

Orion Group Holdings Inc  
Form 10-K  
March 27, 2019  
Table of Contents

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-33891

ORION GROUP HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware 26-0097459

State of Incorporation IRS Employer Identification Number

12000 Aerospace Avenue, Suite 300

Houston, Texas 77034 (713) 852-6500

Address of Principal Executive Office Registrant's telephone number (including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
---------------------	---

Common stock, \$0.01 par value per share	The New York Stock Exchange
--	-----------------------------

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act:  Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act:  Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days:  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definition of "large accelerated filer", "accelerated filer", "small reporting" company and "emerging growth" company in Rule 12b-2 of the Exchange Act (Check One):

Edgar Filing: Orion Group Holdings Inc - Form 10-K

Large Accelerated Filer  Accelerated Filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, initiate by check mark if the registrant has elected not to use the extended transition period for complying with any, new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act.

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

There were 28,899,412 shares of common stock outstanding as of March 15, 2019. The aggregate market value of the Registrant's common equity held by non-affiliates was approximately \$237.2 million as of June 29, 2018, the last business day of the Registrant's most recently completed second fiscal quarter, based upon the last reported sales price on the New York Stock Exchange on that date.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III – Portions of the Registrant's definitive Proxy Statement to be issued in connection with the 2019 Annual Meeting of Stockholders to be filed on or about April 9, 2019, are incorporated by reference in Part III of this Annual Report on Form 10-K.

Table of Contents

ORION GROUP HOLDINGS, INC.

2018 Annual Report on Form 10-K

Table of Contents

<u>PART I</u>	<u>3</u>
Item 1. <u>Business</u>	<u>3</u>
Item 1A. <u>Risk Factors</u>	<u>12</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>20</u>
Item 2. <u>Properties</u>	<u>20</u>
Item 3. <u>Legal Proceedings</u>	<u>20</u>
Item 4. <u>Mine Safety Disclosure (not applicable)</u>	<u>21</u>
<u>PART II</u>	<u>22</u>
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>22</u>
Item 6. <u>Selected Financial Data</u>	<u>23</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>36</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>36</u>
Item 9. <u>Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>37</u>
Item 9A. <u>Controls and Procedures</u>	<u>37</u>
Item 9B. <u>Other Information</u>	<u>38</u>
<u>PART III</u>	<u>38</u>
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>38</u>
Item 11. <u>Executive Compensation</u>	<u>39</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>39</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>39</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>39</u>
<u>PART IV</u>	<u>39</u>
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>40</u>
<u>SIGNATURES</u>	<u>44</u>

Table of Contents

PART I

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K and the documents incorporated by reference herein may contain forward-looking statements that are not based on historical fact. When used in this report, words such as “expects”, “anticipates”, “believes”, “seeks”, “estimates”, “plans”, “intends” and similar words identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Although such statements are based on management’s current estimates and expectations and currently available competitive, financial and economic data, forward-looking statements are inherently uncertain and involve risks and uncertainties that could cause our actual results to differ materially from what may be inferred from the forward-looking statements. Some of the factors that could cause or contribute to such differences are listed and discussed in Item 1A “Risk Factors” below and elsewhere in this Annual Report on Form 10-K. We undertake no obligation to release publicly any revisions or updates to any forward-looking statements that are contained in this document. We encourage you to read carefully the risk factors described in other documents we file from time to time with the United States Securities and Exchange Commission (the “SEC”).

Item 1. BUSINESS

General background

Orion Group Holdings, Inc., is a leading specialty construction company in the building, industrial, and infrastructure sectors in the continental United States, Alaska, Canada, and the Caribbean Basin. Our marine segment services include marine transportation facility construction, marine pipeline construction, marine environmental structures, dredging of waterways, channels and ports, environmental dredging, design, and specialty services. Our concrete segment provides turnkey concrete construction services including pour and finish, dirt work, layout, forming, rebar, and mesh across the light commercial, structural and other associated business areas. We are headquartered in Houston, Texas with offices throughout our operating areas.

Orion Group Holdings, Inc. is a Delaware corporation. The common stock of Orion Group Holdings, Inc. is listed on the New York Stock Exchange under the symbol ORN. Unless the context otherwise requires, all references herein to “Orion”, the “Company”, the “Registrant”, “we”, “us” or “our” refer to Orion Group Holdings, Inc. and its consolidated subsidiaries and affiliates.

History and growth

Orion Group Holdings, Inc. was founded in 1994 as a marine construction project management business. Since then, we have expanded our reach both through organic growth and acquisitions. We have successfully acquired and fully integrated several companies into our operations, including the acquisition of T.A.S. Commercial Concrete Construction, LLC (“TAS”) during 2015 and Tony Bagliore Concrete, Inc. (“TBC”) during 2017. The TAS acquisition added another segment to our business, provided diversification of end market drivers and a diversified customer base. The TBC acquisition expanded the Company's current service offerings to an additional market within its concrete segment. These strategic acquisitions have also enhanced our operational capabilities, provided us with a larger geographic base, and added to our equipment fleet. Today we are focused on being the leading specialty construction company in the building, industrial, and infrastructure sectors and will continue to see growth opportunities through greenfield expansion, acquisitions, vertical integration, and diversification.

Our Business Strategy

We employ the following key business strategies:

-

Continue to add construction capabilities - We seek to add capabilities that augment our core contracting and construction competencies, improve our gross margin opportunities, and compete more effectively for contracts that might not otherwise be available to us.

Expand into new markets and complementary service offerings and selectively pursue strategic acquisitions - We seek to identify attractive new markets and strategic opportunities to expand our service offering through selective acquisitions, greenfield expansions or diversification.

Continue to capitalize on favorable long-term industry trends - We seek to capitalize on infrastructure capital investments across the markets we serve including port and marine infrastructure, government funded projects, transportation, oil and gas facilities, recreational waterside industry infrastructure expansion and environmental restoration markets. We seek to capitalize on privately funded projects across the commercial concrete markets we serve including industrial, institutional, commercial real estate, and recreational developments.

## Table of Contents

Diversification - To mitigate the risks inherent in the construction business as the result of general economic factors, we pursue projects in both the public and private sectors for a wide range of customers within each sector (from the federal government to small municipalities and from large corporations to small owners and developers and in diverse geographic markets).

Continue to reinvest in our core operations - We pursue technically complex projects where our people, specialized services and equipment differentiate us from our competitors. We intend to enhance the types, numbers and capabilities of our equipment so we can provide turnkey construction services to our customers. This means when we are called on for business, we have the right people, skills, and equipment readily available for multiple projects.

Continue to attract, retain and develop our employees - We believe our employees are integral to the success of our project execution, and we continue to allocate resources to attract and retain talented managers, supervisors and field personnel.

Ownership of equipment - We own a large fleet of well-maintained construction equipment. The ownership of this equipment enables us to compete more effectively by ensuring availability of equipment at a favorable cost.

Our operating principles and guiding beliefs include:

Safety - We believe accident prevention is a moral obligation as well as a good business practice. By identifying and concentrating resources to address jobsite hazards, we continually strive to reduce our incident rates and the costs associated with accidents.

Quality and Integrity - We believe in the importance of performing high quality work. Additionally, we believe in maintaining high ethical standards through an established code of conduct and an effective company-wide compliance program.

Production - We believe in the importance of performing tasks safely, efficiently and timely. Additionally, we believe in safeguarding our facilities and equipment and always acting in the best interest of the Company.

Sustainability - Our focus on sustainability encompasses many aspects of how we conduct ourselves and practice our core values. We believe sustainability is important to our customers, employees, shareholders, and communities, and is also a long-term business driver. By focusing on specific initiatives that address social, environmental and economic challenges, we can minimize risk and increase our competitive advantage.

## Services Provided

### Marine Construction Services

Marine construction services include construction, restoration, dredging, maintenance and repair of marine transportation facilities, marine pipelines, bridges and causeways, and marine environmental structures. We have the capability of providing design-build services and typically serve as the prime contractor for these types of projects.

Marine transportation facility projects include public port facilities for container ship loading and unloading; cruise ship port facilities; private terminals; special-use Navy terminals; recreational use marinas and docks; and other marine-based facilities. These projects typically consist of steel or concrete fabrication dock or mooring structures designed for durability and longevity, and involve driving piles of concrete, pipe or sheet pile to provide a foundation for the port facility structure that we subsequently construct on the piles. We also provide on-going maintenance and repair, inspection services, emergency repair, and demolition and salvage to such facilities.

Our marine pipeline service projects generally include the installation and removal of underwater buried pipeline transmission lines; installation of pipeline intakes and outfalls for industrial facilities; construction of pipeline outfalls for wastewater and industrial discharges; river crossing and directional drilling; creation of hot taps and tie-ins; and inspection, maintenance and repair services.

## Edgar Filing: Orion Group Holdings Inc - Form 10-K

Our bridge and causeway projects include the construction, repair and maintenance of all types of overwater bridges and causeways, as well as the development of fendering systems in marine environments. We serve as the prime contractor for many of these projects, and some of these are design-build contracts. These projects involve fabricating steel or concrete structures designed for durability and longevity, and involve driving concrete, pipe or sheet pile to create support for the concrete deck roadways that we subsequently construct on the piles. These piles can exceed four feet in diameter, can range up to 170 feet in overall length, and are often driven 90 feet into the sea floor.

Marine environmental structure projects may include the installation of concrete mattresses to promote erosion protection; construction of levees to contain environmental mitigation projects, and the installation of geotubes for wetlands and island creation. Such structures are used for erosion control, wetlands creation and environmental remediation.

4

---

## Table of Contents

Dredging generally enhances or preserves the navigability of waterways or the protection of shorelines through the removal or replenishment of soil, sand or rock. Dredging involves the removal of mud and silt from the channel floor by means of a mechanical backhoe, crane and bucket or cutter suction dredge and pipeline systems. Dredging is integral to marine capital and maintenance projects, including: maintenance for previously deepened waterways and harbors to remove silt, sand and other accumulated sediments; construction of breakwaters, jetties, canals and other marine structures; deepening ship channels and wharves to accommodate larger and deeper draft ships; containing erosion of wetlands and coastal marshes; land reclamation; and beach nourishment and creation of wildlife refuges. Maintenance dredging projects are a source of recurring revenue as active channels typically require routine dredging due to natural sedimentation. The frequency of maintenance dredging may be accelerated by heavy rainfall or major weather events such as hurricanes. Areas where no natural deep water ports exist, such as the Texas Gulf Coast, require substantial dredging. We maintain multiple specialty dredges of various sizes and specifications to meet customer needs. Our dredging services are typically combined with our marine construction services to provide a turn-key solution for our customers.

Our specialty services include design, salvage, demolition, surveying, towing, diving and underwater inspection, excavation and repair. Our diving services are largely performed in shallow water and include inspections, salvage and pile restoration and encapsulation. Our survey services include surveying pipelines and performing hydrographic surveys which determine the configuration of the floors of bodies of water and detect and identify wrecks and other obstructions. Most of these specialty services support our other services or provide an introductory opportunity to other customers.

### Concrete Construction Services

The concrete segment provides its services in the following areas: light commercial, structural, and other services. Light commercial services include horizontally poured concrete for products such as sidewalks, ramps, tilt walls, and trenches. Structural services include elevated concrete pouring for products such as columns, elevated beams, and structural walls. Other services comprise labor related to concrete pouring, such as rebar installation and pumping services and typically support our other services. These services cover all phases of concrete construction including dirt work and layout, forming, rebar and mesh, and pour and finish.

### Industry and Market Overview

#### Marine Segment

We provide our services to similar customers, or in some cases, the same customers, across the markets served by our business. Our marine segment customers may be in diverse end markets, including port expansion and maintenance, bridges, causeways and other marine infrastructure, the recreational waterside industry, the U.S. Department of Defense, the energy industry, coastal protection and reclamation, along with hurricane restoration and repair and environmental remediation. We believe that this broad customer base enables us to lessen the negative effects during a downturn in a specific end market and respond quickly to the needs of expanding end markets. The following includes an overview of our diverse markets in the marine construction industry:

#### Port Expansion and Maintenance

Expected increases in cargo volume and future demands from larger ships transiting the expanded Panama Canal will require ports, especially along the Gulf Coast and Atlantic Seaboard, to expand their dock capacity and port infrastructure to accommodate larger container ships and increased cargo volumes, as well as perform additional dredging services to deepen and maintain their channels. We provide customers in this sector turnkey services to meet all their port expansion and maintenance work.

#### Bridges and Causeways



According to the American Society of Civil Engineers, as of their most recent report, one in nine of the nation's bridges are structurally deficient, and the average age of the nation's bridges is 43 years old. We are able to construct or restore overwater bridges, and design, repair, or replace, fendering systems for customers.

#### Marine Infrastructure

The U.S. Marine Transportation System ("MTS") consists of waterways, ports and their intermodal connections, vessels, vehicles, and system users, as well as shipyards and repair facilities crucial to maritime activity. The MTS is primarily owned and operated through an aggregation of federal, state, and local governmental authorities, as well as privately owned facilities and private companies. U.S. inland and intracoastal waterways require continuous maintenance and improvement. While waterway usage is increasing, the facilities and supporting systems are aging. In addition, channels and waterways must maintain certain depths to accommodate ship and barge traffic. Natural sedimentation in these channels and waterways require routine maintenance dredging to maintain navigability.

## Table of Contents

Our full business complement, including design, dredging, marine construction, and specialty services, such as diving, survey and inspections are fully utilized by our customers to meet all their marine infrastructure project needs.

### Recreational Waterside Industry

An increase in the number and size of cruise ships has generated a need for substantial port infrastructure development, including planning and construction of new terminals and facilities, as well as on-going maintenance and repair services. These larger vessels require development of new mooring structures as well as additional dredging services to accommodate deeper drafts. Our service area includes, among others, the ports of Miami, Galveston, Tampa, New Orleans, Canaveral, Juneau, Tacoma, Seattle and the Caribbean Basin, which includes numerous cruise facilities and is the most popular cruise destination in the North American market.

### The Department of Defense and Homeland Security

The U.S. Navy has the responsibility for the maintenance of 40 facilities in the United States, which includes a significant amount of marine infrastructure. We believe the U.S. Navy will continue to maintain strategic facilities, including required maintenance and upgrades to its marine facility infrastructure.

The U.S. Coast Guard maintains more than 50,000 federal aids to navigation, which include buoys, lighthouses, day beacons and radio-navigation signals. Additionally, it has oversight responsibility for over 18,000 highway and railroad bridges that span navigable waterways throughout the country. As part of the Department of Homeland Security, we anticipate that the U.S. Coast Guard's needs for varied marine construction services, including those listed above, will provide opportunities for us in the future.

### Energy Industry

We design, construct, repair and remove underwater pipelines, and provide marine construction, dredging and on-going maintenance services for private refineries, terminal facilities and docks, and other critical areas near shore oil and gas infrastructure.

### U.S. Coastal and Wetland Restoration and Reclamation

We believe that increases in coastal population density and demographic trends will lead to an increase in the number of coastal restoration and reclamation projects, and as the value of waterside assets rises from a residential and recreational standpoint, the private sector, government agencies and municipalities will increase spending on restoration and reclamation projects.

### Hurricane Restoration and Repair

Hurricanes are often very destructive to the existing marine infrastructure and natural protection barriers of the prime storm areas of the Gulf Coast, the Atlantic Seaboard, and the Caribbean Basin, including bridges, ports, underwater channels and sensitive coastal areas. Typically, restoration and repair opportunities continue for several years after a major hurricane event. These events provide incremental projects to our industry that contribute to a favorable bidding environment and high capacity utilization in our markets during such times.

### Environmental Remediation

We believe there will be additional funding for the protection of natural habitats, environmental preservation, wetlands creation and remediation for high priority projects in Louisiana and other areas in the markets we serve that will protect and restore sensitive marine and coastal areas, advance ocean science and research, and ensure sustainable use of ocean resources.

### Concrete Segment

We provide our services to different customers across the markets served by our business. Our customers in the concrete segment are in diverse end markets such as industrial, institutional, commercial real estate, and recreational

developments.

Our concrete segment depends on continued growth in population to support residential and nonresidential construction specifically in the metropolitan areas of Texas. The latest estimates from the U.S. Census Bureau indicate that the metropolitan areas of Texas, specifically Dallas, Houston, San Antonio and Austin, are among the U.S. top 10 in population growth based on the most recent survey results. These markets show substantial growth in multi-family housing, medical facilities, and commercial, office, retail, and industrial buildings.

We believe that this broad customer base enables us to lessen the negative effects during a downturn in a specific end market and respond quickly to the needs of expanding end markets. The following includes an overview of our diverse markets in the concrete industry:

6

---

Table of Contents

Industrial developments

Our industrial markets include manufacturing plants, industrial warehousing, distribution centers, waste water treatment facilities and facilities supporting the petrochemical industry. An expected increase in distribution has generated a need for substantial industrial park developments.

Institutional developments and expansions

Our institutional markets include educational facilities, medical facilities, museums, and religious developments. Due to significant population growth in the metropolitan areas of Texas, there has been great demand for institutional development and expansion. As the suburban areas of major cities continue to grow, bond programs are passing for new education construction. Additionally, as population and suburban areas grow, so does the continued need for medical and educational facilities.

Structural developments

Our structural markets include mid- and high-rise multi-family living, single and multi-story office buildings, parking garages, shopping malls, and free standing retail outlets. As population continues to grow, so does the need for retail developments, such as grocery stores, shopping malls, restaurants, and other entertainment venues. Additionally, continued growth in business expansions and relocations to Texas are driving an increase in the need for office space and apartment complexes.

Recreational developments

Our recreational markets include a wide-range of hotels, sports venues, and stadiums. The increase in new businesses and new educational facilities has sparked the need for additional hotels and stadiums across the metropolitan areas of Texas.

Customers

Our customers in the marine segment include federal, state and local governmental agencies as well as private commercial and industrial enterprises in the United States and the Caribbean Basin. Customers in our concrete segment include owners and developers of medical facilities, religious developments, sports complexes and stadiums, school districts and developers, owners of industrial, commercial and residential buildings, and some governmental agencies across the metropolitan areas of Texas. Most projects are competitively bid, with the award typically going to the lowest qualified bidder. Our customer base shifts from time to time depending on the types of projects we bid, and ultimately are successful on obtaining.

The following table represents concentrations of contract revenue by type of customer for the years ended December 31, 2018, 2017, and 2016.

	2018	%	2017	%	2016	%
Federal Government	\$42,143	8 %	\$63,823	11 %	\$40,361	7 %
State Governments	30,470	6 %	42,613	7 %	37,700	7 %
Local Governments	107,478	21 %	91,592	16 %	94,461	16 %
Private Companies	340,803	65 %	380,525	66 %	405,714	70 %
Total contract revenues	\$520,894	100%	\$578,553	100%	\$578,236	100%

We do not believe that the loss of any one of these customers would have a material adverse effect on our operations since no single customer sustains a large portion of our contract revenue over time.

Backlog

Our contract backlog represents our estimate of the revenues we expect to realize under the portion of the contracts remaining to be performed. Given the typical duration of our contracts, which generally is less than one year, our

backlog at any point in time usually represents only a portion of the revenue that we expect to realize during a twelve month period. We include projects in our backlog only when the customer has provided an executed contract, purchase order, change order, or other notice to proceed.

Backlog for our marine segment at December 31, 2018, was \$256.7 million, as compared with \$177.0 million at December 31, 2017.

Backlog for our concrete segment at December 31, 2018 was \$183.7 million, as compared with \$183.6 million at December 31, 2017.

These estimates are subject to fluctuations based upon the scope of services to be provided, as well as factors affecting the time required to complete the project. Backlog is not necessarily indicative of future results. In addition to our backlog under contract, we also have a substantial number of projects in negotiation or pending award at any given time.

## Table of Contents

### Fluctuations in Quarterly Results

Our quarterly revenues and results of operations may fluctuate significantly depending upon the mix, size, scope, and progress schedules of our projects under contract, permitting, weather or other delays, the productivity of our labor force and the utilization of our equipment. These factors, as well as others, affect the rate at which revenue is recognized as projects are completed.

### Competition

In our marine segment, we compete with several regional marine construction services companies and a few national marine construction services companies. From time to time, we compete with certain national land-based heavy civil contractors. In our concrete segment, we compete mostly in the private sector and our competitors range from small, local construction companies to large regional and national construction companies.

Both of our segments are highly fragmented with competitors generally varying within the markets we serve and with few competitors competing in all of the markets we serve or for all of the services that we provide. We believe that our turnkey capability, expertise, experience and reputation for providing safe and timely quality services, safety record and programs, versatile equipment fleet, financial strength, surety bonding capacity, knowledge of local markets and conditions, and project management and estimating abilities allow us to compete effectively. We believe significant barriers to entry exist in the markets in which we operate, including the ability to bond large projects, maritime law constraints, specialized marine equipment and technical experience; however, a U.S. company that has adequate financial resources, access to technical expertise, and specialized equipment may become a competitor.

### Insurance and Bonding

We maintain general and excess liability, construction equipment and workers' compensation insurance; all in amounts adequate for our operating needs and consistent with industry practice.

In connection with both segments of the business, we generally are required to provide various types of surety bonds that provide security for our performance under certain public and private sector contracts. Our ability to obtain surety bonds depends upon our capitalization, adequate working capital, past performance, management expertise, and external factors, including the capacity of the overall surety market. Surety companies consider such factors in light of the amount of our backlog that we have currently bonded and their own current underwriting standards, which may change from time to time. The capacity of the surety market is subject to market-driven fluctuations driven primarily by the level of surety industry losses and the degree of surety market consolidation. Although we do not believe that fluctuations in surety market capacity have significantly affected our ability to grow our business, there is no assurance that it will not significantly affect our ability to obtain new contracts in the future. The bonds we provide typically are for the contract amount of the project. At December 31, 2018, our capacity under our current bonding arrangement was \$500 million, with approximately \$133 million of remaining availability. We believe our strong balance sheet and working capital position will allow us to continue to access our bonding capacity.

### Trade Names

We operate under a number of trade names. We consolidate our operations under the brand name "Orion Group Holdings, Inc." We may be known as Orion Marine Group, Orion Marine Construction, Orion Marine Contractors, Orion Construction, East and West Jones Placement Area, Schneider E&C, Orion Industrial Construction, Orion Concrete Construction, T.A.S. Commercial Concrete Construction, LLC, T.A.S. Commercial Concrete Solutions, LLC, T.A.S. Proco, LLC, or Houston Industrial Tool Services, as well as our former names of King Fisher Marine Service, F. Miller Construction, T. W. LaQuay Dredging, Misener Marine Construction, Misener Diving & Salvage, Northwest Marine Construction and West Construction. We do not generally register our trademarks with the U.S. Patent & Trademark Office, but instead rely on state and common law protections. While we consider our trade names to be valuable assets, we do not consider any single trademark or trade name to be of such material importance that its absence would cause a material disruption of our business.

#### Equipment

We operate and maintain a large and diverse equipment fleet in our marine and concrete segments, substantially all of which we own, that includes the following:

Barges - spud barges, material barges, deck barges, anchor barges, hopper barges, and fuel barges. These vessels are used to provide work platforms for cranes and other equipment, to transport materials to the project site and to provide support for the project at the project site.

Dayboats - small pushboats, dredge tenders and skiffs are used to shift barges at the project site, to move personnel and to provide general support to the project site.

## Table of Contents

Tugs - larger pushboats and tug boats are used to transport barges and other support equipment to and from the project site.

Dredges - 24" cutter head suction dredges (diesel), 20" cutter head suction dredge (diesel/electric), 20" cutter head suction dredges (diesel), 16" cutter head suction dredges, and 12" portable cutter head suction dredges are used to provide dredging services at project sites.

Cranes - crawler lattice boom cranes with lift capability from 50 tons to 400 tons and hydraulic rough terrain cranes with lift capability from 15 tons to 60 tons are used to provide lifting and pile driving capabilities on project sites, and to provide bucket work, including mechanical dredging and dragline work, to project sites.

Tower Cranes - Capable of being assembled to reach heights of 281 feet and have a capacity of 44,000 pounds with a maximum of 242 foot working radius.

Pump Trucks - concrete pump trucks are large, diesel-powered trucks mounted with a powerful pump, and an extendable, sectioned hose or cylinder to help facilitate the placement of concrete for construction projects.

Laser Screeds - laser screeds are self-propelled four wheel drive, four wheel steer units that encompass a 20' telescoping boom with a 12' wide placement head. The screed head itself consists of 3 parts: the plow, the auger, and the vibrator. The plow disperses the concrete evenly, the auger removes the excess material to finished grade, and the vibrator smooths the surface. The screed has an on board computer system able to determine the correct elevation height and provide commands for elevation control.

We believe that ownership of certain equipment is generally preferable to leasing or rental in some cases because it ensures the equipment is available as needed and normally results in lower costs. We continually monitor and adjust our fleet size so that it is consistent with the size of the business, considering both existing backlog and expected future work. We believe that our equipment is well maintained and suitable for our current operations. We have the ability to extend the useful life of our equipment through capital refurbishment at periodic intervals. Most of our fleet is serviced by our own mechanics who work at various maintenance sites and facilities. We are also capable of building, and have built, much of our highly specialized equipment. Our strategy is to move our fleet from project to project as required. The assets (including equipment) are pledged as collateral under the Credit Facility.

### Equipment Certification

In our marine segment, some of our equipment requires certification by the U.S. Coast Guard. All equipment which requires certification has obtained such certification and is maintained in good standing thereunder. In addition, where required, our vessels' permissible loading capacities require certification by the American Bureau of Shipping ("ABS"). The ABS is an independent classification society which certifies that certain of our larger, seagoing vessels are "in-class," signifying that the vessels have been built and maintained in accordance with ABS standards and applicable U.S. Coast Guard rules and regulations. All of our vessels that are required to be certified by the ABS have been certified as "in-class." These certifications indicate that the vessels are structurally capable of operating in open waters, which enhances the mobility of our fleet.

### Government Regulations

We are required to comply with the macro regulatory requirements of federal, state and local governmental agencies and authorities including the following:

- regulations concerning workplace safety, labor relations and disadvantaged businesses;
- licensing requirements applicable to shipping and dredging; and
- permitting and inspection requirements applicable to marine construction projects.



In our marine segment, we are also subject to government regulations pursuant to the Dredging Act, the Merchant Marine Act of 1920, commonly referred to as the "Jones Act", the Shipping Act and the Vessel Documentation Act. These statutes require vessels engaged in the transport of merchandise or passengers between two points in the United States or dredging in the navigable waters of the U.S. to be documented with a coastwise endorsement, to be owned and controlled by U.S. citizens, to be manned by U.S. crews, and to be built in the U.S. The U.S. citizenship ownership and control standards require the vessel-owning entity to be at least 75% U.S. citizen owned, and prohibit the demise or bareboat chartering of the vessel to any entity that does not meet the 75% U.S. citizen ownership test. These statutes, together with similar requirements for other sectors of the maritime industry, are collectively referred to as "cabotage" laws.

In both our marine and concrete segments, we are subject to the requirements of OSHA and certain regulations for the EPA.

## Table of Contents

We believe that we are in material compliance with applicable regulatory requirements and have all material licenses required to conduct our operations.

### Environmental Matters

#### General

Our marine infrastructure construction, salvage, demolition, dredging and dredge material disposal activities are subject to stringent and complex federal, state, and local laws and regulations governing environmental protection, including air emissions, water quality, solid waste management, marine and bird species and their habitats, and wetlands. A portion of our construction contracts are entered into with public authorities and frequently impose additional governmental requirements, including requirements regarding labor relations.

Such laws and regulations may require that both segments and their customers obtain, and comply with, various environmental permits, registrations, licenses and other approvals. These laws and regulations also can restrict or impact the business activities in many ways, such as delaying the appropriation and performance of particular projects; restricting the way we handle or dispose of wastes; requiring remedial action to mitigate pollution conditions that may be caused by our operations or that are attributable to others; and enjoining some or all of our operations deemed in non-compliance with environmental laws and regulations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and/or criminal penalties, the imposition of remedial obligations and the issuance of orders enjoining future operations.

We believe that compliance with existing federal, state and local environmental laws and regulations will not have a material adverse effect on our business, results of operations, or financial condition. In addition, we could be affected by future laws or regulations. As a result, there can be no assurance as to the amount or timing of future expenditures for environmental compliance or remediation, and actual future expenditures may be different from the amounts we currently anticipate. The following is a discussion of the environmental laws and regulations that could have a material effect on our marine and concrete construction services.

#### Waste Management

Our operations could be subject to the federal Resource Conservation and Recovery Act (“RCRA”) and comparable state laws, which impose detailed requirements for the handling, storage, treatment and disposal of hazardous and non-hazardous solid wastes. Under the auspices of the EPA, the individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent, requirements. Generators of hazardous wastes must comply with certain standards for the accumulation and storage of hazardous wastes, as well as recordkeeping and reporting requirements applicable to hazardous waste storage and disposal activities.

#### Site Remediation

The Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), also known as “Superfund,” and comparable state laws and regulations impose liability, without regard to fault or the legality of the original conduct, on certain classes of persons responsible for the release of hazardous substances into the environment. Such classes of persons include the current and past owners or operators of sites where a hazardous substance was released, and companies that disposed or arranged for the disposal of hazardous substances at offsite locations, such as landfills. CERCLA authorizes the EPA, and in some cases third parties, to take actions in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. In addition, neighboring landowners and other third parties often file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

We currently own or lease properties that have been used by other industries for a number of years. Although we typically have used operating and disposal practices that were standard in the industry at the time, wastes may have been disposed of or released on or under the properties owned or leased by us, on or under other locations where such substances have been taken for disposal, or on or under project sites where we perform work. In addition, some of the properties may have been operated by third parties or by previous owners whose treatment and disposal or release of wastes was not under our control. These properties and the substances disposed or released on them may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove or remediate previously disposed wastes or property contamination, or to perform remedial activities to prevent future contamination.

#### Water Discharges

The Federal Water Pollution Control Act, also known as the Clean Water Act (“CWA”), and analogous state laws impose strict controls with respect to the discharge of pollutants, including spills and leaks of oil and other substances, into waters of the United

## Table of Contents

States, including wetlands. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. The CWA also regulates the discharge of dredged or fill material into waters of the U.S., and activities that result in such discharge generally require permits issued by the Corps of Engineers. Moreover, above ground storage of petroleum products is strictly regulated under the CWA. Under the CWA, federal and state regulatory agencies may impose administrative, civil and/or criminal penalties for non-compliance with discharge permits or other requirements of the CWA and analogous state laws and regulations.

The Oil Pollution Act of 1990 (“OPA”), which amends and augments the CWA, establishes strict liability for owners and operators of facilities that are sites of releases of oil into waters of the U.S. OPA and its associated regulations impose a variety of requirements on responsible parties related to the prevention of oil spills and liability for damages resulting from such spills. For instance, OPA requires vessel owners and operators to establish and maintain evidence of financial responsibility sufficient to cover liabilities related to an oil spill for which such parties are statutorily responsible. We believe we are in compliance with all applicable OPA financial responsibility obligations and equipment requirements.

In 2009, regulations promulgated by the EPA covering certain previously exempt discharges to water from certain marine vessels became effective. The regulations provide for a general permit to cover such discharges and impose on marine vessel operators, including us, certain discharge, permitting, record keeping, reporting, monitoring, maintenance, and operating restrictions and requirements with respect to materials that are or may be discharged from certain vessels. Applicability of these restrictions and requirements is based on size and type of vessel, and they apply only to a minority of our vessels. We, nevertheless, are implementing such restrictions and requirements with respect to our vessels which are subject thereto, and we do not anticipate that such regulations or the associated permit terms, restrictions and requirements will adversely impact our business and results of operations.

### Air Emissions

The Clean Air Act (“CAA”) and comparable state laws restrict the emission of air pollutants from many sources, including paint booths, and may require pre-approval for the construction or modification of certain facilities expected to produce air emissions, impose stringent air permit requirements, or require the utilization of specific equipment or technologies to control emissions. We believe that our operations are in substantial compliance with the CAA.

### Climate Change

The U.S. Congress may consider legislation to reduce emissions of greenhouse gases in response to climate change concerns. In addition, several states have declined to wait on Congress to develop and implement climate control legislation and have already taken legal measures to reduce emissions of greenhouse gases. Passage of climate control legislation or other regulatory initiatives by Congress or various states, or the adoption of regulations by the EPA and analogous state agencies that restrict emissions of greenhouse gases in areas in which we conduct business could have an adverse effect on our operations and demand for our services.

### Endangered Species

The Endangered Species Act (“ESA”) restricts activities that may affect endangered species or their habitats. We conduct activities in or near areas that may be designated as habitat for endangered or threatened species. For instance, seasonal observation of endangered or threatened West Indian Manatees adjacent to work areas may impact construction operations in Florida during the winter months. Additionally, our dredging operations in Florida are impacted by limitations for placement of dredge spoil materials on designated spoil disposal islands, from April through August of each year, when the islands are inhabited by nesting colonies of protected bird species. Further, restrictions on work during the Whooping Crane nesting period in the Aransas Pass National Wildlife Refuge from October 1 through April 15 each year and during the non-dormant grass season for sea grass in the Laguna Madre

from March 1 through November 30 each year impact our construction operations in the Texas Gulf Coast area. We plan our operations and bidding activity with these restrictions and limitations in mind, and they have not materially hindered our business in the past. However, these and other restrictions may affect our ability to obtain work or to complete our projects on time in the future. In addition, while we believe that we are in material compliance with the ESA, the discovery of previously unidentified endangered species could cause us to incur additional costs or become subject to operating restrictions or bans in the affected area.

#### Employees

At December 31, 2018, our marine segment had 804 employees, 254 of whom were full-time salaried personnel and most of the remainder of whom were hourly personnel. Our concrete segment had 1,683 employees, 329 of whom were full-time salaried personnel and most of the remainder of whom were hourly personnel.

From time to time, we hire additional employees for certain large projects and, subject to local market conditions, additional crew members are generally available for hire on relatively short notice. We believe our employees are our most valuable resource,

## Table of Contents

and our workforce possesses a strong dedication to and pride in our company. Our employees are not currently represented by labor unions, except certain employees in our marine segment located in the Pacific Northwest and Alaska, in respect of which collective bargaining agreements are in place. Employees represented by collective bargaining agreements in our marine segment represent approximately 2% of our total workforce. Currently, there are no employees represented by collective bargaining agreements in our concrete segment.

### Financial Information About Geographic Areas

We are a project-driven marine and concrete contractor, and our operations represent two reportable segments for financial reporting. Our business is primarily conducted along the coastal regions of the United States for our marine segment and in the metropolitan areas of Texas for our concrete segment. Revenues generated from our marine segment outside the United States, primarily in the Caribbean Basin and Mexico, totaled 2.3%, 1.6%, and 1.3% of total revenues for the years ended December 31, 2018, 2017 and 2016, respectively. Our long-lived assets are substantially located in the United States.

### Access to the Company's Filings

We maintain a website at [www.oriongroupholdingsinc.com](http://www.oriongroupholdingsinc.com) on which we make available, free of charge, access to the various reports we file with, or furnish to, the SEC. The website is made available for information purposes only. It should not be relied upon for investment purposes, and none of the information on our website is incorporated into this Annual Report on Form 10-K by reference. The SEC maintains an Internet site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

## Item 1A. RISK FACTORS

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our business, financial condition, and results of operations. The risks described below highlight some of the factors that have affected and could affect us in the future. We may also be affected by unknown risks or risks that we currently think are immaterial. If any such events actually occur, our business, financial condition, and results of operations could be materially adversely affected.

### Risk Factors Relating to Our Business

We rely on highly competitive and highly regulated government contracts.

Government funding for public works projects is limited, thus creating a highly competitive environment for the limited number of public projects available. Reduced levels of, or delays in, government funding cause delays in project lettings and result in intense competition and pricing pressure for such projects. In addition, government contracts are subject to specific procurement regulations, contract provisions and a variety of regulatory requirements relating to their formation, administration, performance and accounting. Many of these contracts include express or implied certifications of compliance with applicable laws and contract provisions. As a result, any violations of these regulations could bring about litigation, including the possibility of qui tam ("Whistle Blower") litigation brought by private individuals on behalf of the government under the Federal Civil False Claims Act, and could cause termination of other existing government contracts and result in the loss of future government contracts. Due to the significant competition in the marketplace and the level of regulations on government contracts, we could suffer reductions in new projects and see lower revenues and profit margins on those projects, which could have a material adverse effect on the business, operating results and financial condition.

Our operations are susceptible to a variety of adverse conditions including weather conditions, natural disasters and terrorist attacks that could negatively impact the markets in which we operate.

Our business, operating results and financial condition could be materially and adversely affected by severe weather and other natural disasters, such as earthquakes or hurricanes, particularly along the Gulf Coast, the West Coast, the Atlantic Seaboard, and the Caribbean Basin. Repercussions of severe weather conditions could cause significant interruption of projects in process and have safety implications to personnel at those sites.

Terrorist attacks, targeted at ports, marine facilities or shipping could affect the markets in which we operate our business and our expectations. Increased armed hostilities, terrorist attacks or responses from the United States may lead to further acts of terrorism and civil disturbances in the United States or elsewhere, which may further contribute to economic instability in the United States. These attacks or armed conflicts may affect our operations or those of our customers or suppliers and could impact our revenues, our production capability and our ability to complete contracts in a timely manner.

## Table of Contents

We depend on continued growth in population to support residential and nonresidential construction for our concrete construction segment.

Our concrete segment depends on continued growth in population to support residential and nonresidential construction. A growing population generates economic growth and expansion in construction for retail, office buildings, etc. If the population decreases or slows in growth, it often times adversely affects economic growth, which ultimately limits the need for residential and nonresidential construction services in the areas we currently perform services.

The timing of new contracts may result in volatility in our cash flow and profitability. These factors as well as others that may cause our actual financial results to vary from any publicly disclosed earnings guidance and forecasts are outside of our control.

Our revenues are generated from project-based work. It is generally very difficult to predict the timing and source of awarded contracts. The selection of, timing of, or failure to obtain projects, delays in awards of projects, the rebidding or termination of projects due to budget overruns, or the cancellations of projects or delays in completion of contracts could result in the under-utilization of our assets and reduce our cash flows and profitability. Even if we are awarded contracts, we face additional risks that could affect whether, or when, work will begin. For example, some of our contracts are subject to financing and other contingencies that may delay or result in termination of projects. This may make it difficult to match workforce size and equipment location with contract needs. In some cases, we may be required to bear the cost of a readily available workforce and fleet of equipment that is larger than needed at the time, resulting in unpredictability in our cash flow, expenses and profitability. If an expected contract award or the related notice to proceed is delayed or not received, we could incur substantial costs without receipt of any corresponding revenues. Delays by our customers in obtaining required approvals and permits for their infrastructure projects may delay their awarding contracts for those projects and, once awarded, the ability to commence construction under those contracts. Moreover, construction projects for which our services are contracted may require significant expenditures by us prior to receipt of relevant payments by a customer and may expose us to potential credit risk if such customer should encounter financial difficulties. Such expenditures could reduce our cash flows and necessitate increased borrowings under our credit facility. Finally, the winding down or completion of work on significant projects that were active in previous periods will reduce our revenue and earnings if such significant projects have not been replaced in the current period. From time to time we may publicly provide earnings or other forms of guidance, which reflect our predictions about future revenue, operating costs and capital structure, among other factors. Any such predictions may be impacted by these factors as well as others that are beyond our control and might not turn out to be accurate.

Fluctuations in commodity prices may affect our customers' investment decisions and therefore subject us to risks of cancellation, delays in existing work, or changes in the timing and funding of new awards. Additionally, fluctuations in commodity prices can negatively affect our project costs.

Commodity prices can affect our customers in a number of ways. For example, for those customers that produce commodity products such as oil, gas, concrete, steel products, fluctuations in price can have a direct effect on their profitability and cash flow and, therefore, their willingness to continue to invest or make new capital investments. To the extent commodity prices decline or fluctuate and our customers defer new investments or cancel or delay existing projects, the demand for our services decreases, which may have a material adverse impact on the business, financial condition, and results of operations.

Commodity prices can also strongly affect the costs of projects. We use concrete and steel as well as diesel fuel and other petroleum-based products to operate our equipment used in our construction contracts. Fluctuations in supplies relative to demand and other factors can cause unanticipated increases in their cost. Rising commodity prices can negatively impact the potential returns on projects that are planned, as well as those in progress, and result in customers deferring new investments or canceling or delaying existing projects. The short-term nature of the majority of our projects typically protects us from these potential price increases, however, if we are unable to procure commodities for completion of our projects at estimated prices due to rising commodity prices, our margins may



erode on certain in progress or future projects.

We may be unable to obtain sufficient bonding capacity for our contracts and the need for performance and surety bonds may adversely affect our business.

As more fully described in “Insurance and Bonding” under “Item 1. Business,” we are generally required to post bonds in connection with government and certain private sector contracts to ensure job completion. We have entered into a bonding agreement with a large multinational surety which acts as surety, issues bid bonds, performance bonds and payment bonds, and obligates itself upon other contracts of guaranty required by us in the day-to-day operations of our business. However, our surety is not obligated under the bonding agreement to issue bonds for us and bonding decisions are made on a case-by-case basis. We may not be able to maintain a sufficient level of bonding capacity in the future, which could preclude us from being able to bid for certain contracts and successfully contract with certain customers, or cause us to have to increase our letter of credit utilization in lieu of bonds, thereby reducing available borrowing capacity under our credit facility. In addition, the conditions of the bonding market may

## Table of Contents

change, increasing our costs of bonding or restricting our ability to get new bonding which could have a material adverse effect on our business, operating results and financial condition.

Our business depends on good customer relationships and our reputation in both the marine and concrete infrastructure markets, which is developed and maintained by our executives and key project managers. Loss of any of our relationships, reputation or executives or key project managers could materially reduce our revenues and profits.

Our contracts are typically entered into on a project-by-project basis, so we generally do not have continuing contractual commitments with our customers beyond the terms of the current contract. We benefit from key customer relationships built over time and with both public and private entities. We also benefit from our reputation in the marine and concrete infrastructure markets developed over years of successfully performing on projects. Both of these aspects of our business were developed and are maintained through our executives and key project managers. Our inability to retain our executives and key project managers or inability to complete projects timely and successfully resulting in customer satisfaction could have a material adverse effect on our current customer relationships and reputation. The inability to maintain relationships with our customers in general or obtain new customers based on our reputation could have a material adverse effect on our business, operating results and financial condition.

We may not be able to fully realize the revenue value reported in our backlog.

As of December 31, 2018, we had a backlog of work to be completed on contracts totaling approximately \$256.7 million in our marine segment and approximately \$183.7 million in our concrete segment. Backlog develops as a result of new awards, which represent the potential revenue value realizable pursuant to new project commitments received by us during a given period.

Backlog consists of awarded projects which have either (a) not yet been started or (b) are in progress but are not yet complete. In the latter case, the revenue value reported in backlog is the remaining value related to work that has not yet been completed. We cannot guarantee that the revenue projected in our backlog will be realized, or if realized, will result in earnings. From time-to-time, projects are cancelled that appeared to have a high certainty of going forward at the time they were recorded as new awards. In the event of a project cancellation, we may be reimbursed for certain costs but typically have no contractual right to recover the total revenue reflected in our backlog. In addition to being unable to recover certain direct costs, cancelled projects may also result in additional unrecoverable costs due to the resulting under-utilization of our assets or labor force.

We could suffer contract losses if we fail to accurately estimate our costs or fail to execute within our cost estimates on fixed-price, lump-sum contracts.

Much of our revenue is derived from fixed-price, lump-sum contracts. Under these contracts, we perform our services and execute our projects at a fixed price and where, as a result, we could benefit from cost savings, but we may be unable to recover any cost overruns. Fixed-price contracts carry inherent risks, including risks of losses from underestimating costs, operational difficulties and other factors that may occur over the contract period. If our cost estimates for a contract are inaccurate, or if we do not execute the contract within our cost estimates, we may incur losses or the project may not be as profitable as we expected. In addition, we are sometimes required to incur costs in connection with modifications to a contract (change orders) that may not be approved by the customer as to scope and/or price, or to incur unanticipated costs, including costs for customer-caused delays, errors in specifications or designs, or contract suspension or termination that we may not be able to recover. These, in turn, could have a material adverse effect on our business, operating results and financial condition. The revenue, cost and gross profit realized on such contracts can vary, sometimes substantially, from the original projections due to changes in a variety of factors, such as:

failure to properly estimate costs of engineering, design, material, equipment or labor;  
unanticipated technical problems with the structures or services being supplied by us, which may require that we spend our own funds to remedy the problem;  
project modifications creating unanticipated costs;  
differing site conditions;  
changes in the costs of equipment, materials, labor or subcontractors;  
our suppliers' or subcontractors' failure to perform;  
difficulties in our customers obtaining required governmental permits or approvals;  
changes in local laws and regulations;  
delays caused by local weather conditions; and  
exacerbation of any one or more of these factors as projects grow in size and complexity.

## Table of Contents

These risks increase if the project is of a long-term duration because of the elevated risk that the circumstances upon which we based our original bid will change in a manner that increases costs. In addition, we sometimes bear the risk of delays caused by unexpected conditions or events.

We could suffer penalties on our contracts for late completion.

In many instances, including in our fixed-price contracts, we guarantee that we will complete a project by a scheduled date. If we subsequently fail to complete the project as scheduled, without sufficient justification, we may be liable for any customer losses resulting from such delay, generally in the form of contractually agreed-upon liquidated damages. In addition, failure to maintain a required schedule could cause us to default on our government contracts, giving rise to a variety of potential damages. To the extent that these events occur, the total costs of the project could exceed our original estimates, and we could experience reduced profits or, in some cases, a loss for that project.

Our projects could be hindered due to our dependence on third parties to complete many of our contracts.

A portion of the work performed under our contracts is performed by third-party subcontractors we hire. We also rely on third-party equipment manufacturers or suppliers to provide much of the materials used for projects. If we are unable to hire qualified subcontractors or find qualified equipment manufacturers or suppliers, our ability to successfully complete a project could be impaired. If we are not able to locate qualified third-party subcontractors or the amount we are required to pay for subcontractors or equipment and supplies exceeds what we have estimated, especially in a lump-sum or a fixed-price contract, we may suffer losses on these contracts. If a subcontractor, supplier, or manufacturer fails to provide services, supplies or equipment as required under a contract for any reason, we may be required to source these services, equipment or supplies to other third parties on a delayed basis or on less favorable terms, which could impact contract profitability. There is a risk that we may have disputes with our subcontractors relating to, among other things, the quality and timeliness of work performed, customer concerns about the subcontractor, or our failure to extend existing task orders or issue new task orders under a contract. In addition, faulty workmanship, equipment or materials could impact the overall project, resulting in claims against us for failure to meet required project specifications.

In the current economic environment, third parties may find it difficult to obtain sufficient financing to help fund their operations. The inability to obtain financing could adversely affect a third party's ability to provide materials, equipment or services which could have a material adverse impact on our business, financial condition, and results of operations. In addition, a failure by a third party subcontractor, supplier or manufacturer to comply with applicable laws, regulations or client requirements could negatively impact our business and, for government clients, could result in fines, penalties, suspension or even debarment being imposed on us, which could have a material adverse impact on our business, financial condition, and results of operations.

We may incur higher costs to acquire, manufacture and maintain equipment necessary for our operations.

We have traditionally owned the majority of the equipment used in our projects, and we do not bid on contracts for which we do not have, or cannot quickly procure, whether through construction, acquisition or lease, the necessary equipment to complete projects. We are capable of building much of the specialized equipment used in our projects, including dayboats, tenders and dredges. To the extent that we are unable to buy or build equipment necessary for our needs, either due to a lack of available funding or equipment shortages in the marketplace, we may be forced to rent equipment on a short-term basis, which could increase the costs of completing contracts, thereby reducing contract profitability. In addition, our equipment requires continuous maintenance, which we primarily provide through our own repair facilities, as well as certification by the U.S. Coast Guard for certain marine segment assets. If we are unable to continue to maintain the equipment in our fleet or are unable to obtain the requisite certifications, we may be forced to obtain third-party repair services, be unable to use our uncertified equipment or be unable to bid on contracts, which could have a material adverse effect on our business, operating results and financial condition.

In addition, our vessels in the marine segment may be subject to arrest or seizure by claimants as security for maritime torts committed by the vessel or us or the failure by us to pay for necessities, including fuel and repair services, which were furnished to the vessel. Such arrest or seizure could preclude the vessel from working, thereby causing delays in marine segment projects.

Table of Contents

We may be subject to unionization, work stoppages, slowdowns or increased labor costs.

Only a small percentage of our marine segment workforce, located in the Pacific Northwest and Alaska, is currently unionized. If at any time, a majority of our employees unionized, it could limit the flexibility of the workforce and could result in demands that might increase our operating expenses and adversely affect our profitability. Each of our different employee groups could unionize at any time and would require separate collective bargaining agreements. If any group of our employees were to unionize and we were unable to agree on the terms of their collective bargaining agreement or we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. In addition, we may be subject to disruptions by organized labor groups protesting our non-union status. Any of these events would be disruptive to our operations and could have a material adverse effect on the business, operating results and financial condition.

Our business is subject to significant operating risks and hazards that could result in damage or destruction to property, which could result in losses or liabilities to us.

Construction and maintenance sites are potentially dangerous workplaces and often put our employees and others in close proximity with mechanized equipment, moving vehicles, etc. On most sites, we are responsible for safety and, accordingly, must implement safety procedures. Our safety record is an important consideration for us and for our customers. If serious accidents or fatalities occur or our safety record was to deteriorate, we may be ineligible to bid on certain work, expose ourselves to possible litigations, and existing service arrangements could be terminated, thus having a material adverse impact on our financial position, results of operations, cash flows and liquidity. Further, regulatory changes implemented by OSHA or the U.S. Coast Guard could impose additional costs on us. Adverse experience with hazards and claims could have a negative effect on our reputation with our existing or potential new customers and our prospects for future work.

The businesses of marine infrastructure construction, port maintenance, dredging and salvage are generally subject to a number of risks and hazards, including environmental hazards, industrial accidents, hurricanes, adverse weather conditions, collisions with fixed objects, cave-ins, encountering unusual or unexpected geological formations, disruption of transportation services and flooding. These risks could result in damage to or destruction of, dredges, transportation vessels, other maritime structures and buildings, and could also result in personal injury or death, environmental damage, performance delays, monetary losses or legal liability.

In the concrete segment, our workers are subject to the usual hazards associated with providing construction and related services on construction sites including environmental hazards, industrial accidents, hurricanes, adverse weather conditions, and flooding. Operating hazards can cause personal injury or death, damage to or destruction of property, plant and equipment, environmental damage, performance delays, monetary losses or legal liability. Our current insurance coverage may not be adequate, and we may not be able to obtain insurance at acceptable rates, or at all.

We maintain various insurance policies, including general liability and workers' compensation. We are partially self-insured under some of our policies, and our insurance does not cover all types or amounts of liabilities. We are not required to, and do not, specifically set aside funds for our self-insurance programs.

At any given time, we are subject to multiple workers' compensation and personal injury claims. We maintain substantial loss accruals for workers' compensation claims, and, until recently, our workers' compensation and insurance costs have been rising for several years notwithstanding our emphasis on safety. Our insurance policies may not be adequate to protect us from liabilities that we incur in our business. In addition, some of the projects that we bid on require us to maintain high levels of builder's risk insurance. We may not be able to obtain similar levels of insurance on reasonable terms, or at all. Our inability to obtain such insurance coverage at acceptable rates or at all

could have a material adverse effect on our business, operating results and financial condition.

Furthermore, due to a variety of factors such as increases in claims and projected significant increases in medical costs, our insurance premiums may increase in the future and we may not be able to obtain similar levels of insurance on reasonable terms, or at all. Any such inadequacy of, or inability to obtain, insurance coverage at acceptable rates, or at all, could have a material adverse effect on our business, operating results and financial condition.

Insurance liabilities are difficult to assess and quantify due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, the number of incidents not reported and the effectiveness of our safety program. If we were to experience insurance claims or costs above our estimates, we might be required to use working capital to satisfy these costs rather than to maintain or expand our operations. To the extent that we experience a material increase in the frequency or

## Table of Contents

severity of accidents or workers' compensation and health claims, or unfavorable developments on existing claims, our operating results and financial condition could be materially and adversely affected.

Our employees in the marine segment are covered by federal laws that provide seagoing employees remedies for job-related claims in addition to those provided by state laws.

Many of our marine segment employees are covered by federal maritime law, including provisions of the Jones Act, the Longshore and Harbor Workers Act, ("USL&H") and the Seaman's Wage Act. Jones Act laws typically operate to make liability limits established by USL&H and state workers' compensation laws inapplicable to these employees and to permit these employees and their representatives to pursue litigation against employers for job-related injuries. Because in some cases we are not protected by the limits imposed by state workers' compensation statutes, we have greater exposure for claims made by these employees as compared to employers whose employees are not covered by these provisions.

For example, in the normal course of business, we are a defendant in various personal injury lawsuits. We maintain insurance to cover claims that arise from injuries to our workforce subject to a deductible. During 2018, we recorded approximately \$0.6 million of expense for our self-insured portion of these liabilities. We believe our recorded self-insurance reserves represent our best estimate of the outcomes of these claims. Should negative trends persist; we could continue to be negatively impacted in the future.

Our operations are subject to environmental laws and regulations that may expose us to significant costs and liabilities.

Our marine infrastructure construction, salvage, demolition, dredging and dredge material disposal activities are subject to stringent and complex federal, state and local environmental laws and regulations, including those concerning air emissions, water quality, solid waste management, and protection of certain marine and bird species, their habitats, and wetlands. We may incur substantial costs in order to conduct our operations in compliance with these laws and regulations. For instance, we may be required to obtain, maintain and comply with permits and other approvals (as well as those obtained for projects by our customers) issued by various federal, state and local governmental authorities; limit or prevent releases of materials from our operations in accordance with these permits and approvals; and install pollution control equipment. In addition, compliance with environmental laws and regulations can delay or prevent our performance of a particular project and increase related project costs. Moreover, new, stricter environmental laws, regulations or enforcement policies, including those imposed in response to climate change, could be implemented that significantly increase our compliance costs, or require us to adopt more costly methods of operation.

Failure to comply with environmental laws and regulations, or the permits issued under them, may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations and the issuance of injunctions limiting or preventing some or all of our operations. In addition, strict joint and several liability may be imposed under certain environmental laws, which could cause us to become liable for the investigation or remediation of environmental contamination that resulted from the conduct of others or from our own actions that were in compliance with all applicable laws at the time those actions were taken. Further, it is possible that we may be exposed to liability due to releases of pollutants, or other environmental impacts that may arise in the course of our operations. For instance, some of the work we perform is in underground and water environments, and if the field location maps or waterway charts supplied to us are not accurate, or if objects are present in the soil or water that are not indicated on the field location maps or waterway charts, our underground and underwater work could strike objects in the soil or the waterway bottom containing pollutants and result in a rupture and discharge of pollutants. In addition, we sometimes perform directional drilling operations below certain environmentally sensitive terrains and water bodies, and due to the inconsistent nature of the terrain and water bodies, it is possible that such directional drilling may cause a surface fracture releasing subsurface materials. These releases may contain contaminants in



excess of amounts permitted by law, may expose us to remediation costs and fines and legal actions by private parties seeking damages for non-compliance with environmental laws and regulations or for personal injury or property damage. We may not be able to recover some or any of these costs through insurance or increased revenues, which may have a material adverse effect on our business, operating results and financial condition. See “Business - Environmental Matters” for more information.

Our concrete segment is subject to extensive and complex regulations that affect land development and building construction, including zoning, density restrictions, building design and building standards. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to development or construction being approved, if approved at all. We are subject to determinations by these authorities as to the adequacy of water or sewage facilities. New building developments may also be subject to various assessments for schools and other public improvements. In addition, in many markets government authorities have implemented no growth or growth control initiatives. Any of these can limit, delay or increase the costs of development and construction.

## Table of Contents

The anticipated investment in port and marine infrastructure may not be as large as expected, which may result in periods of low demand for our marine construction services.

The demand for port construction, maintenance infrastructure services and dredging may be vulnerable to downturns in the economy generally and in the marine transportation industry specifically. The amount of capital expenditures on port facilities and marine infrastructure in our markets is affected by the actual and anticipated shipping and vessel needs of the economy in general and in our geographic markets in particular. If the general level of economic activity deteriorates, our customers may delay or cancel expansions, upgrades, maintenance and repairs to their infrastructure. A number of other factors, including the financial condition of the shipping industry, could adversely affect our customers and their ability or willingness to fund capital expenditures in the future. During downturns in the U.S. or world economies, the anticipated port usage in our geographic markets may decline, resulting in less port construction, upgrading and maintenance. As a result, demand for our services could substantially decline for extended periods.

Restrictions on foreign ownership of our vessels could limit our ability to sell off any portion of our marine construction segment or result in the forfeiture of our vessels or in our inability to continue our operations in United States navigable waters.

The Dredging Act, the Jones Act, the Shipping Act and the Vessel Documentation Act require vessels engaged in the transport of merchandise or passengers between two points in the United States or dredging in the navigable waters of the United States to be owned and controlled by United States citizens. The United States citizen ownership and control standards require the vessel-owning entity to be at least 75% U.S. citizen-owned, thus restricting foreign ownership interests in the entities that directly or indirectly own the vessels which we operate. If we were to seek to sell any portion of our marine segment that owns any of these vessels, we may have fewer potential purchasers, since some potential purchasers might be unable or unwilling to satisfy the foreign ownership restrictions described above; additionally, any sales of certain of our larger vessels to foreign buyers would be subject to approval by the U.S. Maritime Administration. As a result, the sales price for that portion of our marine segment may not attain the amount that could be obtained in an unregulated market.

Our strategy of growing through strategic acquisitions may not be successful.

We may pursue growth through the acquisition of companies or assets that will enable us to broaden the types of projects we execute and also expand into new markets. We have completed several acquisitions and plan to consider strategic acquisitions in the future. We may be unable to implement this growth strategy if we cannot identify suitable companies or assets or reach agreement on potential strategic acquisitions on acceptable terms. Moreover, an acquisition involves certain risks, including:

- difficulties in the integration of operations, systems, policies and procedures;
- enhancements in our controls and procedures including those necessary for a public company may make it more difficult to integrate operations and systems;
- failure to implement proper overall business controls, including those required to support our growth, resulting in inconsistent operating and financial practices at companies we acquire or have acquired;
- termination of relationships with the key personnel and customers of an acquired company;
- additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, financial reporting and internal controls;
- the incurrence of environmental and other liabilities, including liabilities arising from the operation of an acquired business or asset prior to our acquisition for which we are not indemnified or for which the indemnity is inadequate;
- disruption of or receipt of insufficient management attention to our ongoing business; and
- inability to realize the cost savings or other financial benefits that we anticipate.

Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on attractive terms. Moreover, to the extent an acquisition transaction financed by non-equity consideration results in additional goodwill, it will reduce our tangible net worth, which might have an adverse effect on our credit and bonding capacity.

#### Risk Factors Relating to Our Accounting, Financial Results and Financing Plans

Our bonding requirements may limit our ability to incur indebtedness.

We generally are required to provide various types of surety bonds that provide an additional measure of security for our performance under certain government and private sector contracts. Our ability to obtain surety bonds depends upon various factors including our capitalization, working capital and amount of our indebtedness. In order to help ensure that we can obtain required bonds, we may be limited in our ability to incur additional indebtedness that may be needed for potential acquisitions and operations. Our inability to incur additional indebtedness could have a material adverse effect on our business, operating results and financial

## Table of Contents

condition.

Systems and information technology interruption or failure and data security breaches could adversely impact our ability to operate or expose us to significant financial losses and reputational harm.

We rely heavily on computer, information, and communications technology and related systems in order to properly operate our business. From time to time, we experience occasional system interruptions and delays. In the event we are unable to regularly deploy software and hardware, effectively upgrade our systems and network infrastructure, and take other steps to maintain or improve the efficiency and efficacy of our systems, the operation of such systems could be interrupted or result in the loss, corruption, or release of data. In addition, our computer and communication systems and operations could be damaged or interrupted by natural disasters, telecommunications failures, power loss, acts of war or terrorism, computer viruses, malicious code, physical or electronic security breaches, intentional or inadvertent user misuse or error, or similar events or disruptions. Any of these or other events could cause interruptions, delays, loss of critical and/or sensitive data or similar effects, which could have a material adverse impact on our business, financial condition, protection of intellectual property, and results of operations, as well as those of our clients.

In addition, we face the threat to our computer systems of unauthorized access, computer hackers, computer viruses, malicious code, organized cyber attacks and other security problems and system disruptions, including possible unauthorized access to and disclosure of our and our clients' proprietary or classified information. We rely on industry accepted security measures and technology to securely maintain all confidential and proprietary information on our computer systems, but they may still be vulnerable to these threats. As a result, we may be required to expend significant resources to protect against the threat of these system disruptions and security breaches or to alleviate problems caused by these disruptions and breaches. Any of these events could damage our reputation and have a material adverse effect on our business, financial condition, results of operations and cash flows.

### Risks Related to Our Indebtedness

Our indebtedness requires significant debt service payments that could adversely affect our financial condition and prevent us from fulfilling our obligations under our indebtedness.

At December 31, 2018, our total consolidated indebtedness was approximately \$80.5 million. Per the Credit Agreement, the Term Loan Facility requires quarterly installment payments which increase throughout the life of the loan and have a date of maturity of July 31, 2023. We must also comply with various affirmative and negative covenants contained in our Credit Agreement, some of which may restrict the way in which we would like to conduct our business. Among other things, our requirements under our debt instruments could potentially limit our ability to:

- incur additional indebtedness or liens;
- make payments in respect of or redeem or acquire any debt or equity issued by us;
- sell assets;
- make loans or investments;
- make guarantees;
- enter into any hedging agreement for speculative purposes;
- acquire or be acquired by other companies; or
- amend some of our contracts.

The restrictions under our indebtedness may prevent us from engaging in certain transactions which might otherwise be considered beneficial to us, for example, they could:

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to fund future working capital and capital expenditures, to engage in future acquisitions, to enter into new construction or development activities, or to otherwise fully realize the value of our assets and opportunities because of the need to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness or to comply with any restrictive terms of our indebtedness;
-

limit our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate;  
and  
place us at a competitive disadvantage as compared to our competitors that have less debt.

We may incur additional indebtedness in the future under our existing Credit Agreement, by issuing debt instruments, under new credit agreements, under joint venture credit agreements, under capital leases or synthetic leases, on a project-finance or other basis or a combination of these. If we incur additional indebtedness in the future, it likely would be under our existing Credit Agreement or under arrangements that may have terms and conditions at least as restrictive as those contained in our existing Credit Agreement. At December 31, 2018, available capacity to borrow on the Revolving Line of Credit was \$42.2 million. Failure

## Table of Contents

to comply with the terms and conditions of any existing or future indebtedness would constitute an event of default. If an event of default occurs, the lenders will have the right to accelerate the maturity of such indebtedness and foreclose upon the collateral, if any, securing that indebtedness.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under the Credit Facility allow for loans at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed will remain the same, and our net income and operating cash flows, including cash available for servicing our indebtedness, will correspondingly decrease.

We have entered into a series of receive-variable, pay-fixed interest rate swaps. We use interest rate swap agreements to hedge market risks relating to possible adverse changes in interest rates with the intent of reducing volatility in our cash flows due to fluctuations in interest rates. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk, may prove disadvantageous, or may create additional risks, including risks discussed in "Risks Related to Our Business" above. In addition, our hedging activities are subject to the risks that a counterparty may not perform its obligations under the applicable derivative instrument.

### Item 1B. UNRESOLVED STAFF COMMENTS

None

### Item 2. PROPERTIES

Our corporate headquarters is located at 12000 Aerospace Avenue, Suite 300, Houston, Texas 77034, with 21,415 square feet of office space that we lease, with a current term expiring April 30, 2020 and with two five year extensions at our option. Our executive, legal, finance, and some accounting offices are located at this facility. We lease office space in Alaska, Louisiana, Texas and Washington for our operations, including office and yard space for our concrete segment. We own property for our waterfront maintenance and dock facilities, including equipment yards in Texas and Florida, which total approximately 76.6 acres. We also own approximately 340 acres of land in the upper Houston Ship Channel used as a Dredge Material Placement Area ("DMPA"). We may lease smaller project related offices throughout our operating areas when the need arises.

We believe that our existing facilities are adequate for our operations. We do not believe that any single facility is material to our operations and, if necessary, we could readily obtain a replacement facility. Some of our real estate assets are pledged to secure our credit facility.

### Item 3. LEGAL PROCEEDINGS

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

A pending legal matter was settled for \$5.5 million during the first quarter of 2018. The settlement amount was recorded in "Other gain from continuing operations" in the Consolidated Statement of Operations, "Prepaid expenses and other" (current portion of the notes receivable) and "Other non-current assets" (non-current portion of the notes

receivable) in the Consolidated Balance Sheets. As of December 31, 2018, the current portion of the note receivable was \$0.8 million and the non-current portion was \$3.0 million. Legal fees related to this matter were expensed as incurred during the respective reporting period.

As a result of charges brought in September 2015 and October 2016 by the Houston Police Department, Environmental Enforcement, two subsidiaries of the Company were recently indicted at the request of the Harris County, Texas District Attorney's Office by a duly organized Grand Jury of Harris County, Texas for separate but related violations of the Texas Water Code, allegedly arising from the handling of construction concrete at certain work sites. Specifically, both were charged with unlawfully, intentionally or knowingly discharging a waste or pollutant. The Company is subject to a maximum fine in each case of \$250,000, but has already declined a \$75,000 plea bargain in the first case. In the second case, a project supervisor was also indicted. None of these allegations

Table of Contents

nor the costs of defense, taken separately or as a whole, is expected to have a material impact on the Company's balance sheet or its liquidity. The Company considers all of these allegations without merit and it will vigorously defend itself and its employee.

Item 4. MINE SAFETY DISCLOSURES

Not applicable

21

---



Table of Contents

PART II

Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the New York Stock Exchange (“NYSE”) and trades under the symbol “ORN”.

Holders

As of March 15, 2019, we had approximately 2,997 stockholders of record including beneficial holders.

Issuer Repurchase of Equity Securities

None

Performance Graph\*

The following graph shows the changes in the value of \$100 invested in (1) the common stock of Orion Group Holdings, Inc., (2) the Standard & Poor’s 500 Stock Index and (3) the Dow Jones Heavy Construction Group Index. The values of each investment are based on share price appreciation, with reinvestment of all dividends, assuming any were paid. For each graph, the investments are assumed to have occurred at the beginning of each period.

	2013	2014	2015	2016	2017	2018
Orion Group Holdings, Inc.	100.00	91.85	34.66	82.71	65.09	35.66
S&P 500	100.00	111.39	110.58	121.13	144.65	135.63
Dow Jones US Heavy Civil Construction	100.00	74.09	65.12	79.74	83.33	61.14

\*This table and the information therein is being furnished but not filed.

Table of Contents

## Securities Authorized for Issuance Under Equity Compensation Plans

The information required by Item 201(d) of Regulation S-K is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

## Item 6. SELECTED FINANCIAL DATA

The following table presents selected financial data for each of the last five fiscal years. This selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes beginning on page F-1 of this Annual Report on Form 10-K and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. These historical results are not necessarily indicative of the results of operations to be expected for any future period.

The table below includes the non-U.S. GAAP operating performance measures of EBITDA and Adjusted EBITDA. For a definition of EBITDA and Adjusted EBITDA and a reconciliation to net income calculated and presented in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), please see “Non-U.S. GAAP Financial Measures” immediately below.

	Amounts in thousands, except share and per share information				
	2018	2017	2016	2015	2014
Contract revenues (1)	\$ 520,894	\$ 578,553	\$ 578,236	\$ 466,498	\$ 385,818
Gross profit	21,649	66,890	67,482	40,182	44,594
Selling, general and administrative expenses	61,460	66,026	64,987	47,715	34,691
Other expense, net	(6,115 )	(5,679 )	(6,113 )	(2,580 )	(210 )
Net income (loss)	(94,422 )	400	(3,620 )	(8,060 )	6,877
Net income (loss) per share:					
Basic	\$(3.31 )	\$0.01	\$(0.13 )	\$(0.29 )	\$0.25
Diluted	\$(3.31 )	\$0.01	\$(0.13 )	\$(0.29 )	\$0.25
Weighted average shares outstanding:					
Basic	28,518,353	28,029,936	27,536,967	27,366,528	27,421,441
Diluted	28,518,353	28,354,280	27,536,967	27,366,528	27,787,613
Other Financial Data					
EBITDA	\$(67,049 )	\$ 31,070	\$ 38,295	\$ 20,620	\$ 34,180
Adjusted EBITDA	\$ 24,036	\$ 31,070	\$ 38,295	\$ 20,620	\$ 34,180
Capital expenditures	17,714	10,729	18,715	20,802	18,711
Cash interest expense	4,819	4,413	5,031	3,063	742
Depreciation and amortization	31,799	29,491	34,162	28,083	23,451
Net cash provided by (used in):					
Operating activities	21,931	34,133	23,149	25,179	11,945
Investing activities	(13,300 )	(10,080 )	(17,686 )	(128,795 )	(42,787 )
Financing activities	(9,033 )	(15,272 )	(6,503 )	66,068	28,876

(1) ASU 2014-09, Revenue from Contracts with Customers (Topic 606), adopted on January 1, 2018, using the modified retrospective method. Prior years have not been recast.

	2018	2017	2016	2015	2014
(in thousands)					
Balance Sheet Data:					
Cash and cash equivalents	\$8,684	\$9,086	\$ 305	\$ 1,345	\$38,893

Edgar Filing: Orion Group Holdings Inc - Form 10-K

Working capital	50,750	69,797	77,588	75,277	60,508
Total assets	312,870	433,285	447,676	461,462	352,300
Total debt, net of debt issuance costs	79,065	85,941	101,265	106,609	37,007
Total stockholders' equity	141,585	231,266	226,204	227,714	236,717

Table of Contents

## Non-U.S. GAAP Financial Measures

We include in this Annual Report on Form 10-K the non-U.S. GAAP financial measure of EBITDA and Adjusted EBITDA. We define EBITDA as earnings before interest, income taxes, depreciation and amortization. Adjusted EBITDA is a non-GAAP measure that represents EBITDA adjusted for project adjustments, accounts receivable reserves and goodwill impairment charges. EBITDA and Adjusted EBITDA are used as supplemental operating performance measures by our management and by external users of our financial statements such as investors, commercial banks and others, to assess:

- the ability of our assets to generate cash sufficient to pay interest costs and support our indebtedness;
- our operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

EBITDA and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP. EBITDA and Adjusted EBITDA should not be considered an alternative to, or more meaningful than, net income, operating income, cash flows from operating activities or any other measure of performance presented in accordance with U.S. GAAP as measures of operating performance. Because EBITDA and Adjusted EBITDA excludes some, but not all, items that affect net income and is defined differently by different companies in our industry, our definition of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. EBITDA and Adjusted EBITDA have important limitations as analytical tools, and you should not consider them in isolation.

The following table provides a reconciliation of EBITDA and Adjusted EBITDA to our net income for the periods indicated as calculated and presented in accordance with U.S. GAAP:

	2018	2017	2016	2015	2014
Net income (loss)	\$(94,422)	\$400	\$(3,620)	\$(8,060)	\$6,877
Income tax (benefit) expense	(12,233 )	(4,541 )	1,581	(2,519 )	3,175
Interest expense, net	7,807	5,720	6,172	3,116	677
Depreciation and amortization	31,799	29,491	34,162	28,083	23,451
EBITDA	(67,049 )	31,070	38,295	20,620	34,180
Changes in cost estimates	22,770	—	—	—	—
Reserve on disputed accounts receivables	4,280	—	—	—	—
Goodwill impairment charges	69,483	—	—	—	—
Legal settlement	(5,448 )	—	—	—	—
Adjusted EBITDA	\$24,036	\$31,070	\$38,295	\$20,620	\$34,180

Table of Contents

Item 7. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations is based on and should be read in conjunction with our consolidated financial statements and the accompanying notes beginning on page F-1 of this Annual Report on Form 10-K. Certain statements made in our discussion may be forward-looking. Forward-looking statements involve risks and uncertainties and a number of other factors that could cause actual results or outcomes to differ materially from our expectations. See "Forward-Looking Statements" at the beginning of this Annual Report on Form 10-K for additional discussion of some of these risks and uncertainties. Unless the context requires otherwise, when we refer to "we", "us" and "our", we are describing Orion Group Holdings, Inc. and its consolidated subsidiaries.

Overview

Orion Group Holdings, Inc., its subsidiaries and affiliates (hereafter collectively referred to as the "Company"), provides a broad range of specialty construction services in the infrastructure, industrial and building sectors of the continental United States, Alaska, Canada and the Caribbean Basin. The Company's marine segment services the infrastructure sector through marine transportation facility construction, marine pipeline construction, marine environmental structures, dredging of waterways, channels and ports, environmental dredging, design, and specialty services. Its concrete segment services the building sector by providing turnkey concrete construction services including pour and finish, dirt work, layout, forming, rebar, and mesh across the light commercial structural and other associated business areas. The Company is headquartered in Houston, Texas with offices throughout its operating areas.

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

Most of our revenue is derived from fixed-price contracts. We generally record revenue on construction contracts over time, measured by the percentage of actual contract costs incurred to date to total estimated costs for each contract. There are a number of factors that can create variability in contract performance and therefore impact the results of our operations. The most significant of these include the following:

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

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

2018 Recap and 2019 Outlook

In 2018, we recorded revenues of \$520.9 million, of which \$277.0 million was attributable to our concrete segment and the remaining \$243.9 million to our marine segment. In addition, we ended 2018 with a consolidated backlog of

\$440.4 million. Our revenues in 2018 decreased by 10.0% as compared with 2017 and we recorded a net loss of \$94.4 million, as compared with net income of \$0.4 million in the prior year. Net loss in 2018 was driven by the full impairment of goodwill of \$69.5 million, unfavorable changes in cost estimates, the unfavorable impact of customer driven project disruptions and delays and weather patterns in the second half of 2018. Net income in 2017 was driven by a net tax benefit of \$4.5 million, resulting from the favorable impact of the Tax Cuts and Jobs Act (the "Act") enacted on December 22, 2017.

Looking toward 2019, the Company remains focused on its strategic plan and believes its long-term outlook is strong, with solid prospects for bottom line growth in the future.

## Table of Contents

### Marine Segment

Demand for our marine construction services remains strong. We continue to see solid demand to help maintain and expand the infrastructure that facilitates the movement of goods and people on or over waterways. Specifically, we continue to see bid opportunities from our private sector energy-related customers as they expand their marine facilities related to the storage, transportation and refining of domestically produced energy. Over the long term, we expect to see some bid opportunities in this sector from petrochemical-related customers, energy exporters, and liquefied natural gas facilities. Opportunities from local port authorities also remain solid, many of which are related to the completion of the Panama Canal expansion project. Additionally, we expect to see some bid opportunities related to coastal restoration funded through the Resource and Ecosystems Sustainability, Tourist Opportunities, Revived Economies of the Gulf Coast Act (the "RESTORE Act") and new U.S. Army Corps of Engineers ("USACE") disaster recovery projects in Texas throughout 2019. We believe our current equipment fleet will allow us to better meet market demand for projects from both our public and private customers in the future.

In the long-term, we see positive trends in demands for our services in our end markets, including:

- General demand to repair and improve degrading U. S. marine infrastructure;
- Improving economic conditions and increased activity in the petrochemical industry and energy-related companies will necessitate capital expenditures, including larger projects, as well as maintenance call-out work;
- Expected increases in cargo volume and future demands from larger ships transiting the Panama Canal will require ports along the Gulf Coast and Atlantic Seaboard to expand port infrastructure as well as perform additional dredging services;
- The Water Resources Reform and Development Act (the "WRRDA Act") authorizing expenditures for the conservation and development of the nation's waterways as well as addressing funding deficiencies within the Harbor Maintenance Trust Fund;
- Renewed focus on coastal rehabilitation along the Gulf Coast, particularly through the use of RESTORE Act funds based on fines collected related to the 2010 Gulf of Mexico oil spill;
- Funding for highways and transportation under the FAST Act, which provides authority through 2020; and
- Nearly \$5 billion of federal funding provided by the USACE in connection with disaster recovery in Texas

### Concrete Segment

Our concrete segment's demand also remains strong. The Texas building sector is in solid shape as its three major metropolitan areas, and expanding suburbs, continuously retain their positions as leading destinations for families and businesses to reside. Population growth throughout our markets continues to drive new distribution centers, educational and medical facilities, office expansion, retail and grocery establishments and new multi-family housing units. In Houston, the Company continues to experience competitive pressure in the market, but expects to maintain market share. The Dallas-Fort Worth office continues its efforts to expand the services it offers beyond light commercial construction and will be targeting structural construction opportunities going forward. Also, our Central Texas operations are performing in line with our expectations and we are expanding market share along the I-35 corridor.

### Consolidated Results of Operations

### Backlog Information

Our contract backlog represents our estimate of the revenues we expect to realize under the portion of contracts remaining to be performed. Given the typical duration of our contracts, which is generally less than a year, our backlog at any point in time usually represents only a portion of the revenue that we expect to realize during a twelve month period. We have not been adversely affected by contract cancellations or modifications in the past, we may be in the future, especially in economically uncertain periods. Consequently, backlog is not necessarily indicative of future results. In addition to our backlog under contract, we also have a substantial number of projects in negotiation or pending award at any time.

Backlog for our marine segment at December 31, 2018 was \$256.7 million, as compared with \$177.0 million at December 31, 2017, an increase of 45.0% from the prior year period.

Backlog for our concrete segment at December 31, 2018 was \$183.7 million, as compared with \$183.6 million at December 31, 2017, essentially flat from the prior year period.



Table of Contents

## Income Statement Comparisons

	Year ended December 31,					
	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollar amounts in thousands)					
Contract revenues	\$520,894	100.0 %	\$578,553	100.0 %	\$578,236	100.0%
Cost of contract revenues	499,245	95.8 %	511,663	88.4 %	510,754	88.3%
Gross profit	21,649	4.2 %	66,890	11.6 %	67,482	11.7%
Selling, general and administrative expenses	61,460	11.8 %	66,026	11.4 %	64,987	11.2%
(Gain) loss from sale of assets, net	(3,306 )	(0.6 )%	(674 )	(0.1 )%	(1,579 )	(0.3)%
Goodwill impairment charges	69,483	13.3 %	—	— %	—	—%
Other gain from continuing operations	(5,448 )	(1.0 )%	—	— %	—	—%
Operating income (loss)	(100,540 )	(19.3 )%	1,538	0.3 %	4,074	0.8%
Other (expense) income						
Other income	1,692	0.3 %	41	— %	59	—%
Interest income	136	— %	11	— %	3	—%
Interest expense	(7,943 )	(1.5 )%	(5,731 )	(1.0 )%	(6,175 )	(1.1)%
Other expense, net	(6,115 )	(1.2 )%	(5,679 )	(1.0 )%	(6,113 )	(1.1)%
Loss before income taxes	(106,655 )	(20.5 )%	(4,141 )	(0.7 )%	(2,039 )	(0.3)%
Income tax (benefit) expense	(12,233 )	(2.4 )%	(4,541 )	(0.8 )%	1,581	0.3%
Net (loss) income	\$(94,422 )	(18.1 )%	\$400	0.1 %	(3,620 )	(0.6)%

## Year ended December 31, 2018 compared with year ended December 31, 2017

**Contract Revenues.** Contract revenues in 2018 of \$520.9 million decreased approximately 10.0% as compared to \$578.6 million in 2017. The decrease was primarily attributable to certain projects in the Marine segment, where we experienced unfavorable changes in cost estimates, the unfavorable impact of customer driven project disruptions and delays and weather patterns in the second half of 2018.

Contract revenues generated from private sector customers for the marine segment represented 49.1%, or \$119.7 million, of total contract revenues in 2018 compared to 47.7%, or \$136.4 million, in 2017. Contract revenues generated from private sector customers for the concrete segment represented 79.8%, or \$221.1 million, in 2018 compared to 83.4%, or \$244.1 million, in 2017. These decreases were primarily due to a shift in timing and mix of projects.

Contract revenues generated from public sector customers for the marine segment represented 50.9%, or \$124.2 million, of total contract revenues in 2018 compared to 52.3%, or \$149.3 million, in 2017. Contract revenues generated from public sector customers for the concrete segment represented 20.2%, or \$55.9 million, in 2018 compared to 16.6%, or \$48.7 million, in 2017. These increases were driven primarily by a shift in timing and mix of projects.

**Gross Profit.** Gross profit was \$21.6 million for the year ended December 31, 2018, compared to \$66.9 million in the prior year period, a decrease of \$45.2 million, or 67.6%. Gross margin in 2018 was 4.2% of total contract revenues as compared to 11.6% in the prior year period. This decrease was primarily attributable to unfavorable changes in cost estimates, the unfavorable impact of project disruptions due to weather events in the second half of 2018 as well as competitive pressure in the Houston market in the concrete segment in the second half of 2018. This decrease was

partially offset by strong operational performance, especially in the marine segment during the first half of 2018.

**Selling, General and Administrative Expense.** Selling, general and administrative ("SG&A") expenses were \$61.5 million for the year ended December 31, 2018 compared to \$66.0 million in the prior year period, a decrease of \$4.5 million, or 6.9%. As a percentage of total contract revenues, SG&A expenses increased slightly as compared with the prior year, from 11.4% to 11.8%. This decrease was driven by cost saving initiatives implemented in the fall of 2017 as well as a reduction in certain payroll-related costs in the third quarter of 2018.

Table of Contents

Other Expense, Net of Income. Other expense primarily reflects interest on our borrowings. For 2018 the total net balance also includes \$1.6 million of revenue on the sale of easement rights for one of the Company's properties in the Houston area as well as an increase in total interest expense of \$2.2 million related to recognizing unamortized debt issuance costs on extinguishment of debt in the third quarter of 2018.

See Note 12 for additional discussion of the amended syndicated credit agreement, also known as the Fifth Amendment, executed in March 2019.

Income Tax (Benefit) Expense. We recorded tax benefit of \$12.2 million in 2018, compared to tax benefit of \$4.5 million in 2017. Our effective tax rate in 2018 was 11.5%, which differs from the statutory rate of 21% due to valuation allowances taken on net operating losses.

See Note 13 for additional discussion of income taxes and the Act, which was enacted and signed into law on December 22, 2017.

Year ended December 31, 2017 compared with year ended December 31, 2016

Contract Revenues. Contract revenues in 2017 of \$578.6 million increased approximately 0.1% as compared to \$578.2 million in 2016. The increase was attributable to the expansion of the concrete construction business in Central Texas through the acquisition of TBC in April 2017 and increased demand for marine construction services in the fourth quarter of 2017 following the impact of hurricanes on the Gulf Coast, Florida and Caribbean Basin. This increase was offset by project disruptions caused by weather events during the third quarter of 2017, which affected both the marine and concrete construction operations, as well as delays in customers obtaining necessary permits, which caused interruptions in the anticipated commencement of certain projects in the marine segment during the first half of 2017.

Contract revenues generated from private sector customers for the marine segment represented 47.7%, or \$136.4 million, of total contract revenues in 2017 compared to 53.3%, or \$151.8 million, in 2016. Contract revenues generated from private sector customers for the concrete segment represented 83.4%, or \$244.1 million, in 2017 compared to 86.5%, or \$254.0 million, in 2016. These decreases were primarily due to a shift of project mix with an increase in public sector projects for the marine and concrete segments of approximately 5.6% and 3.1%, respectively.

Contract revenues generated from public sector customers for the marine segment represented 52.3%, or \$149.3 million, of total contract revenues in 2017 compared to 46.7%, or \$132.9 million, in 2016. Contract revenues generated from public sector customers for the concrete segment represented 16.6%, or \$48.7 million, in 2017 compared to 13.5%, or \$39.7 million, in 2016. These increases were driven by a shift in timing and mix of projects as well as the addition of projects in the marine segment.

Gross Profit. Gross profit was \$66.9 million for the year ended December 31, 2017, compared to \$67.5 million in the prior year period, a decrease of \$0.6 million, or 0.9%. Gross margin in 2017 was 11.6% of total contract revenues as compared to 11.7% in the prior year period. This decrease was driven by project disruptions caused by weather events during the third quarter of 2017, which affected both the marine and concrete construction operations, as well as delays in customers obtaining necessary permits, which caused interruptions in the anticipated commencement of certain projects in the marine segment during the first half of 2017. This was offset by increased demand for marine construction services in the fourth quarter of 2017 following the impact of hurricanes on the Gulf Coast, Florida and Caribbean Basin.

Selling, General and Administrative Expense. Selling, general and administrative ("SG&A") expenses were \$66.0 million for the year ended December 31, 2017 compared to \$65.0 million in the prior year period, an increase of \$1.0 million, or 1.6%. As a percentage of total contract revenues, SG&A expenses increased slightly as compared with the

prior year, from 11.2% to 11.4%. This increase was driven by the acquisition of TBC in the concrete segment as well as higher legal costs, partially offset by reductions in corporate overhead and consulting fees.

Other Expense, net. Other expense primarily reflects interest on our borrowings.

Income Tax (Benefit) Expense. We recorded tax benefit of \$4.5 million in 2017, compared to tax expense of \$1.6 million in 2016. Our effective tax rate in 2017 was 109.7%, which differs from the statutory rate of 35% and was driven by the impact of the Act enacted on December 22, 2017. We recorded a net tax benefit of \$5.9 million, or \$0.21 per share, primarily resulting from the re-measurement of the Company's net deferred tax liabilities to reflect the new, lower U.S. corporate income tax rate of 21%, partially offset by the addition of a valuation allowance recorded against prior years' foreign tax credit carryovers not expected to be utilized in future tax years. This net tax benefit was partially offset by the establishment of an uncertain tax position reserve as well as tax expenses for permanent differences associated with incentive stock options and meals and entertainment.

Table of Contents

## Segment Results

The following table sets forth, for the periods indicated, statements of operations data by segment, segment revenues as a percentage of consolidated revenues and segment operating (loss) income as a percentage of segment revenues:

## Segment Comparison

	Year ended December 31,		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollar amounts in thousands)					
Contract revenues						
Marine Segment	\$243,883	46.8 %	\$285,736	49.4 %	\$284,632	49.2 %
Concrete Segment	277,011	53.2 %	292,817	50.6 %	293,604	50.8 %
Total	\$520,894	100.0 %	\$578,553	100.0 %	\$578,236	100.0 %
Operating (loss) income						
Marine Segment	\$(61,012 )	(25.0 )%	\$(18,406 )	(6.4 )%	\$(12,403 )	(4.4 )%
Concrete Segment	(39,528 )	(14.3 )%	19,944	6.8 %	16,477	5.6 %
Total	\$(100,540)		\$1,538		\$4,074	

Year ended December 31, 2018 compared with year ended December 31, 2017

## Marine Segment

Revenues for our marine segment for the year ended December 31, 2018 were \$243.9 million compared to \$285.7 million for the year ended December 31, 2017, a decrease of \$41.9 million, or 14.6%. This decrease is primarily attributable to certain projects where we experienced unfavorable changes in cost estimates and to unanticipated delays in commencing certain work due to customer schedules in the second half of 2018.

Operating loss for our marine segment for the year ended December 31, 2018 was \$61.0 million, compared to \$18.4 million for the year ended December 31, 2017, an increase of \$42.6 million, or 231.5%. This increase in operating loss was primarily due to the full impairment of goodwill in the marine segment of \$33.8 million, certain projects where we experienced unfavorable changes in cost estimates and to unanticipated delays in commencing certain work due to customer schedules in the second half of 2018. As a percentage of total contract revenues, operating loss for our marine segment was 25.0% for the year ended December 31, 2018, compared to 6.4% for the year ended December 31, 2017.

## Concrete Segment

Revenues for our concrete segment for the year ended December 31, 2018 were \$277.0 million compared to \$292.8 million for the year ended December 31, 2017, a decrease of \$15.8 million, or 5.4%. This decrease was attributable to production delays resulting from unfavorable weather patterns experienced during the third and fourth quarters of 2018.

Operating loss for our concrete segment for the year ended December 31, 2018 was \$39.5 million, compared to operating income of \$19.9 million from the year ended December 31, 2017, a decrease of \$59.5 million, or 298.2%. This decrease was primarily driven by the full impairment of goodwill in the concrete segment of \$35.7 million,

production delays resulting from unfavorable weather patterns experienced during the first and third quarters of 2018 as well as continued competitive pressure in the Houston market. As a percentage of revenues, operating loss for our concrete segment was 14.3% for the year ended December 31, 2018, compared to operating income of 6.8% for the year ended December 31, 2017.

Table of Contents

Year ended December 31, 2017 compared with year ended December 31, 2016

Marine Segment

Revenues for our marine segment for the year ended December 31, 2017 were \$285.7 million compared to \$284.6 million for the year ended December 31, 2016, an increase of \$1.1 million, or 0.4%. This increase was attributable to increased demand for marine construction services in the fourth quarter of 2017 following the impact of hurricanes on the Gulf Coast, Florida and Caribbean Basin. This was partially offset by project disruptions caused by weather events during the third quarter of 2017 as well as delays in customers obtaining necessary permits, which caused interruptions in the anticipated commencement of certain projects during the first half of 2017.

Operating loss for our marine segment for the year ended December 31, 2017 was \$18.4 million, compared to \$12.4 million for the year ended December 31, 2016, an increase of \$6.0 million, or 48.4%. This increase in operating loss was primarily due to project disruptions as a result of significant weather events during the third quarter of 2017 as well as delays in customers obtaining necessary permits which caused delays in the anticipated commencement of certain projects. As a percentage of total contract revenues, operating loss for our marine segment was 6.4% for the year ended December 31, 2017, compared to 4.4% for the year ended December 31, 2016.

Concrete Segment

Revenues for our concrete segment for the year ended December 31, 2017 were \$292.8 million compared to \$293.6 million for the year ended December 31, 2016, a decrease of \$0.8 million, or 0.3%. This decrease was attributable to project disruptions caused by weather events, including Hurricane Harvey in the third quarter of 2017 and abnormal winter delays in the fourth quarter of 2017, offset by the impact of acquiring TBC in April 2017.

Operating income for our concrete segment for the year ended December 31, 2017 was \$19.9 million, compared to \$16.5 million from the year ended December 31, 2016, an increase of \$3.5 million, or 21.0%. This increase was primarily due to solid execution of operations in the segment during 2017. As a percentage of revenues, operating income for our concrete segment was 6.8% for the year ended December 31, 2017, compared to 5.6% for the year ended December 31, 2016.

Critical Accounting Estimates

The consolidated financial statements contained in this report were prepared in accordance with U.S. GAAP. The preparation of these financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect both the Company's carrying values of its assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Although our significant accounting policies are described in more detail in Note 2 of the Notes to Consolidated Financial Statements; we believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our financial statements:

- Revenue Recognition from Construction Contracts;
- Long Lived Assets;
- Goodwill;
- Income Taxes;

Insurance Coverage, Litigation, Claims and Contingencies; and  
Accounting for Stock Issued to Employees and Others.

#### Revenue Recognition

We adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018, using the modified retrospective method. We recognized the cumulative effect of initially adopting Topic 606 guidance as an adjustment to the beginning balance of retained earnings. Contracts with customers that were not substantially complete in both our marine and concrete segments were evaluated in order to determine the impact as of the date of adoption. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.



## Table of Contents

Our revenue is derived from contracts to provide marine construction, dredging, turnkey concrete services, and other specialty services. Our projects are typically short in duration and usually span a period of less than one year. We determine the appropriate accounting treatment for each contract before work begins and generally records revenue on contracts over time.

Performance obligations are promises in a contract to transfer distinct goods or services to the customer and are the unit of account under Topic 606. Our contracts and related change orders typically represent a single performance obligation because individual goods and services are not separately identifiable and we provide a significant integrated service. Revenue is recognized over time because control is continuously transferred to the customer. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the stand-alone selling price of each distinct good or service. Progress is measured by the percentage of actual contract costs incurred to date to total estimated costs for each contract. This method is used because management considers contract costs incurred to be the best available measure of progress on these contracts. Contract costs include all direct costs, such as material and labor, and those indirect costs incurred that are related to contract performance such as payroll taxes and insurance. General and administrative costs are charged to expense as incurred. Upfront costs, such as incurring costs to mobilize personnel and equipment prior to satisfying a performance obligation are capitalized and amortized over the contract performance period.

Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and reported revenue and are recognized in the period in which the revisions are determined. The effect of changes in estimates of contract revenue or contract costs is recognized as an adjustment to recognized revenue on a cumulative catch-up basis. When losses on uncompleted contracts are anticipated, the entire loss is recognized in the period in which such losses are determined. Revenue is recorded net of any sales taxes collected and paid on behalf of the customer, if applicable.

### Long-Lived Assets

Our long-lived assets consist primarily of equipment used in our operations. Fixed assets are carried at cost and are depreciated over their estimated useful lives, ranging from one to 30 years, using the straight-line method for financial reporting purposes and accelerated methods for tax reporting purposes. The carrying value of our long-lived assets is evaluated periodically based on utilization of the asset and physical condition of the asset, as well as the useful life of the asset to determine if adjustment to the depreciation period or the carrying value is warranted. If events and circumstances such as poor utilization or deteriorated physical condition indicate that the asset(s) should be reviewed for possible impairment, we use projections to assess whether future cash flows, including disposition, on a non-discounted basis related to the tested assets are likely to exceed the recorded carrying amount of those assets to determine if an impairment exists. If we identify a potential impairment, we will estimate the fair value of the asset through known market transactions of similar equipment and other valuation techniques, which could include the use of similar projections on a discounted cash flow basis. We will report a loss to the extent that the carrying value of the impaired assets exceeds their fair values.

### Goodwill

We have acquired businesses and assets in purchase transactions that resulted in the recognition of goodwill that we carry on our balance sheet. In accordance with U.S. GAAP, goodwill recorded on our Consolidated Balance Sheets is not amortized, but is subject to impairment testing at least annually or more frequently if events or circumstances indicate that the asset may be impaired. We determined that our operations comprise two reporting units for goodwill impairment testing, which matches our two operating segments for financial reporting.

We assess the fair value of our reporting unit based on a weighted average of valuations based on market multiples, discounted cash flows, and consideration of our market capitalization. The key assumptions used in the discounted cash flow valuations are discount rates and perpetual growth rates applied to cash flow projections. Also inherent in

the discounted cash flow valuation models are past performance, projections and assumptions in current operating plans, and revenue growth rates over the next five years. These assumptions contemplate business, market and overall economic conditions. We also consider assumptions that market participants may use.

When performing our impairment analysis, we reconcile the total of the fair value of our reporting units with our market capitalization to determine if the sum of the individual fair values is reasonable compared to the external market indicators. If our reconciliation indicates an implied control premium that is unreasonable in light of current market conditions, we review and adjust our assumptions accordingly.

As required, annual impairment testing of goodwill is performed as of October 31 of each year or whenever circumstances arise that indicate a possible impairment might exist. Based on this testing, we concluded that as of December 31, 2018, our Marine segment's goodwill of \$33.8 million and our Concrete segment's goodwill of \$35.7 million were fully impaired.

## Table of Contents

### Income Taxes

We determine our consolidated income tax provision using the asset and liability method prescribed by U.S. GAAP, which requires the recognition of income tax expense for the amount of taxes payable or refundable for the current period and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. We must make significant assumptions, judgments and estimates to determine our current provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance to be recorded against any deferred tax asset. The current provision for income tax is based upon the current tax laws and our interpretation of these laws, as well as the probable outcomes of any tax audits. The value of any net deferred tax asset depends upon estimates of the amount and category of future taxable income reduced by the amount of any tax benefits that we do not expect to realize. The factors used to assess the likelihood of realization include our forecast of future taxable income exclusive of reversing temporary differences and carryforwards, future reversals of existing taxable temporary differences and available tax planning strategies that could be implemented to realize the net deferred tax assets.

We consider both positive and negative evidence when evaluating the need for a valuation allowance on our deferred tax assets in accordance with ASC 740. Available evidence includes historical financial information supplemented by currently available information about future years. Generally, historical financial information is more objectively verifiable than projections of future income and is therefore given more weight in our assessment. We consider cumulative losses in the most recent twelve quarters to be significant negative evidence that is difficult to overcome in considering whether a valuation allowance is required. Conversely, we consider a cumulative income position over the most recent twelve quarters, to be significant positive evidence that a valuation allowance may not be required.

Actual operating results and the underlying amount and category of income in future years could render current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate, thus impacting our financial position and results of operations. We compute deferred income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We account for uncertain tax positions in accordance with the provisions of the FASB's ASC 740-10, which prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken, or expected to be taken, on our consolidated tax return. We evaluate and record any uncertain tax positions based on the amount that management deems is more likely than not to be sustained upon ultimate settlement with the tax authorities in the tax jurisdictions in which we operate.

### Insurance Coverage, Litigation, Claims and Contingencies

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

The marine segment maintains five levels of excess loss insurance coverage, totaling \$200 million in excess of primary coverage. This excess loss coverage responds to most of its liability policies when a primary limit of \$1 million has been exhausted; provided that the primary limit for Contingent Maritime Employer's Liability is \$10 million and the Watercraft Pollution Policy primary limit is \$5 million. The concrete segment maintains five levels of

excess loss insurance coverage, totaling \$200 million in excess of primary coverage. This excess loss coverage responds to most of its liability policies when a primary limit of \$1 million has been exhausted.

Separately, our marine segment employee health care is provided through a trust administered by a third party. Funding of the trust is based on current claims. The administrator has purchased appropriate stop-loss coverage. Losses on these policies up to the deductible amounts are accrued based upon known claims incurred and an estimate of claims incurred but not reported. The accruals are derived from known facts, historical trends and industry averages to determine the best estimate of the ultimate expected loss. Actual claims may vary from estimates. Any adjustments to such reserves are included in the consolidated results of operations in the period in which they become known. Our concrete segment employee health care is provided through two policies. A fully funded policy is offered primarily to salaried employees and their dependents while a partially self-funded plan with an appropriate stop-loss is offered primarily to hourly employees and their dependents. The self-funded plan is funded to the maximum exposure and, as a result, expects to receive a partial refund after the policy expiration.

Accounting for Stock Issued to Employees and Others

Table of Contents

We measure the cost of equity compensation to our employees based on the estimated grant-date fair value of the award and recognize the expense over the vesting period. We use the Black-Scholes option pricing model to compute the fair value of the awards of options. The Black-Scholes model requires the use of subjective assumptions in the computation. Changes in these assumptions can cause significant fluctuations in the fair value of the option award. Our independent directors receive grants of stock, typically on an annual basis, of which the values are measured by the mean price of our stock on the day of grant.

## Liquidity and Capital Resources

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

Our working capital position fluctuates from period to period due to normal increases and decreases in operational activity. At December 31, 2018, our working capital was \$50.8 million as compared with \$69.8 million at December 31, 2017. As of December 31, 2018, we had cash on hand of \$8.7 million. Due to the outstanding borrowings on our revolver and outstanding letters of credit, our borrowing capacity at December 31, 2018 was approximately \$42.2 million.

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

The following table provides information regarding our cash flows and our capital expenditures for the years ending December 31, 2018, 2017 and 2016:

	2018	2017	2016
Cash flows provided by operating activities	\$21,931	\$34,133	\$23,149
Cash flows used in investing activities	\$(13,300)	\$(10,080)	\$(17,686)
Cash flows (used in) provided by financing activities	\$(9,033 )	\$(15,272)	\$(6,503 )
Capital expenditures (included in investing activities above)	\$(17,714)	\$(10,729)	\$(18,715)

**Operating Activities.** During 2018, our operations provided approximately \$21.9 million in net cash inflows, as compared with cash provided by operations in the prior year period of \$34.1 million. The decrease in cash provided between periods of \$12.2 million was primarily attributable to a change in working capital driven by the timing of projects as well as the Company generating a net loss in 2018 versus net income in 2017. This decrease was partially offset by non-cash goodwill impairment charges.

During 2017, our operations provided approximately \$34.1 million in net cash inflows, as compared with cash provided by operations in the prior year period of \$23.1 million. The increase in cash between periods of \$11.0 million was primarily attributable to a change in working capital driven by a reduction accounts receivable as well as the Company generating net income in 2017 versus a net loss in 2016. This increase was partially offset by a decrease in deferred income taxes and depreciation expense.

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

Investing Activities. Capital asset additions and betterments to our fleet were \$17.7 million in 2018, as compared with \$10.7 million in 2017. The increase is primarily a result of timing of purchase of capital assets.

Financing Activities. During 2018, we drew down \$39.9 million from our revolving line of credit. Additionally, we repaid \$27.9 million on this draw, as well as made regularly scheduled debt payments on the term loan of \$8.2 million and an additional amount of \$12.0 million during 2018 was transferred to the revolving line of credit for a total of \$48.1 million in debt payments. In the prior year, in connection with our new Credit Facility, we drew down \$72.0 million from our revolving line of credit. Additionally, we repaid \$70.0 million on this draw, as well as made regularly scheduled debt payments and additional payments on the term loan of \$17.8 million for a total of \$87.8 million in debt payments.

#### Sources of Capital

## Table of Contents

The Company entered into an amended syndicated credit agreement (the "Credit Agreement" also known as the "Fourth Amendment") on July 31, 2018, with Regions Bank, as administrative agent and collateral agent, and the following co-syndication agents: Bank of America, N.A., BOKF, NA dba Bank of Texas, KeyBank National Association, NBH Bank, IBERIABANK, Trustmark National Bank, First Tennessee Bank NA, and Branch Banking and Trust Company. The primary purpose of the Credit Agreement was to provide the Company with greater flexibility as it provides for the calculation of Adjusted EBITDA that adds back various project specific costs.

The Credit Agreement, which may be amended from time to time, provides for borrowings under a revolving line of credit and swingline loans with a commitment amount of \$100.0 million, and a term loan with a commitment amount of \$60.0 million (together, the "Credit Facility"). With the execution of the Fifth Amendment, the maximum borrowing availability under the revolving line of credit as of December 31, 2018, was temporarily reduced to \$65.0 million and will remain in effect until certain conditions have been met. The Credit Facility is guaranteed by the subsidiaries of the Company, secured by the assets of the Company, including stock held in its subsidiaries, and may be used to finance general corporate and working capital purposes, to finance capital expenditures, to refinance existing indebtedness, to finance permitted acquisitions and associated fees, and to pay for all related expenses to the Credit Facility. Interest is due and is computed based on the designation of the loan, with the option of a Base Rate Loan (the base rate plus the Applicable Margin), or an Adjusted LIBOR Rate Loan (the adjusted LIBOR rate plus the Applicable Margin). Interest is due on the last day of each quarter end for Base Rate Loans and at the end of the LIBOR rate period for Adjusted LIBOR Rate Loans. Principal balances drawn under the Credit Facility may be prepaid at any time, in whole or in part, without premium or penalty. Amounts repaid under the revolving line of credit may be re-borrowed. The Credit Facility matures on July 31, 2023.

See Note 12 in the Notes to the Financial Statements (Part IV, Item 15 of this Form 10-K) for further discussion on the Company's Debt.

### Financial covenants

Restrictive financial covenants under the Credit Facility include:

- ▲ consolidated Fixed Charge Coverage Ratio as of the end of any fiscal quarter to not be less than 1.25 to 1.00
- ▲ consolidated Leverage Ratio to not exceed the following during each noted period:
  - Fiscal Quarter Ending December 31, 2018, to not exceed 3.00 to 1.00;
  - Fiscal Quarter Ending March 31, 2019, to not exceed 4.75 to 1.00;
  - Fiscal Quarter Ending June 30, 2019, to not exceed 4.75 to 1.00;
  - Fiscal Quarter Ending September 30, 2019 and each Fiscal Quarter thereafter, to not exceed 3.00 to 1.00.

In addition, the Credit Facility contains events of default that are usual and customary for similar arrangements, including non-payment of principal, interest or fees; breaches of representations and warranties that are not timely cured; violation of covenants; bankruptcy and insolvency events; and events constituting a change of control.

During the fourth quarter of 2018, the Company initiated discussions with the lead bank due to concerns it would not be in compliance with financial covenants. The Company executed the Fifth Amendment during March 2019, which was effective as of December 31, 2018. The Leverage Ratio was adjusted beginning with the quarter ended December 31, 2018 through September 30, 2019 and each Fiscal Quarter thereafter, as reflected above. The Fixed Charge Coverage Ratio was unchanged. Additionally with this amendment, for the purpose of calculating the financial covenants, solely with respect to the Fiscal Quarters of the Borrower ending March 31, 2019, June 30, 2019 and September 30, 2019, Consolidated EBITDA to be determined for the Fiscal Quarter of the Borrower ending (A) March 31, 2019 by multiplying the Consolidated EBITDA for such Fiscal Quarter by four (4), (B) June 30, 2019 by multiplying the Consolidated EBITDA for such Fiscal Quarter plus the Consolidated EBITDA for the immediately preceding Fiscal Quarter by two (2) and (C) September 30, 2019 by multiplying the Consolidated EBITDA for such

Fiscal Quarter plus the Consolidated EBITDA for the immediately preceding two (2) Fiscal Quarters by four-thirds (4/3). This amendment to the Credit Agreement will increase the cost of the Company's borrowings and will impose additional limitations on certain types of activities, such as acquisitions. With the execution of the aforementioned amendment, the Company was in compliance with all financial covenants as of December 31, 2018.

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



## Table of Contents

### Derivative Financial Instruments

On September 16, 2015, the Company entered into a series of receive-variable, pay-fixed interest rate swaps to hedge the variability in the interest payments on 50% of the aggregate principal amount of the Regions Term Loan outstanding, beginning with a notional amount of \$67.5 million. There are a total of five sequential interest rate swaps to achieve the hedged position and each year on August 31, with the exception of the final swap, the existing interest rate swap is scheduled to expire and will be immediately replaced with a new interest rate swap until the expiration of the final swap on July 31, 2020. On December 6, 2018, the Company entered a sixth receive-variable, pay-fixed interest rate swaps to hedge the variability of interest payments. The sixth swap will begin with a notional amount of \$27.0 million on July 31, 2020 will hedge the variability in the interest payments on 50% of the aggregate scheduled principal amount of the Regions Term Loan outstanding. The sixth swap is scheduled to expire on June 30, 2023. At inception, these interest rate swaps were designated as a cash flow hedge for hedge accounting, and as such, the effective portion of unrealized changes in market value are recorded in accumulated other comprehensive income (loss) and reclassified into earnings during the period in which the hedged forecasted transaction affects earnings. Gains and losses from hedge ineffectiveness are recognized in current earnings. The change in fair market value of the swaps as of December 31, 2018 is less than \$0.1 million, which is reflected in the balance sheet as a liability. The fair market value of the swaps as of December 31, 2018 is less than \$0.1 million. See [Note 9](#) for more information regarding the fair value of the Company's derivative instruments.

### Bonding Capacity

We are generally required to provide various types of surety bonds that provide additional security to our customers for our performance under certain government and private sector contracts. Our ability to obtain surety bonds depends on our capitalization, working capital, past performance and external factors, including the capacity of the overall surety market. At December 31, 2018, our capacity under our current bonding arrangement was \$500 million, with approximately \$133 million of remaining availability. We believe our strong balance sheet and working capital position will allow us to continue to access our bonding capacity.

### Effect of Inflation

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

### Off Balance Sheet Arrangements

Currently our only off balance sheet arrangements are operating leases to which we are a party, those discussed above under “Bonding Capacity” and “Sources of Capital” and those which arise in the normal course of business. These arrangements are not reasonably likely to have an effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors. See [Note 17](#) – Commitments and Contingencies of Notes to Consolidated Financial Statements beginning on page F-1 of this Annual Report on Form 10-K.

### Contractual Obligations

The following table sets forth information about our contractual obligations and commercial commitments as of December 31, 2018:

Edgar Filing: Orion Group Holdings Inc - Form 10-K

	Payment Due by Period				
	Total	< 1 year	1-3 years	3-5 years	> 5 years
	(in thousands)				
Debt obligations	\$80,500	\$3,000	\$ 8,250	\$ 69,250	\$ —
Lease obligations	33,205	\$10,308	12,694	4,913	\$ 5,290
Purchase obligations (1)	—	—	—	—	—
Total	\$113,705	\$13,308	\$ 20,944	\$ 74,163	\$ 5,290

(1) Commitments pursuant to other purchase orders and subcontracts related to construction contracts are not included since such amounts are expected to be funded under contract billings.

Table of Contents

To manage risks of changes in the material prices and subcontracting costs used in tendering bids for construction contracts, we routinely obtain firm quotations from our suppliers and subcontractors before submitting a bid. These quotations do not include any quantity guarantees, and we have no obligation for materials or subcontract services beyond those required to complete the contracts that we are awarded for which quotations have been provided.

A summary of debt and other contractual obligations as of December 31, 2018 and December 31, 2017 is as follows:

	December	December
	31, 2018	31, 2017
Credit facility, non-current maturities	\$ 77,500	\$ 65,250
Credit facility, current maturities	3,000	23,500
Total long-term debt	\$ 80,500	\$ 88,750
Outstanding letters of credits	\$ 814	\$ 742
Leasing arrangements	\$ 33,205	\$ 37,313
Other long-term liabilities	\$ 8,759	\$ 3,573

The maturity date for amounts drawn under the revolving line of credit is the earlier of the Facility termination date of July 31, 2023, or the date the outstanding balance is permanently reduced to zero. Prior to the fourth quarter of 2018, the Company classified amounts drawn as current liabilities based on an intent and ability to repay the amounts using current assets within the next twelve months. During the fourth quarter of 2018, the Company determined it no longer has the intent to repay amounts drawn within the next twelve months. Therefore, the Company has classified the entire outstanding balance of the revolving line of credit as non-current.

#### Recently Issued Accounting Pronouncements

See Note 2 - Summary of Significant Accounting Principles of the Notes to the Financial Statements (Part IV, Item 15 of this Form 10-K) for further discussion.

#### Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, our results of operations are subject to risks related to fluctuations in commodity prices and fluctuations in interest rates. Historically, our exposure to foreign currency fluctuations has not been material and has been limited to temporary field accounts located in foreign countries where we perform work. Foreign currency fluctuations were immaterial in this reporting period.

##### Commodity price risk

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

##### Interest rate risk

At December 31, 2018, we had \$80.5 million in outstanding borrowings under our credit facility, with a weighted average interest rate of 4.63%. Also we have entered into a series of receive-variable, pay-fixed interest rate swaps to hedge the variability in the interest payments on 50% of the aggregate principal amount of the term loan component of the credit facility outstanding, beginning with a notional amount of \$67.5 million. At inception, these interest rate swaps were designated as a cash flow hedge for hedge accounting. Our objectives in managing interest rate risk are to lower our overall borrowing costs and limit interest rate changes on our earnings and cash flows. To achieve this, we

closely monitor changes in interest rates and we utilize cash from operations to reduce our debt position, if warranted.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is submitted as a separate section beginning on page F-1 of this Annual Report on Form 10-K and is incorporated herein by reference.

Additionally, a two-year Summary of Selected Quarterly Financial Data (unaudited) is included in “Selected Quarterly Financial Data” under Item 6 - Selected Quarterly Financial Data.

Table of Contents

Item CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL  
9. DISCLOSURE

None

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on management's evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Notwithstanding the material weaknesses occurring earlier in the year described below, our management, including our principal executive officer and principal financial officer, believes that the audited consolidated financial statements contained in this Annual Report on Form 10-K fairly present, in all material respects, our financial condition, results of operations and cash flows for the years presented in conformity with U.S. generally accepted accounting principles. In addition, the material weaknesses described below did not result in the restatement of any of our audited or unaudited consolidated financial statements or disclosures for any previously reported periods.

Changes in Internal Control over Financial Reporting

A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

During the quarter ended December 31, 2018, we identified control deficiencies in internal control occurring in earlier 2018 interim periods related to:

a lack of segregation of duties and ineffective user access controls to IT applications regarding the input and review of manual journal entries and ineffective balance sheet account reconciliation controls at the Concrete segment. These control deficiencies resulted from ineffective risk assessment process to evaluate necessary changes in our financial reporting processes and related controls in response to changes in senior finance personnel at our Concrete segment and a lack of sufficient accounting professionals to perform supervisory reviews and monitoring activities over financial reporting at the Concrete segment.

an ineffective control over the evaluation of the classification of leases for financial reporting purposes. This control deficiency resulted because we did not effectively identify and communicate relevant and reliable information from lease contracts to finance personnel on a timely basis so they could fulfill their financial reporting and control responsibilities.

The control deficiency related to leases resulted in immaterial misstatements to previous annual and interim consolidated financial statements that were corrected in the consolidated financial statements as of and for the year ended December 31, 2018. These control deficiencies create a reasonable possibility that a material misstatement to the consolidated financial statements will not be prevented or detected on a timely basis. Accordingly, we concluded that they represented material weaknesses during the three month interim periods ended March 31, 2018, June 30, 2018 and September 30, 2018.

Upon discovering the control deficiencies, we updated our risk assessment and modified the design and operation of affected process level controls and assigned additional personnel to monitor the Concrete segment's accounting activities beginning in the quarter ended December 31, 2018. We also updated our policies and procedures and implemented new controls to ensure the accounting evaluation for lease modifications are performed in a timely manner.

As a result of the remediation actions described above, management concluded that the material weaknesses were remediated as of December 31, 2018.

Except for the identification and remediation of the material weaknesses described above, there were no other changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Internal Control over Financial Reporting

## Table of Contents

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. Our system of internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of our management and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Management, under the oversight of our principal executive officer and principal financial officer, and Audit Committee, assessed the effectiveness of our internal control over financial reporting as of December 31, 2018 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal control - An Integrated Framework (“2013 Framework”). Based on its assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2018 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance U.S. generally accepted accounting principles.

Our independent registered public accounting firm, KPMG LLP, who audited the consolidated financial statements included in this annual report, has audited the effectiveness of our internal control over financial reporting as of December 31, 2018. KPMG LLP’s report appears on page F-4 of this annual report on Form 10-K.

### Inherent Limitations on Effectiveness of Controls

Our management, including the principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and implemented, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected.

## Item 9B. OTHER INFORMATION

None

## PART III

## Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

### Directors, Executive Officers, Promoters and Control Persons

The information required by Paragraph (a), and Paragraphs (c) through (g) of Item 401 of Regulation S-K (except for information required by Paragraph (e) of that Item to the extent the required information pertains to our executive officers) and Item 405 of Regulation S-K is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.





Table of Contents

The following table presents the information required by Paragraph (b) of Item 401 of Regulation S-K.

Name	Age	Position with the Company	Year Joined the Registrant
Richard L. Daerr, Jr.	74	Chairman of the Board	2007
Thomas N. Amonett	75	Director	2007
J. Michael Pearson	71	Director	2006
Austin J. Shanfelter	62	Director	2007
Mary E. Sullivan	62	Director	2019
Michael J. Caliel	59	Director	2019
Mark R. Stauffer	56	President, Chief Executive Officer and Director	1999
Peter R. Buchler	72	Executive Vice President, Chief Administrative Officer, Chief Compliance Officer, General Counsel and Secretary	2009
Robert L. Tabb	34	Vice President and Interim Chief Financial Officer	2014

## Code of Ethics

We have adopted a code of ethics for our chief executive, chief financial and principal accounting officers; a code of business conduct and ethics for members of our Board of Directors; and corporate governance guidelines. The full texts of the codes of ethics and corporate governance guidelines are available at our website [www.oriongroup Holdings Inc.com](http://www.oriongroup Holdings Inc.com). Although we have never done so, in the event we make any amendment to, or grant any waiver from, a provision of the code of ethics that applies to the principal executive officer, principal financial officer or principal accounting officer that requires disclosure under applicable SEC rules, we will disclose such amendment or waiver and the reasons therefore on our website. We will provide any person without charge a copy of any of the aforementioned codes of ethics upon receipt of a written request. Requests should be addressed to: Orion Group Holdings, Inc. 12000 Aerospace Avenue, Suite 300, Houston, Texas 77034, Attention: Corporate Secretary.

## Corporate Governance

The information required by Items 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

## Item 11. EXECUTIVE COMPENSATION

The information required by this Item is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

## Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 403 of Regulation S-K is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

Table of Contents

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Report:

1. Financial Statements

The Company's Consolidated Financial Statements at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 and the notes thereto, together with the Report of the Independent Registered Public Accounting Firm on those Consolidated Financial Statements are hereby filed as part of this Report, beginning on page F-1.

2. Financial Statement Schedule

The following financial statement schedule of the Company for each of the three years in the period ended December 31, 2018 is filed as part of this Report and should be read in conjunction with the Consolidated Financial Statements of the Company.

Schedule II – Schedule of Valuation and Qualifying Accounts

3. Exhibits

Exhibit Number	Description
<u>2.1</u>	Membership Interests Purchase Agreement dated August 5, 2015 by and among T.A.S. Holdings, LLC and Orion Concrete Construction, LLC (Schedules, exhibits and similar attachments to the Purchase Agreement that are not material have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish supplementally a copy of any omitted schedule, exhibit or similar attachment to the SEC upon request) (incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, filed with the Securities and Exchange Commission on August 7, 2015 (File No. 001-33891)).
<u>2.2</u>	First Amendment, effective June 17, 2016, to the Membership Interests Purchase Agreement dated August 5, 2015 (incorporated herein by reference to Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 5, 2016 (File No. 001-33891)).
<u>2.3</u>	Post Closing Supplemental Agreement Amendment, effective June 17, 2016, as a supplement to the Membership Interests Purchase Agreement dated August 5, 2015 (incorporated herein by reference to Exhibit 2.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 5, 2016 (File No. 001-33891)).
<u>2.4</u>	Stock Purchase Agreement dated April 9, 2017 by and among Anthony James Bagliore III and Lori Sue Bagliore and T.A.S. Commercial Concrete Construction, LLC (Schedules, exhibits and similar attachments to the Agreement that are not material have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish supplementally a copy of any omitted schedule, exhibit or similar attachment to the SEC upon request) (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 13, 2017 (File No. 1-33891)).
<u>3.1</u>	Amended and Restated Certificate of Incorporation of Orion Group Holdings, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 5, 2016 (File No. 001-33891)).
<u>3.2</u>	Amended and Restated Bylaws of Orion Group Holdings, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 5, 2016 (File No. 001-33891)).

- 4.1 Registration Rights Agreement by and between Friedman, Billings, Ramsey & Co., Inc. and Orion Marine Group, Inc. dated May 17, 2007 (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on August 20, 2007 (File No. 333-145588)).
- † 10.1 Form of Indemnity Agreement for Directors and Certain Officers dated November 24, 2008 (incorporated herein by reference to Exhibit 1.01 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 25, 2008 (File No. 001-33891)).
- † 10.2 Orion Marine Group, Inc. 2007 Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on August 20, 2007 (File No. 333-145588)).
- † 10.3 Form of Stock Option Agreement Under the 2007 Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on August 20, 2007 (File No. 333-145588)).

Table of Contents

- † 10.4 Orion Marine Group, Inc. 2011 Long Term Incentive Plan (incorporated herein by reference to Appendix A to the Company's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 4, 2011 (File No. 001-33891)).
- † 10.5 Form of Stock Option Agreement Under the 2011 Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 6, 2012 (File No. 001-33891)).
- † 10.6 Form of Restricted Stock Agreement and Notice of Grant of Restricted Stock under the 2011 Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 6, 2012 (File No. 001-33891)).
- † 10.7 Executive Incentive Plan (incorporated herein by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, filed with the Securities and Exchange Commission on November 7, 2008 (File No. 001-33891)).
- † 10.8 Orion Group Holdings, Inc. 2017 Long-Term Incentive Plan (incorporated herein by reference to Appendix A to the Company's Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on April 11, 2017 (File No. 001-33891)).
- \*† 10.9 Form of Stock Option Agreement under the 2017 Long-Term Incentive Plan.
- \*† 10.10 Form of Restricted Stock Agreement under the 2017 Long-Term Incentive Plan.
- \*† 10.11 Form of Performance Unit Agreement under the 2017 Long-Term Incentive Plan.
- \*† 10.12 Summary of Non-Employee Director Compensation.
- 10.13 Real Estate Purchase and Sale Agreement (Jones Spoils Tracts, Harris County, TX) dated February 3, 2014, by and between PASADENA NITROGEN LLC, a Delaware limited liability company, as Seller, and CPB PROPERTIES, LLC, a Texas limited liability company, as Purchaser, and joined in by AGRIFOS HOLDINGS, INC., a Delaware corporation, effective February 26, 2014 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on March 4, 2014) (File No. 001-33891).
- † 10.14 Employment Agreement dated January 1, 2015 between Orion Marine Group, Inc. and Mark R. Stauffer (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 2, 2015)(File No. 001-33891).
- † 10.15 First Amendment, effective January 1, 2017, to Employment Agreement by and between Orion Group Holdings, Inc. and Mark Stauffer dated January 1, 2015 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 20, 2017 (File No. 001-33891)).
- † 10.16 Second Amendment, effective June 5, 2018, to Employment Agreement by and between Orion Group Holdings, Inc. and Mark Stauffer dated January 1, 2015 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 8, 2018 (File No. 001-33891)).
- † 10.17 Employment Agreement dated January 1, 2015 between Orion Marine Group, Inc. and Peter R. Buchler (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 2, 2015) (File No. 001-33891).
- † 10.18 First Amendment, effective April 1, 2017, to Employment Agreement by and between Orion Group Holdings, Inc. and Peter R. Buchler dated January 1, 2015 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 5, 2017 (File No. 001-33891)).
- † 10.19 Second Amendment, effective June 5, 2018, to Employment Agreement by and between Orion Group Holdings, Inc. and Peter R. Buchler dated January 1, 2015 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 8,

2018 (File No. 001-33891)).

\*† 10.20 Employment Agreement between Orion Group Holdings, Inc., and Robert L. Tabb, dated September 30, 2015, as amended by the First Amendment, effective September 25, 2017.

† 10.21 Employment Agreement dated January 1, 2015 between Orion Marine Group, Inc. and Christopher J. DeAlmeida (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 2, 2015) (File No. 001-33891).

† 10.22 Third Amendment, effective June 5, 2018, to Employment Agreement by and between Orion Group Holdings, Inc. and Christopher J. DeAlmeida dated January 1, 2015 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 8, 2018 (File No. 001-33891)).

Table of Contents

- Credit Agreement dated as of August 5, 2015 among Orion Marine Group, Inc. as Borrower, Certain Subsidiaries of the Borrower Party Hereto From Time to Time, as Guarantors, The Lenders Party Hereto, Regions Bank, as Administrative Agent and Collateral Agent, and Bank of America, N.A., BOKF, NA DBA
- 10.23 Bank of Texas, and Branch Banking and Trust Company, as Co-Syndication Agents, Regions Capital Markets, a division of Regions Bank, as Lead Arranger and Book Manager (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, filed with the Securities and Exchange Commission on August 7, 2015 (File No. 001-33891)).
- First Amendment, effective March 31, 2016, to the Credit Agreement dated as of August 5, 2015, among Orion Marine Group, Inc. as Borrower, Certain Subsidiaries of the Borrower Party Hereto From Time To Time, as Guarantors, The Lenders Party Hereto, Regions Bank, as Administrative Agent and Collateral Agent,
- 10.24 and Bank of America, N.A., BOKF, NA DBA Bank of Texas, and Branch Banking and Trust Company, as Co-Syndication Agents, Regions Capital Markets, a division of Regions Bank, as Lead Arranger and Book Manager (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed with the Securities and Exchange Commission on May 6, 2016 (File No. 001-33891)).
- Second amendment, effective June 30, 2017, to the Credit Agreement dated as of August 5, 2015 among Orion Marine Group, Inc. as Borrower, Certain Subsidiaries of the Borrower Party Hereto From Time to Time, as Guarantors, the Lenders Party Hereto, Regions Bank, as Administrative Agent and Collateral Agent, and Bank
- 10.25 of America, N.A., BOKF, NA DBA Bank of Texas, and Branch Banking and Trust Company, as Co-syndication Agents, Regions Capital Markets, a division of Regions Bank, as Lead Arranger and Book Manager (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed with the Securities and Exchange Commission on August 3, 2017 (File No. 1-33891)).
- Third amendment, effective September 30, 2017, to the Credit Agreement dated as of August 5, 2015 among Orion Marine Group, Inc. as Borrower, Certain Subsidiaries of the Borrower Party Hereto From Time to Time, as Guarantors, the Lenders Party Hereto, Regions Bank, as Administrative Agent and Collateral Agent, and
- 10.26 Bank of America, N.A., BOKF, NA DBA Bank of Texas, and Branch Banking and Trust Company, as Co-syndication Agents, Regions Capital Markets, a division of Regions Bank, as Lead Arranger and Book Manager (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed with the Securities and Exchange Commission on November 9, 2017 (File No. 001-33891)).
- Fourth amendment, effective July 31, 2018, to the Credit Agreement dated as of August 5, 2015 among Orion Marine Group, Inc. as Borrower, Certain Subsidiaries of the Borrower Party Hereto From Time to Time, as Guarantors, the Lenders Party Hereto, Regions Bank, as Administrative Agent and Collateral Agent, and Bank
- 10.27 of America, N.A., BOKF, NA DBA Bank of Texas, and Branch Banking and Trust Company, as Co-syndication Agents, Regions Capital Markets, a division of Regions Bank, as Lead Arranger and Book Manager (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, filed with the Securities and Exchange Commission on August 3, 2018 (File No. 001-33891)).
- Fifth amendment, effective March 21, 2019, to the Credit Agreement dated as of August 5, 2015 among Orion Marine Group, Inc. as Borrower, Certain Subsidiaries of the Borrower Party Hereto From Time to Time, as Guarantors, the Lenders Party Hereto, Regions Bank, as Administrative Agent and Collateral Agent, and Bank
- 10.28 of America, N.A., BOKF, NA DBA Bank of Texas, and Branch Banking and Trust Company, as Co-syndication Agents, Regions Capital Markets, a division of Regions Bank, as Lead Arranger and Book Manager (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 26, 2019 (File No. 001-33891)).
- Letter to the Securities and Exchange Commission from Ernst & Young LLP, dated April 5, 2017
- 16.1 (incorporated herein by reference to Exhibit 16.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 5, 2017 (File No. 001-33891)).

- \* 21  
1 List of Subsidiaries.
- \* 23.1 Consent of Independent Registered Public Accounting Firm -KPMG
- \* 23  
2 Consent of Independent Registered Public Accounting Firm - Ernst & Young.
- 24.1 Power of Attorney (included on signature page of this filing).
- \* 31  
1 Certification of CEO pursuant to Section 302.
- \* 31  
2 Certification of CFO pursuant to Section 302.
- \* 32  
1 Certification of CEO and CFO pursuant to Section 906.

42

---



Table of Contents

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Extension Calculation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith

Management contract or compensatory plan or arrangement

(b) Financial Statement Schedules

43

---

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORION GROUP HOLDINGS, INC.

March 26, 2019 By: /s/ Mark R. Stauffer  
 Mark R. Stauffer  
 President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Mark R. Stauffer Mark R. Stauffer	President, Chief Executive Officer and Director	March 26, 2019
/s/ Robert L. Tabb Robert L. Tabb	Vice President and Interim Chief Financial Officer	March 26, 2019
/s/ Richard L. Daerr, Jr. Richard L. Daerr, Jr.	Chairman of the Board	March 26, 2019
/s/ Thomas N. Amonett Thomas N. Amonett	Director	March 26, 2019
/s/ J. Michael Pearson J. Michael Pearson	Director	March 26, 2019
/s/ Austin J. Shanfelter Austin J. Shanfelter	Director	March 26, 2019
/s/ Mary E. Sullivan Mary E. Sullivan	Director	March 26, 2019
/s/ Michael J. Caliel Michael J. Caliel	Director	March 26, 2019

Table of Contents

ORION GROUP HOLDINGS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

<u>Reports of Independent Registered Public Accounting Firms</u>	<u>F-2</u>
<u>Consolidated Balance Sheets at December 31, 2018 and 2017</u>	<u>F-5</u>
<u>Consolidated Statements of Operations for the Years Ended December 31, 2018, 2017 and 2016</u>	<u>F-6</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2018, 2017 and 2016</u>	<u>F-7</u>
<u>Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 2018, 2017 and 2016</u>	<u>F-8</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016</u>	<u>F-9</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-10</u>

F-1

---

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Orion Group Holdings, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Orion Group Holdings, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity, and cash flows for each of the years in the two year period ended December 31, 2018 and the related notes and financial statement schedule II (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 26, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company adopted Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers, on January 1, 2018.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company’s auditor since 2017.

Houston, Texas

March 26, 2019

F-2

---

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
Orion Group Holdings, Inc. and subsidiaries:

Opinion on Internal Control Over Financial Reporting

We have audited Orion Group Holdings, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes and financial statement schedule II (collectively, the consolidated financial statements), and our report dated March 26, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Houston, Texas  
March 26, 2019

F-3

---

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Orion Group Holdings, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of Orion Group Holdings, Inc. and subsidiaries as of December 31, 2016, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity and cash flows for the year ended December 31, 2016. Our audit also included the financial statement schedule listed in the Index at Item 15(2). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Orion Group Holdings, Inc. and subsidiaries at December 31, 2016, and the consolidated results of their operations and their cash flows for the year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Orion Group Holdings, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 24, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP  
Houston, Texas  
March 24, 2017



F-4

---

Table of Contents

## Orion Group Holdings, Inc. and Subsidiaries

## Consolidated Balance Sheets

December 31, 2018 and 2017

(In Thousands, Except Share and Per Share Information)

	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$8,684	\$9,086
Accounts receivable:		
Trade, net of allowance of \$4,280 and \$0, respectively	77,641	84,953
Retainage	30,734	39,189
Other current	4,257	3,706
Income taxes receivable	467	339
Inventory	1,056	4,386
Costs and estimated earnings in excess of billings on uncompleted contracts	9,217	46,006
Prepaid expenses and other	5,000	4,124
Total current assets	137,056	191,789
Property and equipment, net	148,003	146,278
Inventory, non-current	7,598	4,915
Goodwill	—	69,483
Intangible assets, net of amortization	14,787	18,175
Other non-current	5,426	2,645
Total assets	\$312,870	\$433,285
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current debt, net of debt issuance costs	\$2,946	\$22,756
Accounts payable:		
Trade	42,023	45,194
Retainage	736	1,990
Accrued liabilities	18,840	17,873
Taxes payable	—	256
Billings in excess of costs and estimated earnings on uncompleted contracts	21,761	33,923
Total current liabilities	86,306	121,992
Long-term debt, net of debt issuance costs	76,119	63,185
Other long-term liabilities	8,759	3,573
Deferred income taxes	49	13,243
Interest rate swap liability	52	26
Total liabilities	171,285	202,019
Stockholders' equity:		
Preferred stock -- \$0.01 par value, 10,000,000 authorized, none issued	—	—
Common stock -- \$0.01 par value, 50,000,000 authorized, 29,611,989 and 28,860,961 issued; 28,900,758 and 28,149,737 outstanding at December 31, 2018 and December 31, 2017, respectively	296	288
Treasury stock, 711,231 and 711,231 shares, at cost December 31, 2018 and December 31, 2017, respectively	(6,540 )	(6,540 )
Other comprehensive loss	(52 )	(26 )
Additional paid-in capital	179,742	174,697
Retained earnings	(31,861 )	62,847
Total stockholders' equity	141,585	231,266

Total liabilities and stockholders' equity	\$312,870	\$433,285
--	-----------	-----------

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

F-5

---

Table of Contents

## Orion Group Holdings, Inc. and Subsidiaries

## Consolidated Statements of Operations

(In Thousands, Except Share and Per Share Information)

	Year ended December 31,		
	2018	2017	2016
Contract revenues	\$520,894	\$578,553	\$578,236
Costs of contract revenues	499,245	511,663	510,754
Gross profit	21,649	66,890	67,482
Selling, general and administrative expenses	61,460	66,026	64,987
Gain from sale of assets, net	(3,306 )	(674 )	(1,579 )
Goodwill impairment charges	69,483	—	—
Other gain from continuing operations	(5,448 )	—	—
Operating (loss) income	(100,540 )	1,538	4,074
Other (expense) income:			
Other income	1,692	41	59
Interest income	136	11	3
Interest expense	(7,943 )	(5,731 )	(6,175 )
Other (expense) income, net	(6,115 )	(5,679 )	(6,113 )
Loss before income taxes	(106,655 )	(4,141 )	(2,039 )
Income tax (benefit) expense	(12,233 )	(4,541 )	1,581
Net (loss) income	\$(94,422 )	\$400	\$(3,620 )
Basic (loss) income per share	\$(3.31 )	\$0.01	\$(0.13 )
Diluted (loss) income per share	\$(3.31 )	\$0.01	\$(0.13 )
Shares used to compute (loss) income per share			
Basic	28,518,353	28,029,936	27,536,967
Diluted	28,518,353	28,354,280	27,536,967

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

Table of Contents

Orion Group Holdings, Inc. and Subsidiaries  
 Consolidated Statements of Comprehensive Income (Loss)  
 (In Thousands)

	Year ended December 31,		
	2018	2017	2016
Net (loss) income	\$(94,422)	\$400	\$(3,620)
Change in fair value of cash flow hedge, net of tax benefit of \$15, net of tax expense of \$53, and net of tax expense of \$25 for the years ended December 31, 2018, 2017 and 2016, respectively	(26	)356	(237 )
Total comprehensive (loss) income	\$(94,448)	\$756	\$(3,857)

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

Table of Contents

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

	Common Stock		Treasury Stock		Other Comprehensive Income (Loss)	Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance, January 1, 2016	27,992,589	\$ 279	(711,231)	\$(6,540)	\$ (145 )	\$ 168,736	\$ 65,384	\$ 227,714
Stock-based compensation	—	—	—	—	—	2,280	—	2,280
Exercise of stock options	13,850	—	—	—	—	67	—	67
Issuance of restricted stock	407,002	4	—	—	—	(4 )	—	—
Forfeiture of restricted stock	(7,591 )	—	—	—	—	—	—	—
Cash flow hedge, net of tax	—	—	—	—	(237 )	—	—	(237 )
Net loss	—	—	—	—	—	—	(3,620 )	(3,620 )
Balance, December 31, 2016	28,405,850	\$ 283	(711,231)	\$(6,540)	\$ (382 )	\$ 171,079	\$ 61,764	\$ 226,204
Stock-based compensation	—	—	—	—	—	2,303	—	2,303
Deferred tax adjustment	—	—	—	—	—	—	683	683
Exercise of stock options	229,551	2	—	—	—	1,318	—	1,320
Issuance of restricted stock	345,913	3	—	—	—	(3 )	—	—
Forfeiture of restricted stock	(120,353 )	—	—	—	—	—	—	—
Cash flow hedge, net of tax	—	—	—	—	356	—	—	356
Net income	—	—	—	—	—	—	400	400
Balance, December 31, 2017	28,860,961	\$ 288	(711,231)	\$(6,540)	\$ (26 )	\$ 174,697	\$ 62,847	\$ 231,266
Adoption of ASC 606 (Note 2)							(286 )	(286 )
Stock-based compensation	—	—	—	—	—	2,238	—	2,238
Exercise of stock options	488,303	5	—	—	—	2,810	—	2,815
Issuance of restricted stock	333,864	3	—	—	—	(3 )	—	—
Cash flow hedge, net of tax	—	—	—	—	(26 )	—	—	(26 )
Forfeiture of restricted stock	(71,139 )	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	(94,422 )	(94,422 )
Balance, December 31, 2018	29,611,989	\$ 296	(711,231)	\$(6,540)	\$ (52 )	\$ 179,742	\$(31,861)	\$ 141,585

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

Table of Contents

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

	Year ended December 31,		
	2018	2017	2016
Cash flows from operating activities			
Net (loss) income	\$(94,422)	\$400	\$(3,620)
Adjustments to reconcile net (loss) income to net cash provided by Operating activities:			
Depreciation and amortization	31,799	29,491	34,162
Unamortized debt issuance cost on debt extinguishment	2,164	—	—
Deferred financing cost amortization	725	1,269	1,225
Deferred income taxes	(13,194 )	(4,166 )	751
Stock-based compensation	2,238	2,303	2,280
Gain on sale of property and equipment	(3,306 )	(674 )	(1,579 )
Goodwill impairment charges	69,483	—	—
Allowance for doubtful accounts	4,280	—	—
Other gain from continuing operations	(5,448 )	—	—
Change in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	10,936	15,022	(23,935 )
Income tax receivable	(128 )	(952 )	(49 )
Inventory	647	89	1,696
Accounts receivable, non-current	—	—	(511 )
Prepaid expenses and other	1,671	(226 )	856
Costs and estimated earnings in excess of billings on uncompleted contracts	36,789	(6,030 )	19,640
Accounts payable	(4,584 )	(5,666 )	(5,717 )
Accrued liabilities	(5,301 )	(1,519 )	(1,123 )
Income tax payable	(256 )	(433 )	(125 )
Billings in excess of costs and estimated earnings on uncompleted contracts	(12,162 )	5,225	(802 )
Net cash provided by operating activities	21,931	34,133	23,149
Cash flows from investing activities:			
Proceeds from sale of property and equipment	3,234	6,826	2,152
Purchase of property and equipment	(17,714 )	(10,729)	(18,715 )
Acquisition of TAS and purchase price adjustment	—	—	(369 )
Acquisition of TBC	—	(6,000 )	—
TBC acquisition adjustment	—	(557 )	—
Proceeds from return of investment	94	—	—
Insurance claim proceeds related to property and equipment	1,346	925	—
Contributions to CSV life insurance	(260 )	(545 )	(754 )
Net cash used in investing activities	(13,300 )	(10,080)	(17,686)
Cash flows from financing activities:			
Borrowings from Credit Facility	39,861	72,000	57,000
Payments made on borrowings from Credit Facility	(48,111 )	(87,813)	(63,084 )
Loan costs from Credit Facility	(861 )	(779 )	(486 )
Capital lease liability	(2,737 )	—	—
Exercise of stock options	2,815	1,320	67
Net cash used in financing activities	(9,033 )	(15,272)	(6,503 )
Net change in cash and cash equivalents	(402 )	8,781	(1,040 )
Cash and cash equivalents at beginning of year	9,086	305	1,345

Edgar Filing: Orion Group Holdings Inc - Form 10-K

Cash and cash equivalents at end of year	\$8,684	\$9,086	\$305
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$4,819	\$4,413	\$5,031
Taxes, net of refunds	\$903	\$1,008	\$999
Non-cash investing activity:			
Capital lease expenditures included in accrued expenses	\$13,103	\$—	\$—

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

F-9

---



Table of Contents

Orion Group Holdings, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018, 2017 and 2016  
(Tabular Amounts in thousands, Except Share and per Share Amounts)

1. Description of Business and Basis of Presentation

Description of Business

Orion Group Holdings, Inc., its subsidiaries and affiliates (hereafter collectively referred to as the "Company"), provide a broad range of specialty construction services in the infrastructure, industrial, and building sectors of the continental United States, Alaska, Canada and the Caribbean Basin. The Company's marine segment services the infrastructure sector through marine transportation facility construction, marine pipeline construction, marine environmental structures, dredging of waterways, channels and ports, environmental dredging, design, and specialty services. Its concrete segment services the building sector by providing turnkey concrete construction services including pour and finish, dirt work, layout, forming, rebar, and mesh across the light commercial, structural and other associated business areas. The Company is headquartered in Houston, Texas with offices throughout its operating areas.

The tools used by the chief operating decision maker ("CODM") to allocate resources and assess performance are based on two reportable and operating segments: marine, which operates under the Orion Marine Group brand and logo, and concrete, which operates under the TAS Commercial Concrete brand and logo.

Although we describe the business in this report in terms of the services the Company provides, its base of customers and the areas in which it operates, the Company has determined that its operations currently comprise two reportable segments pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280, Segment Reporting.

In making this determination, the Company considered the similar economic characteristics of its operations that comprise its marine segment. For the marine segment, the methods used, and the internal processes employed, to deliver marine construction services are similar throughout the segment, including standardized estimating, project controls and project management. This segment has the same customers with similar funding drivers, and it complies with regulatory environments driven through Federal agencies such as the U.S. Army Corps of Engineers, U.S. Fish and Wildlife Service, U.S. Environmental Protection Agency and U.S. Occupational Safety and Health Administration ("OSHA"), among others. Additionally, the segment is driven by macro-economic considerations including the level of import/export seaborne transportation, development of energy-related infrastructure, cruise line expansion and operations, marine bridge infrastructure development, waterway pipeline crossings and the maintenance of waterways. These considerations, and others, are key catalysts for future prospects and are similar across the segment.

For the concrete segment, the Company also considered the similar economic characteristics of these operations. The methods used, and the internal processes employed, to deliver concrete construction services are similar throughout the segment, including standardized estimating, project controls and project management. This segment complies with regulatory environments such as OSHA. Additionally, this segment is driven by macro-economic considerations, including movements in population, commercial real estate development, institutional funding and expansion, and recreational development, specifically in metropolitan areas of Texas. These considerations, and others, are key catalysts for future prospects and are similar across the segment.

Basis of Presentation

These consolidated financial statements include the accounts of the parent company, Orion Group Holdings, Inc. and its wholly-owned subsidiaries and have been prepared in accordance with U.S. GAAP. All intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Principles

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates, judgments and assumptions are continually evaluated based on available information and experience; however, actual amounts could differ from those estimates.

F-10

---

## Table of Contents

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

Revenue recognition from construction contracts;  
Accounts receivable and allowance for doubtful accounts;  
Goodwill and other long-lived assets, testing for indicators of impairment;  
Income taxes;  
Self-insurance; and  
Stock based compensation.

### Revenue Recognition

The Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018, using the modified retrospective method. The Company recognized the cumulative effect of initially adopting Topic 606 guidance as an adjustment to the beginning balance of retained earnings. Contracts with customers that were not substantially complete in both the Company's marine and concrete segments were evaluated in order to determine the impact as of the date of adoption. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The Company's revenue is derived from contracts to provide marine construction, dredging, turnkey concrete services, and other specialty services. The Company's projects are typically short in duration and usually span a period of less than one year. The Company determines the appropriate accounting treatment for each contract before work begins and generally records revenue on contracts over time.

Performance obligations are promises in a contract to transfer distinct goods or services to the customer and are the unit of account under Topic 606. The Company's contracts and related change orders typically represent a single performance obligation because individual goods and services are not separately identifiable and the Company provides a significant integrated service. Revenue is recognized over time because control is continuously transferred to the customer. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using its best estimate of the stand-alone selling price of each distinct good or service. Progress is measured by the percentage of actual contract costs incurred to date to total estimated costs for each contract. This method is used because management considers contract costs incurred to be the best available measure of progress on these contracts. Contract costs include all direct costs, such as material and labor, and those indirect costs incurred that are related to contract performance such as payroll taxes and insurance. General and administrative costs are charged to expense as incurred. Upfront costs, such as incurring costs to mobilize personnel and equipment prior to satisfying a performance obligation are capitalized and amortized over the contract performance period.

Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and reported revenue and are recognized in the period in which the revisions are determined. The effect of changes in estimates of contract revenue or contract costs is recognized as an adjustment to recognized revenue on a cumulative catch-up basis. When losses on uncompleted contracts are anticipated, the entire loss is recognized in the period in which such losses are determined. Revenue is recorded net of any sales taxes collected and paid on behalf of the customer, if applicable.

Contract revenue is derived from the original contract price as modified by agreed-upon change orders and estimates of variable consideration related to incentive fees and change orders or claims for which price has not yet been agreed by the customer. The Company estimates variable consideration based on the most likely amount to which it expects to be entitled. Variable consideration is included in the estimated transaction price to the extent it is probable that a

significant reversal of cumulative recognized revenue will not occur. As of December 31, 2018, approximately \$1.1 million of claims against customers has been recognized and is reflected on the Company's Consolidated Balance Sheet under "Costs and estimated earnings in excess of billings on uncompleted contracts." The Company believes collection of these claims is probable, although the full amount of the recorded claims may not be collected.

Contract assets and liabilities include the following:

• **Accounts Receivable: Trade, net of allowance** - Represent amounts billed and currently due from customers and are stated at their net estimated realizable value.

**Accounts Receivable: Retainage** - Represent amounts which have not been billed to customers or paid pursuant to retainage provisions in construction contracts, which generally become payable upon contract completion and acceptance by the customer.

F-11

---

Table of Contents

Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts - Represent revenues recognized in excess of amounts billed, which management believes will be billed and collected within one year of the completion of the contract (i.e. Contract Assets) and are recorded as a current asset.

Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts - Represent billings in excess of revenues recognized (i.e. Contract Liabilities) and are recorded as a current liability.

The Company's evaluation of its construction contracts under the new standard focused on the following areas which have the most significant impact on the amount and timing of revenue recognized:

Performance Obligations - Construction contracts with customers, including those related to contract modifications, were reviewed to determine if there were any multiple performance obligations. Based on our review, a limited number of contracts in the marine segment and no contracts in the concrete segment were identified as having multiple performance obligations. The net impact on retained earnings as of January 1, 2018 and gross profit for the year ended December 31, 2018 were not material.

Upfront Costs - These costs were required to be capitalized as assets and were recorded as part of "Costs and estimated earnings in excess of billings on uncompleted contracts" in the Company's Consolidated Balance Sheets and amortized over the expected duration of the contract as part of "Costs of contract revenues" in the Company's Consolidated Statements of Operations. If the expected completion date of the contract changes, the amortization period will be recalculated and adjusted prospectively. The amortization of such costs for the Company are generally comprised of initial costs incurred to mobilize equipment and labor to a job site or other upfront costs such as bonds or insurance prior to the "notice-to-proceed" date, which had been expensed as incurred in prior periods. Based on the Company's review, certain contracts in the marine segment were identified as having material upfront costs. The Company also reviewed contracts for the concrete segment and while certain contracts within the segment were identified as having upfront costs, they were not considered material.

The following table summarizes the cumulative effect of the changes made to the Company's unaudited Consolidated Balance Sheet as of January 1, 2018 from the adoption of Topic 606:

	Balance at December 31, 2017	Adjustments Due to Topic 606	Balance at January 1, 2018
Assets			
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 46,006	\$ 1,383	\$47,389
Liabilities			
Billings in excess of costs and estimated earnings on uncompleted contracts	\$ 33,923	\$ 1,745	\$35,668
Deferred income taxes	13,243	(76	) 13,167
Equity			
Retained earnings	\$ 62,847	\$ (286	) \$62,561

Remaining performance obligations represent the transaction price of firm orders or other written contractual commitments from customers for which work has not been performed, or is partially completed and excludes unexercised contract options and potential orders. As of December 31, 2018, the aggregate amount of the remaining performance obligations was approximately \$440.4 million. Of this amount, the Company expects to recognize \$414.0 million, or 94%, in the next 12 months and the remaining balance thereafter.

Table of Contents

The following tables summarize the impact of adopting Topic 606 on the Company's Consolidated Balance Sheet as of December 31, 2018 and Statement of Operations for the year ended December 31, 2018:

	As Reported	Balances Without Adoption of Topic 606	Effect of Change Higher (Lower)
<b>Assets</b>			
Costs and estimated earnings in excess of billings on uncompleted contracts	\$9,217	\$10,040	\$(823 )
<b>Liabilities</b>			
Billings in excess of costs and estimated earnings on uncompleted contracts	\$21,761	\$22,886	\$(1,125)
Deferred income taxes	49	(57 )	106
<b>Equity</b>			
Retained earnings	\$(31,861)	\$(32,057)	\$196

	As Reported	Balances Without Adoption of Topic 606	Effect of Change Higher (Lower)
Contract revenues	\$520,894	\$519,769	\$ 1,125
Cost of contract revenues	499,245	498,422	823
Gross profit	21,649	21,347	302
Income tax (benefit) expense	(12,233 )	(12,339 )	106
Net (loss) income	\$(94,422 )	\$(94,618 )	\$ 196
Basic (loss) income per share	\$(3.31 )	\$(3.32 )	\$ 0.01
Diluted (loss) income per share	\$(3.31 )	\$(3.32 )	\$ 0.01

#### Classification of Current Assets and Liabilities

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

#### Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At times, cash held by financial institutions may exceed federally insured limits. The Company has not historically sustained losses on its cash balances in excess of federally insured limits. Cash equivalents at December 31, 2018 and 2017 consisted primarily of overnight bank deposits.

#### Risk Concentrations

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

The Company depends on its ability to continue to obtain federal, state and local governmental contracts, and indirectly, on the amount of funding available to these agencies for new and current governmental projects. Therefore,

a portion of the Company's operations is dependent upon the level and timing of government funding. Statutory mechanics liens provide the Company high priority in the event of lien foreclosures following financial difficulties of private owners, thus minimizing credit risk with private customers.

F-13

---

## Table of Contents

### Accounts Receivable

Accounts receivable are stated at the historical carrying value, less allowances for doubtful accounts. The Company has significant investments in billed and unbilled receivables as of December 31, 2018 and 2017. Billed receivables represent amounts billed upon the completion of small contracts and progress billings on large contracts in accordance with contract terms and milestone achievements. Unbilled receivables on contracts, which are included in costs in excess of billings, arise as revenues are recognized over time. Unbilled amounts on contracts represent recoverable costs and accrued profits not yet billed. Revenue associated with these billings is recorded net of any sales tax, if applicable. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. In establishing an allowance for doubtful accounts, the Company evaluates its contract receivables and costs in excess of billings and thoroughly reviews historical collection experience, the financial condition of its customers, billing disputes and other factors. The Company writes off uncollectible accounts receivable against the allowance for doubtful accounts if it is determined that the amounts will not be collected or if a settlement is reached for an amount that is less than the carrying value. As of December 31, 2018 and 2017, the Company had recorded an allowance for doubtful accounts of \$4.3 million and none, respectively.

Balances billed to customers but not paid pursuant to retainage provisions in construction contracts generally become payable upon contract completion and acceptance by the owner. Retainage at December 31, 2018 totaled \$30.7 million, of which \$3.2 million is expected to be collected beyond 2019. Retainage at December 31, 2017 totaled \$39.2 million.

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

### Advertising Costs

The Company primarily obtains contracts through the open bid process, and therefore advertising costs are not a significant component of expense. Advertising costs are expensed as incurred. Advertising expenses totaled \$225,000, \$150,000, and \$178,000 in 2018, 2017 and 2016, respectively.

### Environmental Costs

Costs related to environmental remediation are charged to expense. Other environmental costs are also charged to expense unless they increase the value of the property and/or provide future economic benefits, in which event the costs are capitalized. Environmental liabilities, if any, are recognized when the expenditure is considered probable and the amount can be reasonably estimated. The Company did not recognize any environmental liabilities as of December 31, 2018 or 2017, respectively.

### Fair Value Measurements

The Company evaluates and presents certain amounts included in the accompanying consolidated financial statements at "fair value" in accordance with U.S. GAAP, which requires the Company to base its estimates on assumptions that market participants, in an orderly transaction, would use to price an asset or liability, and to establish a hierarchy that prioritizes the information used to determine fair value. Refer to Note 9 for more information regarding fair value determination.



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

#### Inventory

Current inventory consists of parts and small equipment held for use in the ordinary course of business and is valued at the lower of cost (using historical average cost) or net realizable value. Where shipping and handling costs are incurred by the Company, these charges are included in inventory and charged to cost of contract revenue upon use. Non-current inventory consists of spare parts (including engines, cutters and gears) that require special order or long-lead times for manufacture or fabrication, but must be kept on hand to reduce downtime. Refer to Note 8 for more information regarding inventory.

F-14

---

## Table of Contents

### Property and Equipment

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

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

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

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

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

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or the fair value, less the costs to sell, and are no longer depreciated. There were no assets classified as held for sale as of December 31, 2018 or December 31, 2017.

### Goodwill and Other Intangible Assets

#### Goodwill

The Company has acquired businesses and assets in purchase transactions that resulted in the recognition of goodwill. Goodwill represents the costs in excess of fair values assigned to the identifiable assets acquired and liabilities assumed in the acquisition. In accordance with U.S. GAAP, acquired goodwill is not amortized, but is subject to impairment testing at least annually at a reporting unit level (as of October 31 of each year) or more frequently if events or circumstances indicate the asset may be impaired. The Company determined its operations comprise two reporting units for goodwill impairment testing, which match its two operating segments for financial reporting.

The Company assesses the fair value of its reporting units based on a weighted average of valuations based on market multiples and discounted cash flows, as well as consideration of its market capitalization. The key assumptions used in the discounted cash flow valuations are discount rates, weighted average cost of capital and perpetual growth rates

applied to cash flow projections. Also inherent in the discounted cash flow valuation models are past performance, projections and assumptions in current operating plans and revenue growth rates over the next five years. These assumptions contemplate business, market and overall economic conditions. Other considerations are assumptions that market participants may use in analysis of comparable companies. The underlying assumptions used for determining fair value, as discussed above, require significant judgment and are susceptible to change from period to period and could potentially cause a material impact to the income statement. In the future, the Company's estimated fair value could be negatively impacted by extended declines in its stock price, changes in macroeconomic indicators, sustained operating losses and other factors which may affect its assessment of fair value.

F-15

---

## Table of Contents

As required, annual impairment testing of goodwill is performed as of October 31 of each year or whenever circumstances arise that indicate a possible impairment might exist. Based on this testing, we concluded that as of December 31, 2018, our Marine segment's goodwill of \$33.8 million and our Concrete segment's goodwill of \$35.7 million were fully impaired.

See Note 10 for additional discussion of our goodwill and related goodwill impairment testing.

## Intangible Assets

Intangible assets that have finite lives are amortized. In addition, the Company evaluates the remaining useful life of intangible assets in each reporting period to determine whether events and circumstances warrant a revision of the remaining period of amortization. If the estimate of an intangible asset's remaining life is changed, the remaining carrying value of such asset is amortized prospectively over that revised remaining useful life. Intangible assets that have indefinite lives are not amortized, but are subject to impairment testing at least annually or more frequently if events or circumstances indicate the asset may be impaired.

The Company has one indefinite-lived intangible asset, a trade name, which is tested for impairment annually on October 31, or whenever events or circumstances indicate the carrying amount of the trade name may not be recoverable. Impairment is calculated as the excess of the trade name's carrying value over its fair value. The fair value of the trade name is determined using the relief from royalty method, a variation of the income approach. This method assumes that if a company owns intellectual property, it does not have to "rent" the asset and is, therefore, "relieved" from paying a royalty. Once a supportable royalty rate is determined, the rate is then applied to the projected revenues over the expected remaining life of the intangible asset to estimate the royalty savings. This approach is dependent on a number of factors, including estimates of future growth and trends, royalty rates, discount rates and other variables.

See Note 10 for additional discussion of intangible assets and trade name impairment testing.

## Stock-Based Compensation

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

Compensation expense is recognized only for share-based payments expected to vest. The Company estimates forfeitures at the date of grant based on historical experience and future expectations. This assessment is updated on a periodic basis. See Note 15 for further discussion of the Company's stock-based compensation plan.

## Income Taxes

The Company determines its consolidated income tax provision using the asset and liability method prescribed by U.S. GAAP, which requires the recognition of income tax expense for the amount of taxes payable or refundable for the current period and for deferred tax assets and liabilities for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. The Company must make significant assumptions, judgments and estimates to determine its current provision for income taxes, its deferred tax assets and liabilities, and

any valuation allowance to be recorded against any deferred tax asset. The current provision for income tax is based upon the current tax laws and the Company's interpretation of these laws, as well as the probable outcomes of any tax audits. The value of any net deferred tax asset depends upon estimates of the amount and category of future taxable income reduced by the amount of any tax benefits the Company does not expect to realize. The factors used to assess the likelihood of realization include the Company's forecast of future taxable income exclusive of reversing temporary differences and carryforwards, future reversals of existing taxable temporary differences and available tax planning strategies that could be implemented to realize the net deferred tax assets.

The Company considers both positive and negative evidence when evaluating the need for a valuation allowance on its deferred tax assets in accordance with ASC 740. Available evidence includes historical financial information supplemented by currently available information about future years. Generally, historical financial information is more objectively verifiable than projections of future income and is therefore given more weight in the assessment. The Company considers cumulative losses in the most recent twelve quarters to be significant negative evidence that is difficult to overcome in considering whether a valuation allowance is required. Conversely, the Company considers a cumulative income position over the most recent twelve quarters, to be significant positive evidence that a valuation allowance may not be required.

F-16

---

## Table of Contents

Actual operating results and the underlying amount and category of income in future years could render current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate, thus impacting the Company's financial position and results of operations. The Company computes deferred income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period of the enactment date.

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

See Note 13 for additional discussion of income taxes and the Tax Cuts and Jobs Act (the "Act"), which was enacted and signed into law on December 22, 2017.

## Insurance Coverage

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

The marine segment maintains five levels of excess loss insurance coverage, totaling \$200 million in excess of primary coverage. The marine segment's excess loss coverage responds to most of its policies when a primary limit of \$1 million has been exhausted; provided that the primary limit for Contingent Maritime Employer's Liability is \$10 million and the Watercraft Pollution Policy primary limit is \$5 million. The concrete segment maintains five levels of excess loss insurance coverage, totaling \$200 million in excess of primary coverage. The concrete segment's excess loss coverage responds to most of its policies when a primary limit of \$1 million has been exhausted.

If a claim arises and a potential insurance recovery is probable, the impending gain is recognized separately from the related loss. The recovery will only be recognized up to the amount of the loss once the recovery of the claim is deemed probable and any excess gain will fall under contingency accounting and will only be recognized once it is realized. The Company does not net insurance recoveries against the related claim liability as the amount of the claim liability is determined without consideration of the anticipated insurance recoveries from third parties.

Separately, the Company's marine segment employee health care is paid for by general assets of the Company and currently administered by a third party. The administrator has purchased appropriate stop-loss coverage. Losses on these policies up to the deductible amounts are accrued based upon known claims incurred and an estimate of claims incurred but not reported. The accruals are derived from known facts, historical trends and industry averages to determine the best estimate of the ultimate expected loss. Actual claims may vary from estimates. Any adjustments to such reserves are included in the Consolidated Results of Operations in the period in which they become known. The Company's concrete segment employee health care is provided through two policies. A fully funded policy is offered primarily to salaried employees and their dependents while a partially self-funded plan with an appropriate stop-loss is offered primarily to hourly employees and their dependents. The self-funded plan is funded to the maximum exposure and, as a result, is expected to receive a partial refund after the policy expiration.

The accrued liability for insurance includes incurred but not reported claims of \$5.7 million and \$5.2 million at December 31, 2018 and 2017, respectively.

#### Recent Accounting Pronouncements

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

F-17

---

## Table of Contents

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize lease assets (i.e. right-to-use assets) on the balance sheet. These are assets that represent the lessee's right to use or control the use of specified assets for the lease terms and lease liabilities, which are lessee's obligations to make lease payments arising from leases measured on a discounted basis, for all leases with terms longer than 12 months. Leases with terms of 12 months or less will be accounted for similar to existing guidance for operating leases. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods. The Company will adopt the new standard on January 1, 2019 using the optional transition method under ASU 2018-11 and elect the available practical expedients. This method allows the Company an option to allow transition of the new lease guidance at the effective date and recognize a cumulative-effect adjustment to the opening balance of retained earnings at the effective date. Under this method, the comparative periods presented in the financial statements prior to the adoption date would not be adjusted to apply ASC 842. The Company expects the adoption of ASC 842 to result in a material increase of approximately \$20 million to \$30 million to assets and liabilities on its consolidated balance sheets. The Company does not anticipate the adoption of ASC 842 to have a material effect on its consolidated statements of operations and statements of cash flows.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350). The FASB issued this update to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The amendments in this update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. The guidance should be applied on a prospective basis and is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted and as such the Company has elected to adopt ASU 2017-04 as of December 31, 2018. The adoption of this ASU had no material impact on the Company's Consolidated Financial Statements.

In January 2018, the FASB issued ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842. The FASB issued this update to provide an optional transition on practical expedient that, if elected, would not require companies to reconsider its accounting for existing or expired land easements before the adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods. The Company is currently in the process of assessing the effects of adoption on its financial statements, but it does not anticipate the new standard will materially impact the financial statements.

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

### 3. Business Acquisitions

#### TBC Acquisition

On April 9, 2017, T.A.S. Commercial Concrete Construction, LLC, a wholly owned subsidiary of Orion Group Holdings, Inc. ("the Company") entered into a Stock Purchase Agreement ("the Agreement") for the purchase of all the issued and outstanding shares (the "shares") of Tony Bagliore Concrete, Inc. ("TBC"), a Texas corporation. The Company and the two sole shareholders of TBC closed the purchase transactions on April 10, 2017 (the "Closing Date"). Upon the terms of and subject to the conditions set forth in the Agreement, the total aggregate consideration paid on the Closing Date by the Company to the Sellers for the shares was \$6.0 million in cash. In addition however, if certain target considerations are met in future periods, an additional cash payment of up to \$2.0 million will become



payable to the Seller.

The purpose of the acquisition was primarily to achieve growth by expanding the Company's current service offerings in addition to expansion into new markets. The tangible assets acquired include accounts receivable, retainage and fixed assets.

F-18

---

Table of Contents

Under the acquisition method of accounting, the total acquisition consideration is allocated to the acquired tangible and intangible assets and assumed liabilities of TBC based on their estimated fair values as of the closing of the acquisition. The table below outlines the total actual acquisition consideration allocated based on the preliminary fair values of TBC's tangible and intangible assets and liabilities as of April 9, 2017:

Accounts receivable	\$3,239
Retainage	1,860
Fixed assets, net	2,098
Other	9
Goodwill	2,562
Other intangible assets	878
Accounts payable	(2,017 )
Accrued expenses and other current liabilities	(1,080 )
Contingent consideration	(456 )
Deferred tax liability	(1,093 )
Total Acquisition Consideration at April 9, 2017	\$6,000
Working capital adjustment (all attributable to Goodwill)	557
Total Acquisition Consideration	\$6,557

The excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed was allocated to goodwill. The goodwill of \$3.1 million arising from the acquisition consists primarily of synergies and business opportunities expected to be realized from the purchase of TBC. The goodwill is not deductible for income tax purposes.

Finite-lived intangible assets acquired include customer relationships and contractual backlog. (See [Note 10](#)).

The fixed assets acquired include construction equipment as well as automobiles and trucks and will be depreciated in accordance with Company policy, generally three to 15 years.

As stated in the Agreement, the Company has agreed to pay the sellers up to \$2.0 million in cash, if earned, as additional purchase consideration. The seller's right to receive the contingent consideration, if any, shall be based on the Company's achievement of certain future financial targets. The Company measured the fair value of the contingent consideration at the Acquisition Date, and determined that fair value to be approximately \$0.5 million, as shown in the table above. This amount of contingent liability is classified on the Consolidated Balance Sheets as other long-term liabilities.

## Pro Forma Results (unaudited)

The results and operations of TBC have been included in the Consolidated Statements of Operations since the acquisition date of April 9, 2017. The Company has calculated the pro forma impact of the acquisition of TBC in our operating results for the twelve months ended December 31, 2016.

	Pro Forma Results For the Year Ended December 31, 2016
Contract revenues	\$610,695
Operating income from continuing operations	\$5,593
Net loss	\$(2,677 )
Basic loss per share	\$(0.10 )
Diluted loss per share	\$(0.10 )

The Company derived the pro forma results of the acquisition based upon historical financial information obtained from the seller and certain management assumptions. The pro forma adjustments related to incremental amortization

expense associated with the acquired finite-lived intangible assets and interest expense associated with borrowings to effect the transaction, assuming a January 1, 2016 effective transaction date. In addition, the tax impact of these adjustments was calculated at a 35% statutory rate.

F-19

---

Table of Contents

These pro forma results are not indicative of the results that would have been obtained had the acquisition of TBC been completed on January 1 of the respective period, or that may be obtained in the future.

## 4. Revenue

Contract revenues are recognized when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The following table represents a disaggregation of the Company's contract revenues by service line for the marine and concrete segments:

	2018
Marine Segment	
Construction	\$156,925
Dredging	73,237
Specialty Services	13,721
Marine segment contract revenues	\$243,883
Concrete Segment	
Light Commercial	\$215,628
Structural	60,926
Other	457
Concrete segment contract revenues	\$277,011
Total contract revenues	\$520,894

Although the Company has disaggregated its contract revenues in terms of services provided, it believes its operations comprise two reportable segments pursuant to FASB ASC Topic 280, Segment Reporting. In making this determination, the Company considered the similar characteristics of its operations as discussed in Note 1. Additionally, as discussed, both the marine and concrete segments have limited contracts with multiple performance obligations. The Company's contracts often combine multiple services, such as engineering, dredging, diving and construction, into one distinct finished product which is transferred to the customer. These contracts are often estimated and bid as one project and evaluated on performance as one project, not by individual services performed by each. Both the marine and concrete segments have a single CODM for the entire segment, not by service lines of the segments. Resources are allocated by segment, and financial and budgetary information is compiled and reviewed by segment, not service line.

## Marine Segment

Construction services include construction, restoration, maintenance, dredging and repair of marine transportation facilities, marine pipelines, bridges and causeways and marine environmental structures. Dredging services generally enhance or preserve the navigability of waterways or the protection of shorelines through the removal or replenishment of soil, sand or rock. Specialty services include design, salvage, demolition, surveying, towing, diving and underwater inspection, excavation and repair.

## Concrete Segment

Structural services include elevated concrete pouring for products such as columns, elevated beams and structural walls. Light commercial services include horizontally poured concrete for products such as sidewalks, ramps, tilt walls and trenches. Other services comprise labor related to concrete pouring such as rebar installation and pumping services and typically support the segment's structural and light commercial services.

## 5. Concentration of Risk and Enterprise Wide Disclosures

Accounts receivable include amounts billed to governmental agencies and private customers and do not bear interest. Balances billed to customers but not paid pursuant to retainage provisions generally become payable upon contract completion and acceptance by the owner.

F-20

---

Table of Contents

The table below presents the concentrations of current receivables (trade and retainage) at December 31, 2018 and December 31, 2017, respectively:

	December 31, 2018			December 31, 2017		
Federal Government	\$2,319	2 %		\$3,509	3 %	
State Governments	916	1 %		4,503	3 %	
Local Governments	30,187	28 %		18,256	15 %	
Private Companies	74,953	69 %		97,874	79 %	
Total receivables	\$ 108,375	100%		\$ 124,142	100%	

At December 31, 2018 and 2017, no single customer accounted for more than 10.0% of total current receivables.

Additionally, the table below represents concentrations of contract revenue by type of customer for the years ended December 31, 2018, 2017 and 2016.

	2018		2017		2016	
		%		%		%
Federal Government	\$42,143	8 %	\$63,823	11 %	\$40,361	7 %
State Governments	30,470	6 %	42,613	7 %	37,700	7 %
Local Governments	107,478	21 %	91,591	16 %	94,461	16 %
Private Companies	340,803	65 %	380,526	66 %	405,714	70 %
Total contract revenues	\$520,894	100%	\$578,553	100%	\$578,236	100%

In the years ended December 31, 2018, 2017 and 2016, no single customer exceeded 10.0% of total contract revenues.

The Company does not believe that the loss of any one of these customers would have a material adverse effect on the Company or its subsidiaries and affiliates since no single specific customer sustains such a large portion of receivables or contract revenue over time.

In addition, the concrete segment primarily purchases concrete from select suppliers. The loss of one of these suppliers could adversely impact short-term operations.

Contract revenues generated outside the United States totaled 2.3%, 1.6% and 1.3% of total revenues for the years ended December 31, 2018, 2017 and 2016, respectively, and were primarily located in the Caribbean Basin and Mexico.

## 6. Contracts in Progress

Contracts in progress are as follows at December 31, 2018 and December 31, 2017:

	December 31, 2018		December 31, 2017	
Costs incurred on uncompleted contracts	\$ 461,144		\$ 668,848	
Estimated earnings	73,170		120,751	
	534,314		789,599	
Less: Billings to date	(546,858)	)	(777,516)	)
	\$ (12,544)	)	\$ 12,083	)
Included in the accompanying consolidated balance sheets under the following captions:				
Costs and estimated earnings in excess of billings on uncompleted contracts	9,217		\$ 46,006	
Billings in excess of costs and estimated earnings on uncompleted contracts	(21,761)	)	(33,923)	)
	\$ (12,544)	)	\$ 12,083	)

Included in cost and estimated earnings in excess of billings on uncompleted projects is approximately \$1.1 million related to claims and unapproved change orders. See Note 2 - Summary of Significant Accounting Principles to the Company's consolidated financial statements for discussion of the accounting for these claims.

F-21

---

Table of Contents

Contract costs include all direct costs, such as materials and labor, and those indirect costs incurred that are related to contract performance such as payroll taxes and insurance. General and administrative costs are charged to expense as incurred. Incentive fees, if available, are billed to the customer based on the terms and conditions of the contract. Pending claims are recognized as an increase in contract revenue only when the collection is deemed probable and if the amount can be reasonably estimated for purposes of calculating total profit or loss on long-term contracts. Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined, without regard to the percentage of completion.

During the year-ended December 31, 2018, we recognized unfavorable changes in our estimates on two construction projects in our Marine Segment. These changes were caused by prolonged weather delays, unforeseen access and other client-imposed restrictions that impacted our productivity. The result of these changes in estimates is reflected as a decrease in revenue of \$22.8 million in the consolidated statement of operations for the year-ended December 31, 2018 and included in billings in excess of costs and estimated earnings on uncompleted contracts.

## 7. Property and Equipment

The following is a summary of property and equipment at December 31, 2018 and December 31, 2017:

	December 31, 2018	December 31, 2017
Automobiles and trucks	\$ 1,709	\$ 1,940
Building and improvements	43,628	38,062
Construction equipment	161,113	166,203
Vessels and other equipment	90,217	85,113
Office equipment	8,061	8,039
	304,728	299,357
Less: accumulated depreciation	(195,373 )	(191,407 )
Net book value of depreciable assets	109,355	107,950
Construction in progress	2,785	245
Land	35,863	38,083
	\$ 148,003	\$ 146,278

At December 31, 2018, the Company has \$9.2 million of assets, net of accumulated depreciation, under capital leases which are reflected in the above table.

For the years ended December 31, 2018, 2017 and 2016, depreciation expense was \$28.4 million, \$24.8 million and \$26.9 million, respectively. Substantially all depreciation expense is included in the cost of contract revenue in the Company's Consolidated Statements of Operations. Substantially all of the assets of the Company are pledged as collateral under the Company's Credit Agreement (as defined in [Note 12](#)).

Substantially all of the Company's long-lived assets are located in the United States.

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or the fair value, less the costs to sell, and are no longer depreciated. Approximately \$6.4 million were classified as held for sale on the Company's Consolidated Balance Sheet at



December 31, 2016. During the year ended December 31, 2017, approximately \$5.4 million of these assets were sold for cash of \$4.5 million. The difference of \$0.9 million is classified as a loss on the sale of assets on the Consolidated Statements of Operations. The remaining assets held for sale of \$1.0 million was classified as a total loss as a result of Hurricane Harvey. Insurance claims of approximately \$0.9 million were received in the fourth quarter of 2017. The difference of \$0.1 million is classified as a loss on disposal of assets on the Consolidated Statements of Operations. No assets remained as held for sale on the Company's Consolidated Balance Sheet at December 31, 2017 or December 31, 2018.

F-22

---

Table of Contents

## 8. Inventory

Current inventory at December 31, 2018 and December 31, 2017, of \$1.1 million and \$4.4 million, respectively, consisted primarily of spare parts and small equipment held for use in the ordinary course of business.

Non-current inventory at December 31, 2018 and December 31, 2017 totaled \$7.6 million and \$4.9 million, respectively, and consisted primarily of spare engine components or items which require longer lead times for sourcing or fabrication for certain of the Company's assets to reduce equipment downtime.

## 9. Fair Value

## Recurring Fair Value Measurements

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

The Company classifies financial assets and liabilities into the following three levels based on the inputs used to measure fair value in the order of priority indicated:

Level 1- fair values are based on observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2 - fair values are based on pricing inputs other than quoted prices in active markets for identical assets and liabilities and are either directly or indirectly observable as of the measurement date; and

Level 3- fair values are based on unobservable inputs in which little or no market data exists.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value requires judgment and may affect the placement of assets and liabilities within the fair value hierarchy levels.

The following table sets forth by level within the fair value hierarchy the Company's recurring financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2018 and December 31, 2017:

	Carrying Value	Fair Value Measurements	
		Level 1	Level 2 Level 3
December 31, 2018			
Assets:			
Cash surrender value of life insurance policy	\$ 1,993	1,993	—
Liabilities:			
Derivatives	\$ 79	79	—
December 31, 2017			
Assets:			
Cash surrender value of life insurance policy	\$ 1,712	1,712	—
Liabilities:			
Derivatives	\$ 38	38	—

The Company's derivatives, which are comprised of interest rate swaps, are valued using a discounted cash flow analysis that incorporates observable market parameters, such as interest rate yield curves and credit risk adjustments, that are necessary to reflect the probability of default by us or the counterparty. These derivatives are classified as a Level 2 measurement within the fair value hierarchy. See Note 12 for additional information on the Company's derivative instrument.

Our concrete segment has life insurance policies with a combined face value of \$11.1 million as of December 31, 2018. The policies are invested in mutual funds and the fair value measurement of the cash surrender balance associated with these policies is determined using Level 2 inputs within the fair value hierarchy and will vary with investment performance. These assets are included in the "Other noncurrent" asset section in the Company's Consolidated Balance Sheets.

Table of Contents

## Non-Recurring Fair Value Measurements

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

## Other Fair Value Measurements

The fair value of the Company's debt at December 31, 2018 and 2017 approximated its carrying value of \$80.5 million and \$88.8 million, respectively, as interest is based on current market interest rates for debt with similar risk and maturity. If the Company's debt was measured at fair value, it would have been classified as Level 2 in the fair value hierarchy.

## 10. Goodwill and Intangible Assets

## Goodwill

The table below summarizes changes in goodwill recorded by the Company during the periods ended December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Beginning balance, January 1	\$ 69,483	\$ 66,351
Additions	—	3,132
Impairments	(69,483)	—
Ending balance	\$ —	\$ 69,483

Additions to goodwill in 2017 were attributable to the acquisition of TBC. The additions above represent goodwill calculated for the acquisition at the date of closing, plus the working capital adjustment which was all attributable to goodwill.

As discussed previously in Note 2, goodwill is reviewed at a reporting unit level for impairment annually as of October 31 or whenever circumstances arise that indicate a possible impairment might exist. In the fourth quarter of 2018, the Company's annual goodwill impairment test indicated that its goodwill was fully impaired, primarily as a result of decline in market capitalization and as a result it incurred a goodwill impairment charge of \$69.5 million with \$33.8 million related to the Marine segment and \$35.7 million related to the Concrete segment.

## Intangible assets

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

	December 31, 2018	December 31, 2017
Intangible assets, January 1	\$35,240	\$34,362
Additions	—	878
Total intangible assets, end of year	35,240	35,240

Edgar Filing: Orion Group Holdings Inc - Form 10-K

Accumulated amortization, January 1	\$ (23,956)	\$ (19,220)
Current year amortization	(3,389 )	(4,736 )
Total accumulated amortization	(27,345 )	(23,956 )
Net intangible assets, end of year	\$ 7,895	\$ 11,284

F-24

---

Table of Contents

Finite-lived intangible assets were acquired as part of the purchase of TBC, which included contractual backlog and customer relationships. Contractual backlog was valued at approximately \$0.1 million and was amortized over seven months in 2017. Customer relationships were valued at approximately \$0.7 million and will be amortized over seven years. Both of these assets will be amortized using an accelerated method based on the pattern in which the economic benefits of the assets are consumed. For the year ended December 31, 2018, \$3.4 million of amortization expense was recognized for these assets. In 2018 and 2017, the Company evaluated the useful lives of these finite-lived intangible assets and no change was needed.

Future expense remaining of approximately \$7.9 million will be amortized as follows:

2019	\$2,640
2020	2,069
2021	1,521
2022	1,239
2023	389
Thereafter <sup>37</sup>	\$7,895

Additionally, the Company has one indefinite-lived intangible asset, a trade name, which is tested for impairment annually on October 31, or whenever events or circumstances indicate that the carrying amount of the trade name may not be recoverable. Impairment is calculated as the excess of the trade name's carrying value over its fair value. The fair value of the trade name is determined using the relief from royalty method, a variation of the income approach. This method assumes that if a company owns intellectual property it does not have to "rent" the asset and is, therefore, "relieved" from paying a royalty. Once a supportable royalty rate is determined, the rate is then applied to the projected revenues over the expected remaining life of the intangible assets to estimate the royalty savings. This approach is dependent on a number of factors, including estimates of future growth and trends, royalty rates, discount rates and other variables. The impairment test concluded that the fair value of the trade name was \$14.0 million, and the carrying value was \$6.9 million, therefore no impairment was recorded.

## 11. Accrued Liabilities

Accrued liabilities at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Accrued salaries, wages and benefits	\$6,492	\$9,632
Accrual for insurance liabilities	5,680	5,233
Property taxes	924	513
Capital lease liability	3,045	—
Sales taxes	2,178	1,836
Interest	—	46
Other accrued expenses	521	613
	\$18,840	\$17,873

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

The Company entered into an amended syndicated credit agreement (the "Credit Agreement" also known as the "Fourth Amendment") on July 31, 2018 with Regions Bank, as administrative agent and collateral agent, and the following co-syndication agents: Bank of America, N.A., BOKF, NA dba Bank of Texas, KeyBank National Association, NBH Bank, IBERIABANK, Trustmark National Bank, First Tennessee Bank NA, and Branch Banking and Trust Company. With the execution of the Credit Agreement (known to Regions Bank and co-syndication agents as the Fourth Amendment), the prior indebtedness was treated as an extinguishment of debt and accounted for under the guidelines of ASC 470-05, Debt, Modifications and Extinguishments. The primary purpose of the Credit Agreement was to provide the Company with greater financing flexibility by providing a new amortization schedule,

an extended maturity date, increased availability under the revolving line of credit, and a reduction in overall costs.

The Credit Agreement, which may be amended from time to time, provides for borrowings under a revolving line of credit and swingline loans with a commitment amount of \$100.0 million and a term loan with a commitment amount of \$60.0 million (together, the “Credit Facility”). The Credit Facility is guaranteed by the subsidiaries of the Company, secured by the assets of the Company, including stock held in its subsidiaries, and may be used to finance general corporate and working capital purposes,

F-25

---

Table of Contents

to finance capital expenditures, to refinance existing indebtedness, to finance permitted acquisitions and associated fees, and to pay for all related expenses to the Credit Facility. Interest is due and is computed based on the designation of the loan, with the option of a Base Rate Loan (the base rate plus the Applicable Margin), or an Adjusted LIBOR Rate Loan (the adjusted LIBOR rate plus the Applicable Margin). Interest is due on the last day of each quarter end for Base Rate Loans and at the end of the LIBOR rate period for Adjusted LIBOR Rate Loans. Principal balances drawn under the Credit Facility may be prepaid at any time, in whole or in part, without premium or penalty. Amounts repaid under the revolving line of credit may be re-borrowed. The Credit Facility matures on July 31, 2023.

Total debt issuance costs for the Fourth Amendment, which included underwriter fees, legal fees and syndication fees were approximately \$0.9 million and have been capitalized as non-current deferred charges and amortized using the effective interest rate method over the duration of the loan. Prior unamortized debt issuance costs of \$2.2 million for the extinguishment of debt were recognized as interest expense as of July 31, 2018. During the fourth quarter of 2018, the Company executed the Fifth Amendment and additional costs were incurred of approximately \$0.7 million. The weighted average interest rate for the Credit Facility as of December 31, 2018 was 4.63%.

The Company's obligations under debt arrangements consisted of the following:

	December 31, 2018			December 31, 2017		
	Debt			Debt		
	Principal	Issuance	Total	Principal	Issuance	Total
		Costs <sup>(1)</sup>			Costs <sup>(1)</sup>	
Revolving line of credit	\$—	\$—	\$—	\$10,000	\$(317)	\$9,683
Term loan - current	3,000	(54)	2,946	13,500	(427)	13,073
Total current debt	3,000	(54)	2,946	23,500	(744)	22,756
Revolving line of credit	22,000	(213)	21,787	—	—	—
Term loan - long-term	55,500	(1,168)	54,332	65,250	(2,065)	63,185
Total long-term debt	\$77,500	\$(1,381)	\$76,119	\$65,250	\$(2,065)	\$63,185
Total debt	\$80,500	\$(1,435)	\$79,065	\$88,750	\$(2,809)	\$85,941

(1) Total debt issuance costs, include underwriter fees, legal fees, syndication fees, and fees related to the execution of the First, Second, Third, Fourth and Fifth Amendments to the Credit Agreement as previously discussed.

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

The Company has a maximum borrowing availability under the revolving line of credit and swingline loans (as defined in the Credit Agreement) of \$100.0 million. With the execution of the Fifth Amendment, the maximum borrowing availability under the revolving line of credit as of December 31, 2018, was temporarily reduced to \$65.0 million and will remain in effect until certain conditions have been met. The letter of credit sublimit is equal to the lesser of \$20.0 million and the aggregate unused amount of the revolving commitments then in effect. The swingline sublimit is equal to the lesser of \$5.0 million and the aggregate unused amount of the revolving commitments then in effect.

Revolving loans may be designated as Base Rate Loan or Adjusted LIBOR Rate Loans, at the Company's request, and must be made in an aggregate minimum amount of \$1.0 million and integral multiples of \$250,000 in excess of that amount. Swingline loans must be made in an aggregate minimum amount of \$250,000 and integral multiples of \$50,000 in excess of that amount. The Company may convert, change, or modify such designations from time to time.

The Company is subject to a commitment fee for the unused portion of the maximum available to borrow under the revolving line of credit. The commitment fee, which is due quarterly in arrears, is equal to the Applicable Margin of



the actual daily amount by which the Aggregate Revolving Commitments exceeds the Total Revolving Outstanding. The revolving line of credit termination date is the earlier of the Credit Facility termination date, July 31, 2023, or the date the outstanding balance is permanently reduced to zero.

The maturity date for amounts drawn under the revolving line of credit is the earlier of the Facility termination date of July 31, 2023, or the date the outstanding balance is permanently reduced to zero. Prior to the fourth quarter of 2018, the Company classified amounts drawn as current liabilities based on an intent and ability to repay the amounts using current assets within the next twelve months. During the fourth quarter of 2018, the Company determined it no longer has the intent to repay amounts drawn within

F-26

---

Table of Contents

the next twelve months. Therefore, the Company has classified the entire outstanding balance of the revolving line of credit as non-current.

As of December 31, 2018, the outstanding balance for all borrowings under the revolving line of credit was \$22.0 million and was designated as an Adjusted LIBOR Rate Loan at a rate of 4.63%. There were also \$0.8 million in outstanding letters of credit as of December 31, 2018, which reduced the maximum borrowing availability on the revolving line of credit to \$42.2 million as of December 31, 2018. During 2018, the Company drew down \$39.9 million, transferred \$12.0 million from the term loan and made payments of \$39.9 million on the revolving line of credit.

Provisions of the term loan

The original principal amount of \$60.0 million for the term loan commitment is paid off in quarterly installment payments (as stated in the Credit Agreement). At December 31, 2018, the outstanding term loan component of the Credit Facility totaled \$58.5 million and was secured by specific assets of the Company. The table below outlines the total remaining payment amounts annually for the term loan through maturity of the Credit Facility:

2019	3,000
2020	3,750
2021	4,500
2022	5,250
2023	42,000
	\$58,500

The Company made the scheduled quarterly principal payments of \$8.2 million and an additional amount of \$12.0 million during 2018 was transferred to the revolving line of credit, which reduced the outstanding principal balance to \$58.5 million at December 31, 2018. The current portion of debt is \$3.0 million and the non-current portion is \$55.5 million. As of December 31, 2018, the term loan was designated as an Adjusted LIBOR Rate Loan with an interest rate of 4.63%.

Financial covenants

Restrictive financial covenants under the Credit Facility include:

- ▲ consolidated Fixed Charge Coverage Ratio as of the end of any fiscal quarter to not be less than 1.25 to 1.00.
- ▲ consolidated Leverage Ratio to not exceed the following during each noted period:
  - Fiscal Quarter Ending December 31, 2018, to not exceed 3.00 to 1.00;
  - Fiscal Quarter Ending March 31, 2019, to not exceed 4.75 to 1.00;
  - Fiscal Quarter Ending June 30, 2019, to not exceed 4.75 to 1.00;
  - Fiscal Quarter Ending September 30, 2019 and each Fiscal Quarter thereafter, to not exceed 3.00 to 1.00.

In addition, the Credit Facility contains events of default that are usual and customary for similar arrangements, including non-payment of principal, interest or fees; breaches of representations and warranties that are not timely cured; violation of covenants; bankruptcy and insolvency events; and events constituting a change of control.

During the fourth quarter of 2018, the Company initiated discussions with the lead bank due to concerns it would not be in compliance with financial covenants. The Company executed the Fifth Amendment during March 2019, which was effective as of December 31, 2018. The Leverage Ratio was adjusted beginning with the quarter ended December 31, 2018 through September 30, 2019 and each Fiscal Quarter thereafter, as reflected above. The Fixed Charge Coverage Ratio was unchanged. Additionally with this amendment, for the purpose of calculating the financial

covenants, solely with respect to the Fiscal Quarters of the Borrower ending March 31, 2019, June 30, 2019 and September 30, 2019, Consolidated EBITDA to be determined for the Fiscal Quarter of the Borrower ending (A) March 31, 2019 by multiplying the Consolidated EBITDA for such Fiscal Quarter by four (4), (B) June 30, 2019 by multiplying the Consolidated EBITDA for such Fiscal Quarter plus the Consolidated EBITDA for the immediately preceding Fiscal Quarter by two (2) and (C) September 30, 2019 by multiplying the Consolidated EBITDA for such Fiscal Quarter plus the Consolidated EBITDA for the immediately preceding two (2) Fiscal Quarters by four-thirds (4/3). This amendment to the Credit Agreement will increase the cost of the Company's borrowings and will impose additional limitations on certain types of activities, such as acquisitions. With the execution of the aforementioned amendment, the Company was in compliance with all financial covenants as of December 31, 2018.

F-27

---

Table of Contents

## Derivative Financial Instruments

On September 16, 2015, the Company entered into a series of receive-variable, pay-fixed interest rate swaps to hedge the variability in the interest payments on 50% of the aggregate principal amount of the Regions Term Loan outstanding, beginning with a notional amount of \$67.5 million. There are a total of five sequential interest rate swaps to achieve the hedged position and each year on August 31, with the exception of the final swap, the existing interest rate swap is scheduled to expire and will be immediately replaced with a new interest rate swap until the expiration of the final swap on July 31, 2020. On December 6, 2018, the Company entered a sixth receive-variable, pay-fixed interest rate swaps to hedge the variability of interest payments. The sixth swap will begin with a notional amount of \$27.0 million on July 31, 2020 will hedge the variability in the interest payments on 50% of the aggregate scheduled principal amount of the Regions Term Loan outstanding. The sixth swap is scheduled to expire on July 31, 2023. At inception, these interest rate swaps were designated as a cash flow hedge for hedge accounting, and as such, the effective portion of unrealized changes in market value are recorded in accumulated other comprehensive income (loss) and reclassified into earnings during the period in which the hedged forecasted transaction affects earnings. Gains and losses from hedge ineffectiveness are recognized in current earnings. The change in fair market value of the swaps as of December 31, 2018 is less than \$0.1 million, which is reflected in the balance sheet as a liability. The fair market value of the swaps as of December 31, 2018 is less than \$0.1 million. See Note 9 for more information regarding the fair value of the Company's derivative instruments.

## 13. Income Taxes

On December 22, 2017, the Act was enacted and signed into law. The Act makes broad and complex changes to the U.S. tax code. The Act, among other things, reduces the U.S. federal corporate income tax rate from 35% to 21%; limits the use of foreign tax credits to reduce U.S. income tax liability; eliminates the corporate AMT and changes how existing AMT credits can be realized; allows immediate expensing for qualified assets; creates a new limitation on deductible interest expense; repeals the domestic production activities deduction; and limits the deductibility of certain executive compensation and other deductions.

ASC 740 requires a company to record the effects of a tax law change in the period of enactment. SAB 118 has provided guidance for companies that have not completed their accounting for the income tax effect of the Act in the period of enactment, allowing for a measurement period of up to one year after the enactment date in order to finalize the recording of the related tax impacts. As of December 31, 2017, the Company made a provisional estimate of the impact of the Act and recorded a net tax benefit of \$5.9 million. During the year ended December 31, 2018, we finalized our accounting for the income effects of the Tax Act and determined we had no material change to our provisional amount.

The following table presents the components of our consolidated income tax (benefit) expense for the years ended December 31, 2018, 2017 and 2016:

	Current	Deferred	Total
Year ended December 31, 2018			
U.S. Federal	\$(12 )	\$(12,664)	\$(12,676)
State and local	183	\$(471 )	\$(288 )
Foreign	731	—	731
	\$902	\$(13,135)	\$(12,233)
Year ended December 31, 2017			
U.S. Federal <sup>(a)</sup>	\$(780)	\$(3,986 )	\$(4,766 )
State and local	550	(180 )	370
Foreign	(145 )	—	(145 )
	\$(375)	\$(4,166 )	\$(4,541 )

Edgar Filing: Orion Group Holdings Inc - Form 10-K

Year ended December 31, 2016

U.S. Federal	\$ 35	\$(1,093 )	\$(1,058 )
State and local	511	1,519	2,030
Foreign	284	325	609
	\$ 830	\$ 751	\$ 1,581

(a) Includes a \$5.9 million net benefit recorded in the fourth quarter of 2017 resulting from the enactment of the Act on December 22, 2017.

F-28

---

Table of Contents

The Company's income tax provision reconciles to the provision at the statutory U.S. federal income tax rate for each year ended December 31, as follows:

	2018	2017	2016
Statutory amount (computed at 21% in 2018 and 35% in 2017 and 2016)	\$(22,398)	\$(1,449)	\$(714 )
Re-measurement of deferred tax assets <sup>(a)</sup>	—	(7,451 )	—
Valuation allowance on foreign tax credits <sup>(a)</sup>	593	1,514	—
State income tax, net of federal benefit	(1,922 )	168	94
Permanent differences, other	1,550	505	99
Permanent differences, incentive stock options	(24 )	447	224
Valuation allowance, other	10,384	(77 )	1,769
Uncertain tax provision	—	1,614	—
Other	(416 )	188	109
Consolidated income tax provision	\$(12,233)	\$(4,541)	\$1,581
Consolidated effective tax rate	11.5 %	109.7 %	(77.5 )%

(a) ) In 2017, represents impact resulting from the enactment of the Act on December 22, 2017.

In the current year, the Company's effective tax rate differed from the statutory rate of 21% primarily due to recording an \$11.0 million, or \$0.39 per share, valuation allowance against the Company's net deferred tax assets, including net operating losses and foreign tax credits. The Company also recorded tax expense of \$1.2 million related to the \$69.5 million goodwill impairment. Additionally, the Company recorded tax expense related to permanent differences from meals and entertainment.

In the prior year, the Company's effective tax rate differed from the statutory rate of 35% primarily due to the impact of the Act enacted on December 22, 2017. We recorded a net tax benefit of \$5.9 million, or \$0.21 per share, resulting from the re-measurement of the Company's net deferred tax liabilities to reflect the new, lower U.S. corporate income tax rate of 21%, partially offset by the addition of a partial valuation allowance recorded against existing foreign tax credit carryforwards not expected to be utilized in future tax years. This net tax benefit was partially offset by the addition of an uncertain tax position reserve as well as tax expense for permanent differences associated with incentive stock options and meals and entertainment.

Table of Contents

## Deferred Taxes

The Company's deferred tax assets and liabilities are as follows:

	Long Term	
	As of December	
	31,	
	2018	2017
Assets related to:		
Accrued liabilities	\$1,105	\$1,226
Intangible assets	3,054	3,010
Net operating loss carryforward	15,970	6,912
Valuation allowance	(14,326)	(3,942 )
Non-qualified stock options	672	762
Foreign tax credits	1,489	1,751
Valuation allowance on foreign tax credits	(1,489 )	(1,514 )
Goodwill	8,200	—
Other	2,684	215
Total assets	17,359	8,420
Liabilities related to:		
Depreciation and amortization	(16,974)	(15,788 )
Goodwill	—	(5,178 )
Deferred revenue on maintenance contracts	(434 )	(597 )
Other	—	(100 )
Total liabilities	(17,408)	(21,663 )
Net deferred (liabilities) assets	\$(49 )	\$(13,243)

(a) Components of our deferred tax assets and liabilities at December 31, 2017 after taking into account the estimated impact of the Act and related items.

As reported in the Consolidated Balance Sheets:

	December	December
	31, 2018	31, 2017
Net current deferred tax assets	—	—
Net non-current deferred tax liabilities	(49 )	(13,243 )
Total net deferred tax liabilities:	\$ (49 )	\$(13,243)

In the quarter ended March 31, 2017, the Company adopted ASU 2016-09, Improvements to Employee-Based Payment Accounting. As part of this adoption, certain federal net operating losses ("NOLs") that were previously classified as off-balance sheet are now being recognized as deferred tax assets through an adjustment to opening retained earnings. The Company chose to prospectively adopt this guidance during the first quarter of 2017 and as such the balance sheet includes an adjustment of approximately \$0.7 million as an addition to "Retained earnings" and a reduction to the "Deferred income taxes" line items on the Consolidated Balance Sheet in order to true-up the tax effected portion of the NOLs mentioned above. Due to the prospective adoption, no prior year adjustments were made.

The Company assessed the realizability of its deferred tax assets at December 31, 2018 and 2017, and considered whether it was more likely than not that some portion or all the deferred tax assets will not be realized. The Company assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated

to use the existing deferred tax assets. The Company considers the scheduled reversal of deferred tax liabilities, available carryback periods, and tax-planning strategies in making this assessment.

In the quarter ended December 31, 2018, the Company recorded an impairment of goodwill in the amount of \$69.5 million and a pre-tax loss of \$106.7 million when the company had previously projected to have taxable income. According to ASC subtopic 740-10, the Company's three-year cumulative loss is a significant piece of objective evidence. This objective evidence is weighed more heavily than the Company's subjective positive evidence such as our estimated future taxable income and growth. Therefore, in 2018, the Company has recorded an additional valuation allowance of \$11.0 million on the net deferred tax assets.

F-30

---



Table of Contents

## Uncertain Tax Benefits

The Company and its subsidiaries file consolidated federal income tax returns in the United States and also file in various states. With few exceptions, the Company remains subject to federal and state income tax examinations for the years of 2013, 2014, 2015, 2016, 2017 and 2018. As of December 31, 2018 and 2017, the Company had recorded unrecognized tax benefits of \$1.6 million for any uncertain tax positions. The Company does not expect that unrecognized tax benefits as of December 31, 2018 for certain federal income tax matters will significantly change over the next 12 months. The final outcome of these uncertain tax positions is not yet determinable. Our uncertain tax benefits, if recognized, would affect the Company's effective tax rate. The change in the total gross unrecognized tax benefits and prior year audit resolutions of the Company during the years ended December 31, 2018 and 2017 are reconciled in the table below:

	2018	2017
Balances at beginning of the year	\$1,614	\$—
Additions based on tax position related to current year	—	—
Additions based on tax positions related to prior years	—	1,614
Reductions based on tax positions related to current year	—	—
Reductions based on tax positions related to prior years	—	—
Settlements with tax authorities	—	—
Lapse of statute of limitations	—	—
Balance at the end of year	\$1,614	\$1,614

The Company's policy is to recognize interest and penalties related to any unrecognized tax liabilities as additional tax expense. No interest or penalties have been accrued at December 31, 2018, 2017 and 2016. The Company believes it has appropriate and adequate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter. Although the Company believes its recorded assets and liabilities are reasonable, tax regulations are subject to interpretation and tax litigation is inherently uncertain; therefore the Company's assessments can involve both a series of complex judgments about future events and rely heavily on estimates and assumptions. Although the Company believes that the estimates and assumptions supporting its assessments are reasonable, the final determination of tax audit settlements and any related litigation could be materially different from that which is reflected in historical income tax provisions and recorded assets and liabilities. If the Company were to settle an audit or a matter under litigation, it could have a material effect on the income tax provision, net income, or cash flows in the period or periods for which that determination is made. Any accruals for tax contingencies are provided for in accordance with U.S. GAAP.

The Company does not believe that its tax positions will significantly change due to any settlement and/or expiration of statutes of limitations prior to December 31, 2019.

## 14. Earnings (Loss) Per Share

Basic earnings (loss) per share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per share are based on the weighted average number of common shares outstanding and the effect of all dilutive common stock equivalents during each period. The exercise price for certain stock options awarded by the Company exceeds the average market price of the Company's common stock. Such stock options are anti-dilutive and are not included in the computation of earnings (loss) per share. For the years ended December 31, 2018, 2017 and 2016, the Company had 1,938,967, 2,274,908, and 2,381,926, securities, respectively, that were potentially dilutive in future earnings per share calculations. Such dilution will be dependent on the excess of the market price of our stock over the exercise price and other components of the treasury stock method.

F-31

---

Table of Contents

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

	Year ended December 31,		
	2018	2017	2016
Basic:			
Weighted average shares outstanding	28,518,353	28,029,936	27,536,967
Diluted:			
Total basic weighted average shares outstanding	28,518,353	28,029,936	27,536,967
Effect of dilutive securities:			
Common stock options	—	324,344	—
Total weighted average shares outstanding assuming dilution	28,518,353	28,354,280	27,536,967
Anti-dilutive stock options	—	—	—
Shares of common stock issued from the exercise of stock options	488,303	229,551	13,850

## 15. Stock-Based Compensation

The Compensation Committee of the Company's Board of Directors is responsible for the administration of the Company's stock incentive plans, which include the balance of shares remaining under the 2011 Long Term Incentive Plan (the "2011 LTIP") and 2017 Long Term Incentive Plan (the "2017 LTIP"), which was approved by shareholders in May 2017 and authorized the maximum aggregate number of shares to be issued of 2,400,000. In general, the Company's 2017 LTIP provides for grants of restricted stock and stock options to be issued with a per-share price equal to the fair market value of a share of common stock on the date of grant. Option terms are specified at each grant date, but are generally are 10 years from the date of issuance. Options generally vest over a three to five year period.

## Restricted Stock

The following table summarizes the restricted stock activity under the Company's equity incentive plans :

	Number of Shares	Weighted Average Fair Value Per Share
Nonvested at January 1, 2016	120,154	\$ 9.28
Granted	407,002	\$ 4.96
Vested	(147,259)	\$ 6.62
Forfeited/repurchased shares	(7,591 )	\$ 7.08
Nonvested at December 31, 2016	372,306	\$ 5.66
Granted	345,913	\$ 7.22
Vested	(225,406)	\$ 7.25
Forfeited/repurchased shares	(120,353)	\$ 6.08
Nonvested at December 31, 2017	372,460	\$ 6.01
Granted	333,864	\$ 7.47
Vested	(217,244)	\$ 6.61
Forfeited/repurchased shares	(71,139 )	\$ 6.85
Nonvested at December 31, 2018	417,941	\$ 7.04

Independent directors receive equity compensation in the form of grants. In May 2018, the Company's independent directors each received equity compensation grants of 12,064 shares, with a fair value of \$7.46 per share. In May 2017, the Company's independent directors each received equity compensation grants of 12,465 shares, with a fair

value of \$7.22 per share and in May 2016, the Company's independent directors each received equity compensation grants of 14,170 shares, with a fair value of \$4.94 per share. In May 2018, certain officers and executives of the Company were awarded 203,752 shares with a vesting period of three years and a fair value of \$7.46 per share. In July 2018 an executive was awarded 2,769 shares of restricted common stock with a fair value of \$9.03 per share. Additionally, in 2017, certain officers and executives of the Company were awarded 213,643 shares with a vesting period of three years and a weighted average fair value of \$7.22 per share and in 2016, certain officers and executives of the Company were awarded 267,175 shares with a vesting period of three years and a weighted average fair value of \$4.96 per share.

F-32

---

Table of Contents

## Performance Stock

In May 2018, the Company awarded certain executives 67,023 shares of performance based stock, which will potentially vest at the end of fiscal 2021, with 100% of the shares to be earned based on the achievement of an objective, tiered return on invested capital measured over a three-year performance period. The Company evaluates the probability of achieving this each reporting period. The fair value of all shares awarded on the date of the grant was \$7.46 per share. In May 2017, the Company awarded certain executives 69,945 shares of performance based stock, which vest based on the achievement of an objective return on invested capital measured over a two-year performance period covering the 2018 and 2019 fiscal years. The fair value on the date of grant was \$7.22 per share. In May 2016, the Company awarded certain executives 68,977 shares of performance based stock, which vest based on the achievement of an objective return on invested capital measured over a two-year performance period covering the 2017 and 2018 fiscal years. The fair value on the date of the grant was \$4.94 per share.

## Stock Options

The following table summarizes the stock option activity under the Company's equity incentive plans:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2016	2,149,900	\$ 9.56		
Granted	587,862	\$ 4.98		
Exercised	(13,850 )	\$ 4.86		
Forfeited	(374,466 )	\$ 9.89		
Outstanding at December 31, 2016	2,349,446	\$ 8.39		
Granted	425,204	\$ 7.22		
Exercised	(229,551 )	\$ 5.75		
Forfeited	(633,978 )	\$ 10.36		
Outstanding at December 31, 2017	1,911,121	\$ 7.79		
Granted	374,215	\$ 7.49		
Exercised	(488,303 )	\$ 5.76		
Forfeited	(132,252 )	\$ 7.89		
Outstanding at December 31, 2018	1,664,781	\$ 8.31		
Vested and expected to vest at December 31, 2017	1,779,990	\$ 8.15	5.83	\$ 15
Exercisable at December 31, 2018	1,247,450	\$ 8.56	4.51	\$ 14

The Company calculates the fair value of each option on the date of grant using the Black-Scholes pricing model and the following weighted-average assumptions in each year:

	2018	2017	2016
Weighted average grant-date fair value of options granted	\$2.78	\$7.22	\$4.97
Risk-free interest rate	2.65 %	1.46 %	1.06 %
Expected volatility	51.8 %	48 %	49 %
Expected term of options (in years)	3.0	3.0	3.0
Dividend yield	— %	— %	— %

The risk-free interest rate is based on interest rates on U.S. Treasury zero-coupon issues that match the contractual terms of the stock option grants. The expected term represents the period in which the Company's equity awards are expected to be outstanding, which for the years presented is based on the exercise history.

For years ended December 31, 2018, 2017 and 2016, compensation expense related to stock based awards outstanding for the periods was \$2.2 million, respectively. The Company applies a 3.2% and 5.5% forfeiture rate, which gets compounded over the vesting terms of the individual award, to its restricted stock and option grants, respectively, based on historical analysis.

F-33

---

Table of Contents

During the year ended December 31, 2018, certain officers and executives of the Company were awarded 374,215 options with a vesting period of three years and a weighted average exercise price of \$7.49 per share. During the year ended December 31, 2017, certain officers and executives of the Company were awarded 425,204 options with a vesting period of three years and a weighted average exercise price of \$7.22 per share, and for the year ended December 31, 2016, certain officers and executives were awarded 587,862 options with a vesting period of three years and a weighted average exercise price of \$4.98 per share.

In the year ended December 31, 2018, the Company received proceeds of approximately \$2.8 million upon the exercise of 488,303 options. In the year ended December 31, 2017, proceeds of \$1.3 million upon the exercise of 229,551 options and in the year ended December 31, 2016, 13,850 options were exercised, generating proceeds of less than \$0.1 million.

As of December 31, 2018, total unrecognized compensation expense related to unvested stock and options was approximately \$3.6 million, which is expected to be recognized over a period of approximately 2.0 years.

	2018	2017	2016
Total intrinsic value of options exercised	\$1,286	\$706	\$53
Total fair value of shares vested	\$705	\$855	\$986

## 16. Employee Benefits

All of the Company's marine segment employees except the Associate Divers, the Associate Tugmasters, and union employees in the Pacific Northwest, are eligible to participate in the Company's 401(k) Retirement Plan after completing six months of service. Each participant may contribute between 1% and 80% of eligible compensation on a pre-tax basis, up to the annual IRS limit. The Company matches 100% on the first 2% of eligible compensation contributed to the Plan and 50% on the next 2% of eligible compensation contributed to the Plan. Participants' contributions are fully vested at all times. Employer matching contributions vest over a four-year period. At its discretion, the Company may make additional matching and profit-sharing contributions. During the years ended December 31, 2018, 2017 and 2016 the Company contributed \$1.4 million to the Plan, respectively.

All of the Company's concrete segment employees except Leads, Helpers, Laborers, Finishers, Formsetters, Carpenters, Rodbusters, Patchmen, Equipment Operators, Field Engineering Trainees and certain Highly Compensated Employees are eligible to participate in the AGC Southwest Chapters 401(k) Retirement Plan, a multiple employer plan, after completing three months of service. Each participant may contribute up to the annual IRS limit. The Company matches 50% on the first 6% of eligible compensation contributed to the Plan. Participants' contributions are fully vested at all times. Employer matching contributions vest over a five-year period. At its discretion, the Company may make additional matching and profit-sharing contributions. During the year ended December 31, 2018, 2017 and 2015, the Company contributed \$0.2 million, \$0.4 million and \$0.2 million, respectively.

The Company's marine segment contributes to several multi-employer defined pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. Risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers;
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and
-

If the Company chooses to stop participating in its multi-employer plans, it may be required to pay a withdrawal liability based on the underfunded status of the plan.

Currently, the Company's concrete segment does not have union represented employees and, thus, does not participate under the above-mentioned defined pension plans, or any other plans, that cover union-represented employees.

F-34

---



Table of Contents

The following table presents the Company's participation in these plans:

	Employer Identification Number	Pension Protection Act ("PPA") Certified Zone Status (1)		FIP/RP Status P/I (2)	Contributions			Surcharge Imposed	Expiration of Collective Bargaining Agreement
		2018	2017		2018	2017	2016		
Pension Trust Fund									
International Union of Operating Engineers - Employers Construction Industry Retirement Plan - Local 302 and 612 Trust Funds	91-6028571	Green	Green	N/A	\$2,482	\$1,974	\$2,158	—	2021
Associated General Contractors of Washington Carpenter, Piledrivers, and Millwrights	91-6029051 91-6029049	Green	Green	N/A	\$932	\$693	\$938	—	2021
Alaska Carpenters Trust Fund	92-0120866	Green	Green	N/A	\$328	\$396	\$889	—	2020
Alaska Laborers Trust Fund	91-6028298	Yellow	Yellow	I	\$321	\$218	\$126	—	2019

(1) The most recent PPA zone status available in 2018 and 2017 is for the plan's year end during 2017 and 2016, respectively. Zone status is based on information received from the plan and is indicative of the plans funding status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an Accumulated Funding Deficiency in the current year or projected into the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

(2) The FIP/RP Status P/I column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending ("P"), or implemented ("I").

There are currently no plans to withdraw from any of the multi-employer plans in which the Company participates.

## 17. Commitments and Contingencies

### Capital and Operating Leases

In 2005, the Company entered into a lease agreement for vehicles under a continuing operating lease agreement. Rental expense under this lease for the years ended December 31, 2018, 2017 and 2016 was \$1.0 million, \$0.7 million, and \$1.5 million, respectively.

In 2016, the Company started transitioning its vehicle leases to a new lease agreement in an effort to update and expand its current fleet. The Company expects to fully transition all of its fleet vehicles to this new lease over the course of the next several years. Rental expense under this lease for the year ended December 31, 2018, 2017 and 2016 was \$2.0 million, \$1.7 million and \$1.0 million, respectively.

The Company leases its corporate office in Houston, Texas under a lease with an initial term of nine years. In addition, the Company leases other facilities, including office space and yard facilities, under terms that range from one to five years. The Company also leases short-term field office space at its various construction sites for the duration of the projects.

Future minimum lease payments under non-cancelable leases as of December 31, 2018 are as follows:

	Amount
Year ended December 31,	
2019	\$10,308
2020	8,046
2021	4,648
2022	2,770
2023	2,143
Thereafter	5,290
	\$33,205

The Company's total obligations under capital leases was \$8.4 million as of December 31, 2018, which is reflected in accrued liabilities and long-term liabilities in the consolidated balance sheet.

F-35

---

Table of Contents

## Litigation

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

A pending legal matter was settled for \$5.5 million during the first quarter of 2018. The settlement amount was recorded in "Other gain from continuing operations" in the Consolidated Statement of Operations, "Prepaid expenses and other" (current portion of the notes receivable) and "Other non-current assets" (non-current portion of the notes receivable) in the Consolidated Balance Sheets. As of December 31, 2018, the current portion of the note receivable was \$0.8 million and the non-current portion was \$3.0 million. Legal fees related to this matter were expensed as incurred during the respective reporting period.

As a result of charges brought in September 2015 and October 2016 by the Houston Police Department, Environmental Enforcement, two subsidiaries of the Company were recently indicted at the request of the Harris County, Texas District Attorney's Office by a duly organized Grand Jury of Harris County, Texas for separate but related violations of the Texas Water Code, allegedly arising from the handling of construction concrete at certain work sites. Specifically, both were charged with unlawfully, intentionally or knowingly discharging a waste or pollutant. The Company is subject to a maximum fine in each case of \$250,000, but has already declined a \$75,000 plea bargain in the first case. In the second case, a project supervisor was also indicted. None of these allegations nor the costs of defense, taken separately or as a whole, is expected to have a material impact on the Company's balance sheet or its liquidity. The Company considers all of these allegations without merit and it will vigorously defend itself and its employee.

## 18. Segment Information

The Company currently operates in two reportable segments: marine and concrete. 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:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Marine		
Contract revenues	\$243,883	\$285,736
Operating loss	(61,012)	(18,406)
Depreciation and amortization expense	(22,657)	(20,370)
Total assets	\$190,503	\$260,935
Property, plant and equipment, net	128,168	128,421
Concrete		
Contract revenues	\$277,011	\$292,817

Edgar Filing: Orion Group Holdings Inc - Form 10-K

Operating (loss) income	(39,528	)19,944	
Depreciation and amortization expense	(9,142	)(9,121	)
Total assets	\$122,367	\$172,350	
Property, plant and equipment, net	19,835	17,857	

There were \$2.5 million in intersegment revenues between the Company's two reportable segments for the year ended December 31, 2018. There were no intersegment revenues between the Company's two reportable segments for the year ended December 31, 2017. The marine segment had foreign revenues of \$12.2 million and \$9.4 million, respectively, for the years ended December 31, 2018 and 2017. These revenues are derived from projects in the Caribbean Basin and Mexico and are paid in U.S. dollars. There was no foreign revenue for the concrete segment.

F-36

---

Table of Contents

## 19. Related Party Transactions

Upon the completion of the TAS acquisition, the Company entered into a lease arrangement with an entity in which an employee owns an interest. This lease is for office space and yard facilities used by the concrete segment. Annual lease expense was approximately \$478,000 and \$820,000 for the years ending December 31, 2017 and 2016, respectively. Due to the resignation of this employee, these transactions ceased to be related party transactions as of July 31, 2017 and resulted in a lower annual lease expense for 2017 compared to 2016.

## 20. Selected Quarterly Financial Data (Unaudited)

The following tables set forth selected unaudited financial information for the eight quarters in the two-year period ended December 31, 2018. This information has been prepared on the same basis as the audited financial statements and, in the opinion of management, contains all adjustments necessary for a fair presentation.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
(in thousands, except per share data)					
2018					
Revenues	\$136,843	\$159,767	\$125,073	\$99,211	\$520,894
Gross profit	15,822	20,769	5,938	(20,880)	21,649
Operating (loss) income	7,069	4,591	(7,405)	(104,795)	(100,540)
(Loss) income before income taxes	5,590	3,909	(9,427)	(106,727)	(106,655)
Net (loss) income	4,101	2,249	(6,356)	(94,416)	(94,422)
(Loss) earnings per share:					
Basic	\$0.15	\$0.08	\$(0.22)	\$(3.32)	\$(3.31)
Diluted	\$0.14	\$0.08	\$(0.22)	\$(3.32)	\$(3.31)
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
(in thousands, except per share data)					
2017					
Revenues	\$138,757	\$137,420	\$140,162	\$162,214	\$578,553
Gross profit	12,985	15,397	10,757	27,751	66,890
Operating (loss) income	(1,482)	(2,466)	(5,354)	10,840	1,538
(Loss) income before income taxes	(2,827)	(3,917)	(6,703)	9,306	(4,141)
Net (loss) income	(1,808)	(2,293)	(5,037)	9,538	400
(Loss) earnings per share:					
Basic	\$(0.07)	\$(0.08)	\$(0.18)	\$0.34	\$0.01
Diluted	\$(0.07)	\$(0.08)	\$(0.18)	\$0.34	\$0.01

Table of Contents

## ORION GROUP HOLDINGS, INC.

## SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(Dollars in thousands)

Description	Balance at the Beginning of the Period	Charged to Revenue, Cost or Expense	Deduction	Balance at the End of the Period
Year ended December 31, 2016				
Provision for doubtful accounts	\$	-\$—	\$	-\$—
Reserve for losses on uncompleted contracts	\$	-\$—	\$	-\$—
Year ended December 31, 2017				
Provision for doubtful accounts	\$	-\$—	\$	-\$—
Reserve for losses on uncompleted contracts	\$	-\$—	\$	-\$—
Year ended December 31, 2018				
Provision for doubtful accounts	\$	-\$4,280	\$	-\$4,280
Reserve for losses on uncompleted contracts	\$	-\$22,770	\$	-\$22,770

F-38