |
| Equity in loss of joint ventures | (3,278) | | | | (3,278) |
| Gain on bargain purchase acquisition | 2,197 | | | | 2,197 |
| Gain on foreign currency transactions net | 19 | 7 | | | 26 |
| Income (loss) from continuing operations before income taxes | 13,485 | (1,602) | 2,681 | (12,493) | 2,071 |
| Income tax (provision) benefit | 610 | | (1,254) | | (644) |
| Income (loss) from continuing operations | 14,095 | (1,602) | 1,427 | (12,493) | 1,427 |
| Loss from discontinued operations, net of income taxes | (8,059) | (1,343) | (8,059) | 9,402 | (8,059) |
| Net income (loss) | 6,036 | (2,945) | (6,632) | (3,091) | (6,632) |
| Net (income) loss attributable to noncontrolling interest | | | | | |
| Net income (loss) attributable to common stockholders of Great Lakes Dredge & Dock Corporation | \$ 6,036 | \$ (2,945) | \$ (6,632) | \$ (3,091) | \$ (6,632) |
| Comprehensive income (loss) attributable to Great Lakes Dredge & | \$ 6,006 | \$ (2,918) | \$ (6,635) | \$ (3,088) | \$ (6,635) |

Dock Corporation

Table of Contents**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME****FOR THE SIX MONTHS ENDED JUNE 30, 2013****(In thousands)**

| | Subsidiary Guarantors | Non-Guarantor Subsidiaries | GLDD Corporation | Eliminations | Consolidated Totals |
|---|----------------------------------|---------------------------------------|-----------------------------|---------------------|--------------------------------|
| Contract revenues | \$ 317,972 | \$ 9,306 | \$ | \$ | \$ 327,278 |
| Costs of contract revenues | (272,798) | (9,974) | | | (282,772) |
| Gross profit | 45,174 | (668) | | | 44,506 |
| OPERATING EXPENSES: | | | | | |
| General and administrative expenses | 31,574 | 5 | | | 31,579 |
| Proceeds from loss of use claim | (13,272) | | | | (13,272) |
| Loss on sale of assets net | 73 | | | | 73 |
| Operating income (loss) | 26,799 | (673) | | | 26,126 |
| Interest expense net | (149) | (89) | (10,891) | | (11,129) |
| Equity in earnings of subsidiaries | 2 | | 27,066 | (27,068) | |
| Equity in loss of joint ventures | (975) | | | | (975) |
| Gain (loss) on foreign currency transactions net | 132 | (357) | | | (225) |
| Income (loss) from continuing operations before income taxes | 25,809 | (1,119) | 16,175 | (27,068) | 13,797 |
| Income tax (provision) benefit | 2,376 | 2 | (7,644) | | (5,266) |
| Income (loss) from continuing operations | 28,185 | (1,117) | 8,531 | (27,068) | 8,531 |
| Loss from discontinued operations, net of income taxes | (33,308) | (67) | (33,308) | 33,375 | (33,308) |
| Net loss | (5,123) | (1,184) | (24,777) | 6,307 | (24,777) |
| Net income attributable to noncontrolling interest | | | (31) | | (31) |
| Net loss attributable to common stockholders of Great Lakes Dredge & Dock Corporation | \$ (5,123) | \$ (1,184) | \$ (24,808) | \$ 6,307 | \$ (24,808) |
| Comprehensive income attributable to Great Lakes Dredge & Dock Corporation | \$ (5,157) | \$ (1,265) | \$ (24,923) | \$ 6,422 | \$ (24,923) |

Table of Contents**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2014****(In thousands)**

| | Subsidiary Guarantors | Non-Guarantor Subsidiaries | GLDD Corporation | Eliminations | Consolidated Totals |
|--|--------------------------|-------------------------------|---------------------|--------------|------------------------|
| OPERATING ACTIVITIES: | | | | | |
| Net cash flows provided by (used in) operating activities of continuing operations | \$ 22,746 | \$ (3,266) | \$ (4,489) | \$ | \$ 14,991 |
| Net cash flows used in operating activities of discontinued operations | (2,941) | (1,024) | | | (3,965) |
| Cash provided by (used in) operating activities | 19,805 | (4,290) | (4,489) | | 11,026 |
| INVESTING ACTIVITIES: | | | | | |
| Purchases of property and equipment | (48,525) | | | | (48,525) |
| Proceeds from dispositions of property and equipment | 341 | | | | 341 |
| Payments on vendor performance obligations | (3,100) | | | | (3,100) |
| Payments for acquisitions of businesses | (2,048) | | | | (2,048) |
| Net change in accounts with affiliates | (7,748) | | | 7,748 | |
| Net cash flows used in investing activities of continuing operations | (61,080) | | | 7,748 | (53,332) |
| Net cash flows provided by investing activities of discontinued operations | 5,275 | | | | 5,275 |
| Cash used in investing activities | (55,805) | | | 7,748 | (48,057) |
| FINANCING ACTIVITIES: | | | | | |
| Taxes paid on settlement of vested share awards | | | (484) | | (484) |
| Repayments of equipment debt | (41) | | | | (41) |
| Purchase of noncontrolling interest | | | (205) | | (205) |
| Net change in accounts with affiliates | | 3,251 | 4,497 | (7,748) | |
| Exercise of options and purchases from employee stock plans | | | 620 | | 620 |
| Excess income tax benefit from share-based compensation | | | 64 | | 64 |
| Borrowings under revolving loans | | | 69,500 | | 69,500 |

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

| | | | | | |
|--|-----------|----------|----------|---------|-----------|
| Repayments of revolving loans | | | (69,500) | | (69,500) |
| Net cash flows provided by (used in) financing activities of continuing operations | (41) | 3,251 | 4,492 | (7,748) | (46) |
| Cash provided by financing activities | (41) | 3,251 | 4,492 | (7,748) | (46) |
| Effect of foreign currency exchange rates on cash and cash equivalents | | (194) | | | (194) |
| Net increase (decrease) in cash and cash equivalents | (36,041) | (1,233) | 3 | | (37,271) |
| Cash and cash equivalents at beginning of period | 71,939 | 3,399 | | | 75,338 |
| Cash and cash equivalents at end of period | \$ 35,898 | \$ 2,166 | \$ 3 | \$ | \$ 38,067 |

Table of Contents**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2013****(In thousands)**

| | Subsidiary Guarantors | Non-Guarantor Subsidiaries | GLDD Corporation | Eliminations | Consolidated Totals |
|--|--------------------------|-------------------------------|---------------------|--------------|------------------------|
| OPERATING ACTIVITIES: | | | | | |
| Net cash flows provided by (used in) operating activities of continuing operations | \$ 12,642 | \$ (6,338) | \$ (17,888) | \$ | \$ (11,584) |
| Net cash flows used in operating activities of discontinued operations | (7,293) | (11) | | | (7,304) |
| Cash provided by (used in) operating activities | 5,349 | (6,349) | (17,888) | | (18,888) |
| INVESTING ACTIVITIES: | | | | | |
| Purchases of property and equipment | (27,693) | | | | (27,693) |
| Proceeds from dispositions of property and equipment | 208 | | | | 208 |
| Proceeds from vendor performance obligations | 13,600 | | | | 13,600 |
| Net change in accounts with affiliates | 3,871 | | | (3,871) | |
| Net cash flows used in investing activities of continuing operations | (10,014) | | | (3,871) | (13,885) |
| Net cash flows used in investing activities of discontinued operations | (246) | | | | (246) |
| Cash used in investing activities | (10,260) | | | (3,871) | (14,131) |
| FINANCING ACTIVITIES: | | | | | |
| Repayments of long term note payable | | | (10,547) | | (10,547) |
| Taxes paid on settlement of vested share awards | | | (277) | | (277) |
| Net change in accounts with affiliates | | 8,509 | (12,380) | 3,871 | |
| Exercise of options and purchases from employee stock plans | | | 2 | | 2 |
| Excess income tax benefit from share-based compensation | | | 93 | | 93 |

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

| | | | | |
|--|-----------|-----------|--------|-----------|
| Borrowings under revolving loans | | 144,000 | | 144,000 |
| Repayments of revolving loans | | (103,000) | | (103,000) |
| Net cash flows provided by financing activities of continuing operations | 8,509 | 17,891 | 3,871 | 30,271 |
| Net cash flows used in financing activities of discontinued operations | (36) | (3) | | (39) |
| Cash provided by (used in) financing activities | (36) | 8,509 | 17,888 | 3,871 |
| Effect of foreign currency exchange rates on cash and cash equivalents | | (30) | | (30) |
| Net increase (decrease) in cash and cash equivalents | (4,947) | 2,130 | | (2,817) |
| Cash and cash equivalents at beginning of period | 24,272 | 168 | | 24,440 |
| Cash and cash equivalents at end of period | \$ 19,325 | \$ 2,298 | \$ | \$ 21,623 |

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Cautionary note regarding forward-looking statements

Certain statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933 (the Securities Act), Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), the Private Securities Litigation Reform Act of 1995 (the PSLRA) or in releases made by the Securities and Exchange Commission (SEC), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Great Lakes Dredge & Dock Corporation and its subsidiaries (Great Lakes or the Company), or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words plan, believe, expect, anticipate, intend, estimate, project, may, would, could, should, or other similar words, or the negative of these terms or other variations of these terms or comparable language, or by discussion of strategy or intentions. These cautionary statements are being made pursuant to the Securities Act, the Exchange Act and the PSLRA with the intention of obtaining the benefits of the safe harbor provisions of such laws. Great Lakes cautions investors that any forward-looking statements made by Great Lakes are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward-looking statements with respect to Great Lakes, include, but are not limited to, risks and uncertainties that are described in Item 1A. Risk Factors of Great Lakes Annual Report on Form 10-K for the year ended December 31, 2013, and in other securities filings by Great Lakes with the SEC.

Although Great Lakes believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, actual results could differ materially from a projection or assumption in any forward-looking statements. Great Lakes' future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made only as of the date hereof and Great Lakes does not have or undertake any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law.

General

The Company is the largest provider of dredging services in the United States. In addition, the Company is the only U.S. dredging service provider with significant international operations, which represented 14% of its dredging revenues for the first six months of 2014, below the Company's prior three year average of 18%. The mobility of the Company's fleet enables the Company to move equipment in response to changes in demand for dredging services.

Dredging generally involves the enhancement or preservation of navigability of waterways or the protection of shorelines through the removal or replenishment of soil, sand or rock. The U.S. dredging market consists of four primary types of work: capital, coastal protection, maintenance and rivers & lakes. The Company's bid market is defined as the aggregate dollar value of domestic dredging projects on which the Company bid or could have bid if not for capacity constraints (bid market). The Company experienced an average combined bid market share in the U.S. of 46% over the prior three years, including 46%, 58%, 33% and 50% of the domestic capital, coastal protection, maintenance and rivers & lakes sectors, respectively.

The Company's largest domestic dredging customer is the U.S. Army Corps of Engineers (the Corps), which has responsibility for federally funded projects related to navigation and flood control of U.S. waterways. In the first six months of 2014, the Company's dredging revenues earned from contracts with federal government agencies, including

the Corps as well as other federal entities such as the U.S. Coast Guard and the U.S. Navy were approximately 78% of dredging revenues, an increase compared to the Company's prior three year average of 59%.

The Company's environmental & remediation subsidiaries provide soil, water and sediment environmental remediation for the municipal and private party markets. Remediation involves the retrieval and removal of contamination from an environment through the use of separation techniques or disposal based on the quantity and severity of the contamination. Besides environmental remediation, the environmental & remediation segment performs industrial cleaning, abatement services and hazardous waste removal. In the first six months of 2014, environmental & remediation revenues accounted for 12% of total revenues.

The Company operates in four operating segments that, through aggregation, comprise two reportable segments: dredging and environmental & remediation, previously referred to as the demolition segment. The historical demolition business has been retrospectively presented as discontinued operations and is no longer reflected in continuing operations. 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.

Table of Contents**Results of operations**

The following tables set forth the components of net income (loss) attributable to Great Lakes Dredge & Dock Corporation and Adjusted EBITDA from continuing operations, as defined below, as a percentage of contract revenues for the three and six months ended June 30, 2014 and 2013:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|---------|------------------------------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| Contract revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Costs of contract revenues | (85.8) | (90.6) | (86.9) | (86.4) |
| Gross profit | 14.2 | 9.4 | 13.1 | 13.6 |
| General and administrative expenses | 8.6 | 10.4 | 9.4 | 9.6 |
| Proceeds from loss of use claim | | (9.0) | | (4.1) |
| Operating income | 5.6 | 7.9 | 3.7 | 8.0 |
| Interest expense net | (2.7) | (3.7) | (2.8) | (3.4) |
| Equity in loss of joint ventures | (0.8) | (0.3) | (0.9) | (0.3) |
| Gain on bargain purchase acquisition | 1.2 | | 0.6 | |
| Gain (loss) on foreign currency transactions net | | (0.2) | | (0.1) |
| Income from continuing operations before income taxes | 3.2 | 3.7 | 0.6 | 4.2 |
| Income tax provision | (1.1) | (1.2) | (0.2) | (1.6) |
| Income from continuing operations | 2.1 | 2.6 | 0.4 | 2.6 |
| Loss from discontinued operations, net of income taxes | (2.9) | (19.7) | (2.2) | (10.2) |
| Net loss attributable to common stockholders of Great Lakes Dredge & Dock Corporation | (0.8)% | (17.1)% | (1.8)% | (7.6)% |
| Adjusted EBITDA from continuing operations | 10.7% | 15.0% | 8.9% | 14.5% |

Adjusted EBITDA from continuing operations, as provided herein, represents net income attributable to common stockholders of Great Lakes Dredge & Dock Corporation, exclusive of loss from discontinued operations, and adjusted for net interest expense, income taxes, depreciation and amortization expense, debt extinguishment, accelerated maintenance expense for new international deployments, goodwill or asset impairments and gains on bargain purchase acquisitions. Adjusted EBITDA from continuing operations is not a measure derived in accordance with accounting principles generally accepted in the United States of America (GAAP). The Company presents Adjusted EBITDA from continuing operations as an additional measure by which to evaluate the Company's operating trends. The Company believes that Adjusted EBITDA from continuing operations is a measure frequently used to evaluate performance of companies with substantial leverage and that the Company's primary stakeholders (i.e., its stockholders, bondholders and banks) use Adjusted EBITDA from continuing operations to evaluate the Company's period to period performance. Additionally, management believes that Adjusted EBITDA from continuing operations

provides a transparent measure of the Company's recurring operating performance and allows management to readily view operating trends, perform analytical comparisons and identify strategies to improve operating performance. For this reason, the Company uses a measure based upon Adjusted EBITDA from continuing operations to assess performance for purposes of determining compensation under the Company's incentive plan. Adjusted EBITDA from continuing operations should not be considered an alternative to, or more meaningful than, amounts determined in accordance with GAAP including: (a) operating income as an indicator of operating performance; or (b) cash flows from operations as a measure of liquidity. As such, the Company's use of Adjusted EBITDA from continuing operations, instead of a GAAP measure, has limitations as an analytical tool, including the inability to determine profitability or liquidity due to the exclusion of accelerated maintenance expense for new international deployments, goodwill or asset impairments, gains on bargain purchase acquisitions, interest and income tax expense and the associated significant cash requirements and the exclusion of depreciation and amortization, which represent significant and unavoidable operating costs given the level of indebtedness and capital expenditures needed to maintain the Company's business. For these reasons, the Company uses operating income to measure the Company's operating performance and uses Adjusted EBITDA from continuing operations only as a supplement. The following is a reconciliation of Adjusted EBITDA from continuing operations to net income (loss) attributable to common stockholders of Great Lakes Dredge & Dock Corporation:

Table of Contents

| (in thousands) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-------------|------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss attributable to common stockholders of Great Lakes Dredge & Dock Corporation | \$ (1,437) | \$ (25,241) | \$ (6,632) | \$ (24,808) |
| Loss from discontinued operations, net of income taxes | (5,320) | (28,967) | (8,059) | (33,308) |
| Net income attributable to noncontrolling interest | | (53) | | (31) |
| Income from continuing operations | 3,883 | 3,779 | 1,427 | 8,531 |
| Adjusted for: | | | | |
| Interest expense net | 5,012 | 5,396 | 10,028 | 11,129 |
| Income tax provision | 2,097 | 1,810 | 644 | 5,266 |
| Depreciation and amortization | 11,036 | 11,029 | 21,921 | 22,480 |
| Gain on bargain purchase acquisition | (2,197) | | (2,197) | |
| Adjusted EBITDA from continuing operations | \$ 19,831 | \$ 22,014 | \$ 31,823 | \$ 47,406 |

The following table sets forth, by segment and type of work, the Company's contract revenues for each of the periods indicated:

| Revenues (in thousands) | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|-----------------------------|--------------------------------|------------|---------|------------------------------|------------|---------|
| | 2014 | 2013 | Change | 2014 | 2013 | Change |
| Dredging: | | | | | | |
| Capital U.S. | \$ 41,694 | \$ 39,474 | 5.6% | \$ 76,169 | \$ 84,982 | (10.4)% |
| Capital foreign | 29,181 | 33,348 | (12.5)% | 45,651 | 71,733 | (36.4)% |
| Coastal protection | 55,889 | 52,227 | 7.0% | 126,609 | 109,148 | 16.0% |
| Maintenance | 22,340 | 6,639 | 236.5% | 58,651 | 34,403 | 70.5% |
| Rivers & lakes | 8,010 | 4,799 | 66.9% | 11,994 | 10,180 | 17.8% |
| Total dredging revenues | 157,114 | 136,487 | 15.1% | 319,074 | 310,446 | 2.8% |
| Environmental & remediation | 29,312 | 10,907 | 168.7% | 42,042 | 17,101 | 145.8% |
| Intersegment revenue | (1,717) | (269) | 538.3% | (2,025) | (269) | 652.8% |
| Total revenues | \$ 184,709 | \$ 147,125 | 25.5% | \$ 359,091 | \$ 327,278 | 9.7% |

Total revenue for the 2014 second quarter was \$184.7 million, an increase of \$37.6 million or 26% from \$147.1 million during the 2013 second quarter. For the six months ended June 30, 2014, total revenue increased to \$359.1 million from \$327.3 million during the same period in the prior year, an increase of 10%. For the six months ended June 30, 2014, increases in coastal protection, maintenance and rivers & lakes dredging revenues and environmental & remediation revenues were slightly offset by decreases in domestic and foreign capital revenues.

Capital dredging consists primarily of port expansion projects, which involve the deepening of channels to allow access by larger, deeper draft ships and the provision of land fill used to expand port facilities. In addition to port work, capital projects also include land reclamations, trench digging for pipelines, tunnels and cables, and other

dredging related to the construction of breakwaters, jetties, canals and other marine structures. Domestic capital dredging revenue increased by \$2.2 million, or 6%, to \$41.7 million, in the 2014 second quarter when compared to the same quarter in 2013. For the six months ended June 30, 2014, domestic capital dredging revenues decreased \$8.8 million, or 10%, compared to the 2013 first half. Domestic capital dredging revenues in the six months ended June 30, 2014 were primarily earned by port deepening projects in Miami and New York. These projects were offset by two 2013 coastal restoration projects in Louisiana that did not repeat in the current year.

Foreign capital projects typically involve land reclamations, channel deepening and port infrastructure development. In the second quarter of 2014 foreign dredging revenue was \$29.2 million, a decrease of \$4.2 million, or 12% compared to the second quarter of 2013. Foreign dredging revenue was \$45.7 million for the six months ended June 30, 2014, a decrease of \$26.1 million, or 36% compared to the 2013 first half. Revenue in the first six months of 2014 was driven by Wheatstone LNG Project in Western Australia, a project in the Middle East and two projects in Brazil. In comparison, revenue for the first half of 2013 included three significant projects in the Middle East that did not repeat in the current year.

Table of Contents

Coastal protection projects generally involve moving sand from the ocean floor to shoreline locations where erosion threatens shoreline assets. Coastal protection revenue increased \$3.7 million or 7% to \$55.9 million in the 2014 second quarter compared to the 2013 second quarter. Year-to-date 2014 coastal protection revenue increased \$17.5 million, or 16% to \$126.6 million compared to the first two quarters of 2013. A large number of projects in New York and New Jersey to repair damaged shorelines as a result of Superstorm Sandy continued to add to increased revenue during the six months ended June 30, 2014. Additionally, the Company continued work on projects in South Carolina and Florida.

Maintenance dredging consists of the re-dredging of previously deepened waterways and harbors to remove silt, sand and other accumulated sediments. Maintenance revenue in the second quarter of 2014 increased by \$15.7 million, or 236%, compared to the 2013 second quarter. Maintenance revenue for the six months ended June 30, 2014 was \$58.7 million compared to \$34.4 million for the same period in the previous year, a 70% increase. A greater number of significant projects in the first half of 2014 contributed to the increase. The Company worked on large maintenance projects in New York, Maryland, and Georgia as well as projects in Florida and Tennessee during the first six months of 2014.

Domestic rivers & lakes dredging and related operations typically consist of lake and river dredging, inland levee and construction dredging, environmental restoration and habitat improvement and other marine construction projects. Rivers & lakes revenue in the second quarter of 2014 was \$8.0 million, an increase of \$3.2 million or 67% compared to the second quarter of 2013. Rivers & lakes revenue for the six months ended June 30, 2014 was up \$1.8 million or 18% to \$12.0 million. Rivers & lakes revenue was driven by a large lake project in Illinois as well as a private company project in Florida. Year-to-date 2014 increases were slightly offset by a large municipal lake project in Texas that did not reoccur in the current year.

The environmental & remediation segment recorded revenues of \$29.3 million for the three months ended June 30, 2014, up 169% compared to \$10.9 million for the same period in 2013. Environmental & remediation segment revenues for the first half of 2014 were \$42.0 million, an increase of \$24.9 million or 146% compared to the six months ended June 30, 2013. The increase is attributable to a greater number of environmental & remediation projects in the first six months 2014, including large remediation projects in New Jersey and Michigan.

Consolidated gross profit for the 2014 second quarter increased by 90% to \$26.2 million, from \$13.8 million in the second quarter of 2013. Gross profit margin (gross profit divided by revenue) for the 2014 second quarter increased to 14.2% from 9.4% in the 2013 second quarter. Gross profit for the six months ended June 30, 2014 increased by 6% to \$47.1 million, from \$44.5 million in the 2013 first half, resulting in a slight decrease in gross profit margin to 13.1% from 13.6%. Gross profit margin for the first six months of 2014 was lower as many projects experienced severe weather, especially in the first quarter of 2014, which both contributed to longer project durations and equipment downtime for maintenance. These weather impacts in the first quarter were partially offset in the second quarter that experienced improved dredging mechanical efficiency and fewer production delays from the prior comparable period. In addition, fewer projects in the Middle East in 2014 further lowered the gross profit margin in the first six months of the current year as fixed costs impacted the gross profit of our foreign operations.

General and administrative expenses totaled \$15.9 million for the quarter ended June 30, 2014, up \$0.6 million or 4% from the second quarter of 2013. General and administrative expenses totaled \$33.8 million for the six months ended June 30, 2014, compared to \$31.6 million in the same period of the prior year. Additional payroll and benefit expenses of \$3.4 million contributed to the increase during the 2014 first half compared to the same period in 2013. These increases were slightly offset by a \$1.8 million decrease in legal and professional fees during the first six months of 2014.

Operating income for the three months ended June 30, 2014 was \$10.3 million compared to \$11.6 million in the same period of 2013. The operating income for the six months ended June 30, 2014 was \$13.2 million compared to \$26.1 million in the 2013 first half. Besides the change in gross profit and general and administrative expenses, the lower operating income is primarily due to the \$13.3 million in proceeds from a loss of use claim received during the 2013 second quarter.

Net interest expense totaled \$5.0 million for the three months ended June 30, 2014, down slightly from interest expense of \$5.4 million from the same period of 2013. Net interest expense totaled \$10.0 million and \$11.1 million for the six months ended June 30, 2014 and 2013, respectively. Net interest expense for the 2014 first half is down slightly compared to the same period in the prior year as the 2013 first half included financing fees associated with amendments to our debt facilities.

The income tax expense for the six months ended June 30, 2014 was a provision of \$0.6 million compared \$5.3 million for the six months ended June 30, 2013. The decrease in income tax provision for the first half of 2014 was attributable to the lower taxable operating income in 2014. The effective tax rate for the six months ended June 30, 2014 is 31.1%, which is below the effective tax rate of 38.2% for the same period of 2013 due to larger tax credits allowed in 2014. The Company expects the tax rate for the full year before consideration of nondeductible pretax items to remain near 40%.

Table of Contents

Net income from continuing operations was \$3.9 million and the earnings per diluted share was \$0.06 for the 2014 second quarter compared to a net income from continuing operations of \$3.8 million and earnings per diluted share of \$0.06 for the same period 2013. Net income from continuing operations was \$1.4 million with earnings per diluted share of \$0.02 for the six months ended June 30, 2014 compared to net income from continuing operations of \$8.5 million with earnings per diluted share of \$0.14 for the same period in 2013. The decrease in 2014 is due to lower operating income described above which was partially offset by a \$2.2 million noncash bargain purchase gain recognized during the second quarter of 2014. This gain is related to a small acquisition in our environmental & remediation segment.

Adjusted EBITDA from continuing operations (as defined on page 26) was \$19.8 million and \$31.8 million for the three and six months ended June 30, 2014, respectively, compared with \$22.0 million and \$47.4 million in the same 2013 periods. This decrease is the result of lower operating income in the current year period as described above.

Results by segment

Dredging

Dredging revenues for the three and six months ended June 30, 2014 were \$157.1 and \$319.1 million, respectively, compared to \$136.5 million and \$310.4 million for the same period of 2013. The dredging segment for the six months ended June 30, 2014 included increases in coastal protection, maintenance and rivers & lakes dredging revenues which were slightly offset by decreases in domestic and foreign capital revenues. The current year benefited from a large number of projects in New York and New Jersey to repair damaged shorelines as a result of Superstorm Sandy as well as several maintenance projects in New York, Maryland, and Georgia. The prior year dredging revenues were driven by three projects in the Middle East and two coastal restoration projects in Louisiana that did not repeat in the current year.

Gross profit margin in the dredging segment was 14.4% and 13.6% for the three and six months ended June 30, 2014, respectively, compared to a gross profit margin of 9.1% and 14.1% for the same period in the prior year. Dredging gross profit margin was lower for the first half of 2014 as many projects experienced severe weather, especially in the first quarter of 2014, which both contributed to longer project durations and equipment downtime for maintenance. These weather impacts in the first quarter were partially offset by improved performance in the second quarter with better dredging mechanical efficiency and fewer production delays from the prior comparable quarter. In addition, fewer projects in the Middle East in 2014 further lowered the gross profit margin in the first six months of the current year as fixed costs impacted the gross profit of our foreign operations.

Dredging segment operating income was \$11.0 million and \$18.4 million for the three and six months ended June 30, 2014, respectively, compared to operating income of \$14.6 million and \$33.6 million for the three and six months ended June 30, 2013. Besides the change in gross profit, the lower operating income is primarily due to the \$13.3 million in proceeds from loss of use claim received during the 2013 second quarter.

Environmental & remediation

Environmental & remediation revenues for the three and six months ended June 30, 2014 totaled \$29.3 million and \$42.0 million, respectively, compared to \$10.9 million and \$17.1 million for the same period in the prior year. Environmental & remediation revenues for the first six months of 2014 increased as a result of a greater number of projects, including large remediation projects in New Jersey and Michigan.

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

The environmental & remediation segment had a gross profit margin of 12.4% and 8.8% for the three and six months ended June 30, 2014, respectively and a gross profit margin of 12.0% and 4.6% for the same period in the prior year. During the first half of 2014, better fixed cost coverage allowed for improvements in the gross profit margin.

The environmental & remediation segment had an operating loss of \$0.7 million and \$5.3 million for the three and six months ended June 30, 2014, compared to an operating loss of \$2.9 million and \$7.4 million for the same periods of 2013. The change in operating loss is the result of the foregoing increase in gross profit margin for the six months ended June 30, 2014, slightly offset by a \$0.7 million increase in general and administrative expenses.

On April 23, 2014, the Company completed the sale of its historical demolition business which previously was part of the environmental & remediation segment. The historical demolition business has been retrospectively presented as discontinued operations and is no longer reflected in continuing operations.

Table of Contents*Bidding activity and backlog*

The following table sets forth, by reporting segment and type of dredging work, the Company's backlog as of the dates indicated:

| Backlog (in thousands) | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|-------------------------------|--------------------------|------------------------------|--------------------------|
| Dredging: | | | |
| Capital U.S. | \$ 183,467 | \$ 176,117 | \$ 185,351 |
| Capital foreign | 68,328 | 98,666 | 163,577 |
| Coastal protection | 56,896 | 143,498 | 66,398 |
| Maintenance | 41,585 | 70,633 | 20,950 |
| Rivers & lakes | 106,076 | 26,158 | 21,975 |
| Dredging Backlog | 456,352 | 515,072 | 458,251 |
| Environmental & remediation | 52,072 | 28,330 | 55,710 |
| Total Backlog | \$ 508,424 | \$ 543,402 | \$ 513,961 |

The Company's contract backlog represents its estimate of the revenues that will be realized under the portion of the contracts remaining to be performed. For dredging contracts these estimates are based primarily upon the time and costs required to mobilize the necessary assets to and from the project site, the amount and type of material to be dredged and the expected production capabilities of the equipment performing the work. For environmental & remediation contracts, these estimates are based on the time and remaining costs required to complete the project relative to total estimated project costs and project revenues agreed to with the customer. However, these estimates are necessarily subject to variances based upon actual circumstances. Because of these factors, as well as factors affecting the time required to complete each job, backlog is not always indicative of future revenues or profitability. Also, 63% of the Company's June 30, 2014 dredging backlog relates to federal government contracts, which can be canceled at any time without penalty to the government, subject to the Company's contractual right to recover the Company's actual committed costs and profit on work performed up to the date of cancellation. The Company's backlog may fluctuate significantly from quarter to quarter based upon the type and size of the projects the Company is awarded from the bid market. A quarterly increase or decrease of the Company's backlog does not necessarily result in an improvement or a deterioration of the Company's business. The Company's backlog includes only those projects for which the Company has obtained a signed contract with the customer.

The domestic dredging bid market for the 2014 second quarter totaled \$199.4 million, resulting in \$575.9 million of work awarded during the first six months of 2014. This represents an increase of \$9.7 million from the first half of 2013. During the first two quarters, the Company was awarded the final phase of the PortMiami project, for \$31.6 million. Additionally, the Company was awarded coastal protection projects in North Carolina and New Jersey. Including these awards, the Company won 76%, or \$43.0 million of the coastal protection projects awarded through June 30, 2014. For the contracts released in the current year, the Company won 26% or \$78.9 million of the domestic capital projects, 16% or \$13.4 million of the maintenance projects and 72% or \$91.7 million of the rivers & lakes projects awarded year-to-date through June 30, 2014. The Company won 39% of the overall domestic bid market through June 30, 2014, which is below the Company's prior three year average of 46%. Variability in contract wins from quarter to quarter is not unusual and one quarter's win rate is generally not indicative of the win rate the Company is likely to achieve for a full year.

The Company's contracted dredging backlog was \$456.4 million at June 30, 2014 compared to \$515.1 million of backlog as of December 31, 2013. These amounts do not reflect approximately \$38.0 million of domestic low bids pending formal award and additional phases (options) pending on projects currently in backlog at June 30, 2014. At December 31, 2013 the amount of domestic low bids and options pending award was \$136.4 million. Subsequent to the end of the quarter, the Company was awarded a \$35 million land reclamation contract in Bahrain that will be included in future backlog.

Domestic capital dredging backlog at June 30, 2014 was \$7.4 million greater than at December 31, 2013. During the first two quarters of 2014, the Company was awarded two projects, totaling approximately \$40 million, to deepen the main channel on the Delaware River. Additionally, the PortMiami project will continue into 2015 adding to revenues throughout the second half of 2014. The Company also continues to work on a deepening project in New York. The *Water Resources Reform and Development Act (WRRDA)* was signed in the second quarter of 2014 which authorized the Corps to begin dredging to deepen the Savannah River channel as well as initiated the studies to deepen the Ports of Jacksonville, Boston and others in the Gulf Coast. The Company views the bill as a positive catalyst for the domestic dredging industry as it authorizes over thirty major projects for the Corps.

Coastal protection dredging backlog at June 30, 2014 was \$86.6 million lower than at December 31, 2013 as the Company worked a number of projects in backlog to repair damaged shorelines in New York and New Jersey. Additionally, the Company worked on projects in South Carolina and Florida that were part of the backlog at year end. As noted above, the Company was awarded two large

Table of Contents

coastal protection projects as a result of Superstorm Sandy during the second quarter of 2014. The Corps is expected to let for bid a second round of coastal protection projects in the second half of 2014. In addition, several states are recognizing the importance of coastal protection to their communities and are stepping up local funding for projects that will directly impact their communities and provide a positive impact for the domestic dredging market.

Maintenance dredging backlog was \$29.0 million lower at June 30, 2014 than at December 31, 2013. The Company primarily completed its backlog related to several large projects in Florida, Georgia and Maryland during the first half of 2014. The Company will continue working on projects in New York, New Jersey and Tennessee throughout the second half of 2014. The previously mentioned *Water Resources Reform and Development Act* calls for full use of Harbor Maintenance Trust Fund (HMTF) for maintenance of ports and waterways within ten years. With the mandate to utilize the taxes collected on imports to U.S. ports for their intended purpose of maintaining future access to the waterways and ports that support our nation's economy, the Company expects the Corps to substantially increase the projects let to bid for maintenance projects in the second half of 2014, the fiscal year 2015 and beyond.

Rivers & lakes backlog is \$79.9 million higher at June 30, 2014 than at December 31, 2013 primarily due to the Lake Decatur award in the first quarter of 2014. Rivers & lakes continued to earn on projects in its backlog, including work on the Lake Decatur project and a private company project in Florida. Increased rainfall in the first half of 2014 which deposited additional sediment into the Mississippi River and allocation of resources from the Corps to other projects have left a backlog of projects to let from the government to maintain optimal navigation on this important waterway.

Foreign capital dredging backlog was down \$30.3 million from December 31, 2013. The Company continued to earn on the Wheatstone LNG project as well as a projects won in Brazil and the Middle East in the first quarter of 2014. Backlog from our Wheatstone LNG project and a project in the Middle East comprised a majority of the balance of backlog as of June 30, 2014. As noted above, the Company was awarded a \$35 million land reclamation contract in Bahrain subsequent to the end of the 2014 second quarter.

Environmental & remediation services backlog was \$23.7 million higher at June 30, 2014 than at December 31, 2013. The increase was primarily driven by the award of a new phase of the Midwestern remediation project during the first quarter of 2014. Terra's reputation in the remediation specialty contracting business has allowed the division to expand into new territory and complementary services for its clients. The two segments of the Company have combined product offerings during the year to serve our client's needs. Terra's combined service offering with rivers & lakes dredging highlights an important growth element of the Company.

Liquidity and capital resources

The Company's principal sources of liquidity are net cash flows provided by operating activities and proceeds from previous issuances of long term debt. The Company's principal uses of cash are to meet debt service requirements, finance capital expenditures, provide working capital and other general corporate purposes.

The Company's net cash provided by (used in) operating activities of continuing operations for the six months ended June 30, 2014 and 2013 totaled \$15.0 million, and \$(11.6) million, respectively. Normal increases or decreases in the level of working capital relative to the level of operational activity impact cash flow from operating activities. The increase in the current year from the six months ended June 30, 2013 is related to a decrease in the investment in working capital partially offset by lower adjusted EBITDA from continuing operations in the current year.

The Company's net cash flows used in investing activities of continuing operations for the first six months of 2014 and 2013 totaled \$53.3 million and \$13.9 million, respectively. Investing activities in both periods primarily relate to normal course upgrades and capital maintenance of the Company's dredging fleet. During the six months ended

June 30, 2014, the Company spent \$23.5 million on construction in progress for a vessel being built to our specifications. The Company intends to secure financing during construction of the vessel.

The Company's net cash flows provided by financing activities of continuing operations for the six months ended June 30, 2014 resulted in no net change compared to \$30.3 million for the six months ended June 30, 2013. The change in net cash flows from financing activities is primarily due to net borrowings on the Company's revolver during the 2013 first half of \$41.0 million. Also in 2013, the Company paid \$10.5 million on a promissory note related to the Terra acquisition.

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 provides for a senior revolving credit facility in an aggregate principal amount of up to \$175 million, subfacilities for the issuance of standby letters of credit up to a \$125 million sublimit, multicurrency borrowings up to a \$50 million sublimit and swingline loans up to a \$10 million 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 million. This is subject to lenders providing incremental commitments for such increase, provided that no default or event of default exists, the Company being in pro forma compliance with the existing financial covenants after giving effect to the increase and other standard conditions.

Table of Contents

Depending on the Company's consolidated leverage ratio (as defined in the Credit Agreement), borrowings under the revolving credit facility will bear interest at the option of the Company of 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 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.

In 2013, outstanding obligations under the Credit Agreement, which were previously unsecured, were 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 terms of the Credit Agreement, the obligations thereunder that became secured could again become unsecured provided that (i) no event of default has occurred and is continuing, (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 and (iii) the Company has delivered to the lenders its audited financial statements with respect to its fiscal year ending December 31, 2013. At June 30, 2014, the Credit Agreement remains secured by liens on certain of the Company's vessels and all of its domestic accounts receivable.

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 June 30, 2014, the Company had \$35.0 million of borrowings on the revolver and \$114.9 million of letters of credit outstanding, resulting in \$25.1 million of availability under the Credit Agreement. Borrowings under the line of credit may be limited based on the Company's requirements to comply with its covenants. At June 30, 2014, the Company was in compliance with its various covenants under its Credit Agreement.

Performance and bid bonds are customarily required for dredging and marine construction projects, as well as some environmental & remediation projects. The Company has a bonding agreement (the Zurich Bonding Agreement) with Zurich American Insurance Company (Zurich) under which the Company can obtain performance, bid and payment bonds. The Company also has outstanding bonds with Travelers Casualty and Surety Company of America. Bid bonds are generally obtained for a percentage of bid value and amounts outstanding typically range from \$1 million to \$10 million. At June 30, 2014, the Company had outstanding performance bonds valued at approximately \$852.0 million, of which \$39.2 million relates to projects accounted for in discontinued operations. The revenue value remaining in backlog related to the projects of continuing operations totaled approximately \$333.3 million.

In addition to its credit facility, the Company has a \$24 million International Letter of Credit Facility with Wells Fargo Bank, National Association, as successor by merger to Wells Fargo HSBC Trade Bank (the International Letter of Credit Facility). This facility is used for performance and advance payment guarantees on foreign contracts. The Company's obligations under the agreement are guaranteed by the Company's foreign accounts receivable. In addition, the Export-Import Bank of the United States (Ex-Im Bank) has issued a guarantee under the Ex-Im Bank's Working Capital Guarantee Program, which covers 90% of the obligations owing under the facility. At June 30, 2014, the Company had no letters of credit issued under this facility.

In connection with the sale of NASDI, LLC and Yankee Environmental Services, LLC, the Company's two subsidiaries that comprised the historical demolition business, on April 23, 2014, the Company, certain of its subsidiaries and Zurich entered into a rider to the Zurich Bonding Agreement. Under this rider, Zurich consented to

the sale and agreed, among other things, to release and discharge such subsidiaries from their obligations under the Zurich Bonding Agreement, and release the Transferred Bonds (as defined below) from under the Zurich Bonding Agreement. As a condition to Zurich's consent and agreement to release, the rider required (i) the buyer of the historical demolition business to enter into a General Indemnity Agreement in favor of Zurich with respect to the performance bonds issued by Zurich for existing projects that were transferred with the sale (the Transferred Bonds) and (ii) the Company to:

enter into a Guarantee and Indemnity Agreement with respect to the Transferred Bonds in favor of Zurich (Zurich Guarantee) pursuant to which the Company agreed to guarantee the obligations of such former subsidiaries under, and indemnify and hold Zurich harmless against any losses and liabilities incurred by it in respect of, the Transferred Bonds up to an aggregate amount of \$25 million;

enter into an agreement with Zurich providing for the issuance to Zurich of a letter of credit by the Company in the original face amount of \$20 million (the Zurich Letter of Credit) to secure the obligations of (a) the Company under the Zurich Bonding Agreement with respect to the bonds issued thereunder and under the Zurich Guarantee and (b) such former subsidiaries with respect to the Transferred Bonds; and

issue the Zurich Letter of Credit.

Table of Contents

In addition, on April 23, 2014 the Company entered into (i) an amendment to the Credit Agreement, which amended the Credit Agreement to permit the entrance into the Zurich Guarantee by the Company and to exclude the Zurich Guarantee and the Zurich Letter of Credit from the calculation of the Company's financial covenants under the Credit Agreement related to total consolidated indebtedness and total leverage ratio and (ii) an amendment to the International Letter of Credit Facility, to exclude the Zurich Guarantee and the Zurich Letter of Credit from the calculation of the Company's financial covenants thereunder related to total consolidated indebtedness and total leverage ratio.

The impact of changes in functional currency exchange rates against the U.S. dollar on non-U.S. dollar cash balances, primarily the Brazilian Real and Australian Dollar, is reflected in the cumulative translation adjustment net within accumulated other comprehensive loss. Cash held in non-U.S. dollar currencies primarily is used for project-related and other operating costs in those currencies reducing the Company's exposure to future realized exchange gains and losses.

The Company believes its cash and cash equivalents, its anticipated cash flows from operations and availability under its revolving credit facility will be sufficient to fund the Company's operations, capital expenditures and the scheduled debt service requirements for the next twelve months. Beyond the next twelve months, the Company's ability to fund its working capital needs, planned capital expenditures, scheduled debt payments and dividends, if any, and to comply with all the financial covenants under the Credit Agreement and bonding agreement, depends on its future operating performance and cash flows, which in turn, are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond the Company's control.

Critical accounting policies and estimates

In preparing its consolidated financial statements, the Company follows accounting principles generally accepted in the United States of America. The application of these principles requires significant judgments or an estimation process that can affect the results of operations, financial position and cash flows of the Company, as well as the related footnote disclosures. The Company continually reviews its accounting policies and financial information disclosures. There have been no material changes in the Company's critical accounting policies or estimates since December 31, 2013.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The market risk of the Company's financial instruments as of June 30, 2014 has not materially changed since December 31, 2013. The market risk profile of the Company on December 31, 2013 is disclosed in Item 7A.

Quantitative and Qualitative Disclosures about Market Risk of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Table of Contents

Item 4. Controls and Procedures.

a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures, as required by Rule 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934 (the Exchange Act) as of June 30, 2014. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act a) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure and b) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in providing such a reasonable assurance.

b) Changes in internal control over financial reporting.

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II Other Information

Item 1. Legal Proceedings.

See Note 8 Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements.

Item 1A. Risk Factors.

There have been no material changes during the six months ended June 30, 2014 to the risk factors previously disclosed in Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

(a) None.

(b) None.

(c) None.

Item 3. Defaults Upon Senior Securities.

(a) None.

(b) None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

(a) None.

(b) Not applicable.

Table of Contents

Item 6. Exhibits

| | |
|---------|--|
| 10.1 | Amended and Restated Employment Agreement with Jonathan W. Berger, dated as of May 8, 2014. (1) |
| 10.2 | Offer letter, dated as of June 5, 2014 to Mark W. Marinko. * |
| 31.1 | Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 31.2 | Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. * |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 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. * |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. * |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. * |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. * |

(1) Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on May 13, 2014 (Commission file no. 001-33225).

* Filed herewith.

Table of Contents

SIGNATURE

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.

Great Lakes Dredge & Dock Corporation
(registrant)

By:

/s/ MARK W. MARINKO

Mark W. Marinko

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer and Duly Authorized Officer)

Date: August 6, 2014

Table of Contents

EXHIBIT INDEX

| Number | Document Description |
|---------------|--|
| 10.1 | Amended and Restated Employment Agreement with Jonathan W. Berger, dated as of May 8, 2014. (1) |
| 10.2 | Offer letter, dated as of June 5, 2014 to Mark W. Marinko. * |
| 31.1 | Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 31.2 | Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. * |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 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. * |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. * |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. * |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. * |

(1) Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on May 13, 2014 (Commission file no. 001-33225).

* Filed herewith.