Great Lakes Dredge & Dock CORP
Form 10-Q
August 09, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _________ to _________

Commission file number: 001-33225

Great Lakes Dredge & Dock Corporation

(Exact name of registrant as specified in its charter)

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

(630) 574-3000

(Registrant s telephone number, including area code)

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

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

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

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

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

As of July 31, 2013, 59,472,566 shares of the Registrant s Common Stock, par value $.0001 per share, were outstanding.

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Great Lakes Dredge & Dock Corporation and Subsidiaries

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

Securities Exchange Act of 1934

For the Quarterly Period ended June 30, 2013

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PART I Financial Information

Item 1. Financial Statements.

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except per share amounts)

	June 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 21,623	$ 24,440
Accounts receivable net	149,940	149,142
Contract revenues in excess of billings	71,842	69,574
Inventories	30,578	28,726
Prepaid expenses and other current assets	50,203	41,808
Total current assets	324,186	313,690
PROPERTY AND EQUIPMENT Net	355,854	346,540
GOODWILL AND OTHER INTANGIBLE ASSETS Net	81,975	104,031
INVENTORIES Noncurrent	35,762	37,392
INVESTMENTS IN JOINT VENTURES	6,072	7,047
OTHER	13,505	17,695
TOTAL	$ 817,354	$ 826,395
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 92,070	$ 123,082
Accrued expenses	44,973	38,490
Billings in excess of contract revenues	7,913	11,280
Current portion of long term debt	2,515	13,098
Total current liabilities	147,471	185,950
7 3/8% SENIOR NOTES	250,000	250,000
REVOLVING CREDIT FACILITY	41,000	
DEFERRED INCOME TAXES	105,057	106,767
OTHER	24,026	10,253
Total liabilities	567,554	552,970
COMMITMENTS AND CONTINGENCIES (Note 10)		
EQUITY:		
Common stock $.0001 par value; 90,000 authorized, 59,471 and 59,359 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	6	6
Additional paid-in capital	272,688	271,418
Retained earnings (accumulated deficit)	(22,217)	2,591

Accumulated other comprehensive loss	(495)	(380)
Total Great Lakes Dredge & Dock Corporation equity	249,982	273,635
NONCONTROLLING INTERESTS	(182)	(210)
Total equity	249,800	273,425
TOTAL	$ 817,354	$ 826,395

See notes to unaudited condensed consolidated financial statements.

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Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Contract revenues	$ 152,863	$ 163,107	$ 341,710	$ 318,014
Costs of contract revenues	147,682	144,401	310,746	279,286
Gross profit	5,181	18,706	30,964	38,728
General and administrative expenses	18,311	11,456	37,498	24,723
Proceeds from loss of use claim	(13,272)		(13,272)	
Impairment of goodwill	21,474		21,474	
(Gain) loss on sale of assets net	58	(93)	60	(124)
Operating income (loss)	(21,390)	7,343	(14,796)	14,129
Interest expense net	(5,396)	(5,383)	(11,129)	(10,642)
Equity in loss of joint ventures	(385)	(8)	(975)	(24)
Loss on foreign currency transactions net	(261)	(21)	(225)	(15)
Income (loss) before income taxes	(27,432)	1,931	(27,125)	3,448
Income tax (provision) benefit	2,244	(751)	2,348	(1,315)
Net income (loss)	(25,188)	1,180	(24,777)	2,133
Net (income) loss attributable to noncontrolling interests	(53)	91	(31)	206
Net income (loss) attributable to Great Lakes Dredge & Dock Corporation	$ (25,241)	$ 1,271	$ (24,808)	$ 2,339
Basic earnings (loss) per share attributable to Great Lakes Dredge & Dock Corporation	$ (0.42)	$ 0.02	$ (0.42)	$ 0.04
Basic weighted average shares	59,436	59,171	59,403	59,105
Diluted earnings (loss) per share attributable to Great Lakes Dredge & Dock Corporation	$ (0.42)	$ 0.02	$ (0.42)	$ 0.04
Diluted weighted average shares	59,436	59,534	59,403	59,493
Dividends declared per share	$	$ 0.02	$	$ 0.04

See notes to unaudited condensed consolidated financial statements.

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Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Net income (loss)	$ (25,188)	$ 1,180	$ (24,777)	$ 2,133
Currency translation adjustment net of tax (1)	(75)	(8)	(81)	(4)
Net unrealized gain on derivatives net of tax (2)	(51)	(1,762)	(34)	(1,288)
Other comprehensive loss net of tax	(126)	(1,770)	(115)	(1,292)
Comprehensive income (loss)	(25,314)	(590)	(24,892)	841
Comprehensive (income) loss attributable to noncontrolling interests	(53)	91	(31)	206
Comprehensive income (loss) attributable to Great Lakes Dredge & Dock Corporation	$ (25,367)	$ (499)	$ (24,923)	$ 1,047

(1) Net of income tax expense of $48 and $5 for the three months ended June 30, 2013 and 2012, respectively, and $52 and $3 for six months ended June 30, 2013 and 2012, respectively.

(2) Net of income tax expense of $34 and $1,171 for the three months ended June 30, 2013 and 2012, respectively, and $23 and $856 for the six months ended June 30, 2013 and 2012, respectively.

See notes to unaudited condensed consolidated financial statements.

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Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited)

(in thousands)

	Great Lakes Dredge & Dock Corporation shareholders						
	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
BALANCE January 1, 2013	59,359	$ 6	$ 271,418	$ 2,591	$ (380)	$ (210)	$ 273,425
Share-based compensation	49		1,452				1,452
Vesting of restricted stock units, including impact of shares withheld for taxes	62		(277)				(277)
Exercise of stock options	1		2				2
Excess income tax benefit from share-based compensation			93				93
Distributions paid to noncontrolling interests						(3)	(3)
Net income (loss)				(24,808)		31	(24,777)
Other comprehensive loss net of tax					(115)		(115)
BALANCE June 30, 2013	59,471	$ 6	$ 272,688	$ (22,217)	$ (495)	$ (182)	$ 249,800

	Great Lakes Dredge & Dock Corporation shareholders						
	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
BALANCE January 1, 2012	58,999	$ 6	$ 267,918	$ 24,042	$ 3	$ 568	$ 292,537
Share-based compensation	122		1,714				1,714
Vesting of restricted stock units, including impact of shares withheld for taxes	82		(212)				(212)
Exercise of stock options	17		75				75
Excess income tax benefit from share-based compensation			118				118
Dividends declared and paid				(2,482)			(2,482)
Dividend equivalents paid on restricted stock units				(22)			(22)
Distributions paid to noncontrolling interests						(134)	(134)
Net income (loss)				2,339		(206)	2,133
Other comprehensive loss net of tax					(1,292)		(1,292)
BALANCE June 30, 2012	59,220	$ 6	$ 269,613	$ 23,877	$ (1,289)	$ 228	$ 292,435

See notes to unaudited condensed consolidated financial statements.

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Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
OPERATING ACTIVITIES:		
Net income (loss)	$ (24,777)	$ 2,133
Adjustments to reconcile net income (loss) to net cash flows used in operating activities:		
Depreciation and amortization	23,735	16,123
Equity in loss of joint ventures	975	24
Deferred income taxes	(2,286)	(478)
(Gain) loss on dispositions of property and equipment	60	(124)
Impairment of goodwill	21,474	
Gain on adjustment of contingent earnout		(240)
Amortization of deferred financing fees	576	669
Unrealized foreign currency loss	68	378
Share-based compensation expense	1,452	1,714
Excess income tax benefit from share-based compensation	(93)	(118)
Changes in assets and liabilities:		
Accounts receivable	3,555	5,967
Contract revenues in excess of billings	(2,319)	(20,048)
Inventories	(222)	(8,653)
Prepaid expenses and other current assets	(5,903)	(5,658)
Accounts payable and accrued expenses	(31,069)	(12,371)
Billings in excess of contract revenues	(3,367)	6,371
Other noncurrent assets and liabilities	(747)	(519)
Net cash flows used in operating activities	(18,888)	(14,830)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(27,954)	(22,783)
Proceeds from dispositions of property and equipment	223	226
Proceeds from vendor performance obligations	13,600	
Net cash flows used in investing activities	(14,131)	(22,557)
FINANCING ACTIVITIES:		
Deferred financing fees		(2,039)
Distributions paid to minority interests	(3)	(133)
Repayments of long term note payable	(10,547)	
Dividends paid		(2,482)
Dividend equivalents paid on restricted stock units		(22)
Taxes paid on settlement of vested share awards	(277)	(212)
Repayments of equipment debt	(36)	(426)
Exercise of stock options	2	75
Excess income tax benefit from share-based compensation	93	118
Borrowings under revolving loans	144,000	
Repayments of revolving loans	(103,000)	
Net cash flows provided by (used in) financing activities	30,232	(5,121)

Effect of foreign currency exchange rates on cash and cash equivalents	(30)	11
Net decrease in cash and cash equivalents	(2,817)	(42,497)
Cash and cash equivalents at beginning of period	24,440	113,288
Cash and cash equivalents at end of period	$ 21,623	$ 70,791
Supplemental Cash Flow Information		
Cash paid for interest	$ 9,768	$ 9,602
Cash paid (refunded) for income taxes	$ 431	$ (6,371)
Non-cash Investing and Financing Activities		
Property and equipment purchased but not yet paid	$ 7,720	$ 6,231

See notes to unaudited condensed consolidated financial statements.

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

1. Basis of presentation

The unaudited condensed consolidated financial statements and notes herein should be read in conjunction with the audited consolidated financial statements of Great Lakes Dredge & Dock Corporation and Subsidiaries (the Company or Great Lakes) and the notes thereto, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. The condensed consolidated financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the SEC s rules and regulations, although management believes that the disclosures are adequate and make the information presented not misleading. In the opinion of management, all adjustments, which are of a normal and recurring nature (except as otherwise noted), that are necessary to present fairly the Company s financial position as of June 30, 2013, and its results of operations for the three and six months ended June 30, 2013 and 2012 and cash flows for the six months ended June 30, 2013 and 2012 have been included.

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

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

The Company operates in four operating segments that, through aggregation, comprise two reportable segments: dredging and demolition. Four operating segments were aggregated into two reportable segments as the segments have similarity in economic margins, services, production processes, customer types, distribution methods and regulatory environment. The Company has determined that the operating segments are the Company s four reporting units. Due to a decline in the overall financial performance and declining cash flows in the demolition reporting unit, the Company concluded there was a triggering event that required an interim impairment test for the reporting unit in the second quarter of 2013. The Company recorded an estimated preliminary goodwill impairment charge of $21,474 at the demolition reporting unit in the quarter ended June 30, 2013.This impairment of goodwill is discussed in Note 4.

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

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2. Earnings per share

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. For the three and six months ended June 30, 2013, 522 and 554 thousand shares of potentially dilutive stock options and restricted stock units were excluded from the diluted weighted-average common shares outstanding as the Company incurred a loss during these periods. The impact of these shares would have been antidilutive. For the three and six months ended June 30, 2012, zero options to purchase shares of common stock were excluded from the calculation of diluted earnings per share based on the application of the treasury stock method. The computations for basic and diluted earnings per share from continuing operations are as follows:

(shares in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income (loss) attributable to common shareholders of Great Lakes Dredge & Dock Corporation	$ (25,241)	$ 1,271	$ (24,808)	$ 2,339
Weighted-average common shares outstanding basic	59,436	59,171	59,403	59,105
Effect of stock options and restricted stock units		363		388
Weighted-average common shares outstanding diluted	59,436	59,534	59,403	59,493
Earnings (loss) per share basic	$ (0.42)	$ 0.02	$ (0.42)	$ 0.04
Earnings (loss) per share diluted	$ (0.42)	$ 0.02	$ (0.42)	$ 0.04

3. Accounts receivable and contracts in progress

Accounts receivable at June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
Completed contracts	$ 48,756	$ 43,898
Contracts in progress	85,346	91,459
Retainage	23,458	24,419
	157,560	159,776
Allowance for doubtful accounts	(3,469)	(2,050)
Total accounts receivable net	$ 154,091	$ 157,726
Current portion of accounts receivable net	$ 149,940	$ 149,142
Long-term accounts receivable and retainage	4,151	8,584
Total accounts receivable net	$ 154,091	$ 157,726

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The components of contracts in progress at June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
Costs and earnings in excess of billings:		
Costs and earnings for contracts in progress	$ 324,934	$ 458,750
Amounts billed	(264,340)	(392,860)
Costs and earnings in excess of billings for contracts in progress	60,594	65,890
Costs and earnings in excess of billings for completed contracts	11,248	3,684
Total contract revenues in excess of billings	$ 71,842	$ 69,574
Billings in excess of costs and earnings:		
Amounts billed	$ (371,799)	$ (338,741)
Costs and earnings for contracts in progress	363,886	327,461
Total billings in excess of contract revenues	$ (7,913)	$ (11,280)

4. Impairment of goodwill

The Company s annual goodwill impairment test is conducted in the third quarter of each year and interim evaluations are performed when the Company determines that a triggering event has occurred that would more likely than not reduce the fair value of goodwill below its carrying value. Due to a decline in the overall financial performance and declining cash flows in the demolition reporting unit, the Company concluded there was a triggering event that required an interim impairment test for the reporting unit in the second quarter of 2013.

In connection with the Company s preparation of this Quarterly Report on Form 10-Q, the Company performed step one of the goodwill impairment test as of June 30, 2013, which compared the fair value of the demolition reporting unit against its carrying amount, including goodwill. In deriving the fair value of the demolition reporting unit, the Company used both a market-based approach and an income-based approach. Under the income approach, the fair value of the reporting unit is based on the present value of estimated future cash flows. Under the market approach, the Company uses the guideline public company method by applying estimated market-based enterprise value multiples to the reporting unit s estimated revenue and Adjusted EBITDA. Based on the first step analysis, management concluded that the fair value of the demolition reporting unit was less than its carrying value; therefore, the Company performed step two of the goodwill impairment analysis.

Step two of the goodwill impairment analysis measures the impairment charge by allocating the reporting unit s fair value to all of the assets and liabilities of the reporting unit in a hypothetical analysis that calculates implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. Any excess of the carrying value of the reporting unit s goodwill over the implied fair value of the reporting unit s goodwill is recorded as a loss on impairment of goodwill.

Management determined that the demolition reporting unit s implied fair value of goodwill was below the carrying value as of June 30, 2013. As a result, the Company has estimated the range of impairment of goodwill between $19.0 million and $21.5 million and has recorded a preliminary estimated impairment charge of $21,474 in the second quarter of 2013. Due to the timing and complexity of the second step of the impairment test, which is required to determine the actual impairment of goodwill, the Company was unable to finalize the amount of impairment prior to filing this form 10-Q for the three and six months ended June 30, 2013. Any subsequent adjustment to the estimated impairment charge will be recorded in the 2013 third quarter.

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The change in the carrying value of goodwill for the period ended June 30, 2013 is as follows:

	Dredging Segment	Demolition Segment	Total
Balance December 31, 2012	$ 76,575	$ 24,224	$ 100,799
Impairment of goodwill		(21,474)	(21,474)
Balance June 30, 2013	$ 76,575	$ 2,750	$ 79,325

5. Fair value measurements

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

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

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

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

The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. At June 30, 2013 and December 31, 2012, the Company held certain derivative contracts that it uses to manage commodity price risk. The Company does not hold or issue derivatives for speculative or trading purposes. In addition, other nonfinancial assets and liabilities are measured at fair value in the financial statements on a nonrecurring basis. The fair values of these financial instruments and nonfinancial assets and liabilities measured at the reporting date are summarized as follows:

		Fair Value Measurements at Reporting Date Using		
Description	**At June 30, 2013**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Fuel hedge contracts	$ 235	$	$ 235	$

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

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Fuel hedge contracts

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

As of June 30, 2013, the Company was party to various swap arrangements to hedge the price of a portion of its diesel fuel purchase requirements for work in its backlog to be performed through May 2014. As of June 30, 2013, there were 2.8 million gallons remaining on these contracts which represent approximately 80% of the Company s forecasted fuel purchases through May 2014. Under these swap agreements, the Company will pay fixed prices ranging from $2.88 to $3.26 per gallon.

At each balance sheet date, unrealized gains and losses on fuel hedge contracts are recorded as a component of accumulated other comprehensive income (loss) in the condensed consolidated balance sheets. Gains and losses realized upon settlement of fuel hedge contracts are reclassified from accumulated other comprehensive income (loss) as the fuel is utilized and included in fuel expense, which is a component of costs of contract revenues in the condensed consolidated statements of operations.

At June 30, 2013, the fair value liability of the fuel hedge contracts was estimated to be $235 and is recorded in accrued expenses. At December 31, 2012 the fair value liability of the fuel hedge contracts was estimated to be $178 and is recorded in accrued expenses. The loss reclassified to earnings from changes in fair value of derivatives, net of cash settlements and taxes, for the six months ended June 30, 2013 was $291. The remaining gains and losses included in accumulated other comprehensive loss at June 30, 2013 will be reclassified into earnings over the next eleven months, corresponding to the period during which the hedged fuel is expected to be utilized. The fair values of fuel hedges are corroborated using inputs that are readily observable in public markets; therefore, the Company determines fair value of these fuel hedges using Level 2 inputs.

The fair value of the fuel hedge contracts outstanding as of June 30, 2013 and December 31, 2012 is as follows:

		Fair Value at	
	Balance Sheet Location	**June 30, 2013**	**December 31, 2012**
Liability derivatives:			
Derivatives designated as hedges			
Fuel hedge contracts	Accrued expenses	$ 235	$ 178

Assets and liabilities measured at fair value on a nonrecurring basis

All other nonfinancial assets and liabilities measured at fair value in the financial statements on a nonrecurring basis are subject to fair value measurements and disclosures. Nonfinancial assets and liabilities included in our condensed consolidated balance sheets and measured on a nonrecurring basis consist of goodwill and long-lived assets, including other acquired intangibles. Goodwill and long-lived assets are measured at fair value to test for and measure impairment, if any, at least annually for goodwill or when necessary for both goodwill and long-lived assets.

The Company estimated the fair value of our demolition reporting unit for our goodwill impairment test by using both a market-based approach and an income-based approach. The income approach is dependent on a number of factors, including estimates of future market growth trends, forecasted revenues and expenses based upon historical operating data, appropriate discount rates and other variables. The market approach measures the value of a reporting unit through comparison to comparable companies. Under the market approach, the Company uses the guideline public company method by applying estimated market-based enterprise value multiples to the reporting unit s estimated revenue and Adjusted EBITDA. The Company analyzed companies that performed similar services or are considered peers.

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An impairment of goodwill was recorded in the amount of $21,474 in the second quarter of 2013. The fair value of goodwill was determined using quantitative models that contained significant unobservable inputs. See Note 4.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) 2013	
Goodwill		
Balance at January 1,	$	100,799
Impairment of goodwill		(21,474)
Balance at June 30,	$	79,325

Accumulated other comprehensive loss

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Cumulative translation adjustments net of tax	$ (75)	$ (8)	$ (81)	$ (4)
Derivatives:				
Reclassification of derivative losses (gains) to earnings net of tax	154	143	291	(263)
Change in fair value of derivatives net of tax	(205)	(1,905)	(325)	(1,025)
Net unrealized gain on derivatives net of tax	(51)	(1,762)	(34)	(1,288)
Total other comprehensive loss	$ (126)	$ (1,770)	$ (115)	$ (1,292)

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

	Statement of Operations Location	Three months ended June 30,		Six months ended June 30,	
		2013	2012	2013	2012
Derivatives:					
Fuel hedge contracts	Costs of contract revenues	$ 256	$ 237	$ 484	$ (438)
	Income tax (provision) benefit	(102)	(94)	(193)	175
		$ 154	$ 143	$ 291	$ (263)

Other financial instruments

The carrying value of financial instruments included in current assets and current liabilities approximates fair value due to the short-term maturities of these instruments. Based on timing of the cash flows and comparison to current market interest rates, the carrying value of our senior revolving credit agreement approximates fair value. In January 2011, the Company issued $250,000 of 7.375% senior notes due February 1, 2019, which were outstanding at June 30, 2013. The senior notes are senior unsecured obligations of the Company and its subsidiaries that guarantee the senior notes. The fair value of the senior notes was $259,063 at June 30, 2013, which is a Level 1 fair value measurement as the senior notes value was obtained using quoted prices in active markets.

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6. Accrued expenses

Accrued expenses at June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
Construction liabilities	$ 13,218	$ 6,426
Insurance	8,482	9,070
Interest	8,151	7,837
Payroll and employee benefits	7,405	9,906
Percentage of completion adjustment	3,199	1,552
Income and other taxes	1,911	1,699
Other	2,607	2,000
Total accrued expenses	$ 44,973	$ 38,490

7. Long-term debt

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

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

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

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

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

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The obligations of Great Lakes under the Credit Agreement are unconditionally guaranteed, on a joint and several basis, by each existing and subsequently acquired or formed material direct and indirect domestic subsidiary of the Company. During a year, the Company frequently borrows and repays amounts under its revolving credit facility. As of June 30, 2013, the Company had $41,000 of borrowings on the revolver and $74,228 of letters of credit outstanding, resulting in $59,772 of availability under the Credit Agreement. At June 30, 2013, the Company was in compliance with its various covenants under its Credit Agreement.

The Company has a $24,000 international letter of credit facility that it uses for the performance and advance payment guarantees on the Company s foreign contracts. As of June 30, 2013, Great Lakes had no letters of credit outstanding under this facility. At June 30, 2013, the Company also had $250,000 of 7.375% senior notes outstanding, which mature in February 2019.

8. Share-based compensation

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

In May 2013, the Company granted 369 thousand options to purchase shares of common stock and 217 thousand restricted stock units to certain employees pursuant to the plan. In addition, all non-employee directors on the Company s board of directors are paid a portion of their board-related compensation in stock grants. Compensation cost charged to expense related to share-based compensation arrangements was $730 and $1,452, respectively, for the three and six months ended June 30, 2013 and $699 and $1,714, respectively, for the three and six months ended June 30, 2012.

9. Segment information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Dredging				
Contract revenues	$ 136,487	$ 135,315	$ 310,446	$ 258,988
Operating income	14,569	11,697	33,569	16,596
Demolition				
Contract revenues	$ 16,645	$ 27,929	$ 31,533	$ 60,475
Operating loss	(35,959)	(4,354)	(48,365)	(2,467)
Intersegment revenues	$ (269)	$ (137)	(269)	(1,449)
Total				
Contract revenues	$ 152,863	$ 163,107	$ 341,710	$ 318,014
Operating income (loss)	(21,390)	7,343	(14,796)	14,129

Foreign dredging revenue of $33,348 and $71,733 for the three and six months ended June 30, 2013 and $20,848 and $38,873 for the three and six months ended June 30, 2012, respectively, was primarily attributable to work done in the Middle East and Brazil as well as for the Wheatstone LNG project in Western Australia.

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

Additionally, the Company has identified certain pending change orders for one demolition project for which previously recognized revenue no longer meets the Company s policy for revenue recognition. The Company has reversed the recognition of revenue for these pending change orders because of new developments in the second quarter. These developments include the Company filing a lawsuit and lien against the general contractor and recent communications with the general contractor and the site owner. As a result of these reversals, contract revenues were reduced by $5,568 for the three and six months ended June 30, 2013.

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10. Commitments and contingencies

Commercial commitments

Performance and bid bonds are customarily required for dredging and marine construction projects, as well as some demolition projects. In September 2011, the Company entered into a bonding agreement with Zurich American Insurance Company (Zurich) under which the Company can obtain performance, bid and payment bonds. Bid bonds are generally obtained for a percentage of bid value and amounts outstanding typically range from $1,000 to $10,000. At June 30, 2013, the Company had outstanding performance bonds valued at approximately $647,263; however, the revenue value remaining in backlog related to these projects totaled approximately $289,761.

Certain foreign projects performed by the Company have warranty periods, typically spanning no more than one to three years beyond project completion, whereby the Company retains responsibility to maintain the project site to certain specifications during the warranty period. Generally, any potential liability of the Company is mitigated by insurance, shared responsibilities with consortium partners, and/or recourse to owner-provided specifications.

Legal proceedings and other contingencies

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

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

On August 26, 2009, the Company s subsidiary, NASDI, LLC (NASDI), received a letter stating that the Attorney General for the Commonwealth of Massachusetts is investigating alleged violations of the Massachusetts Solid Waste Act. The Company believes that the Massachusetts Attorney General is investigating illegal dumping activities at a dump site NASDI contracted with to have waste materials disposed of between September 2007 and July 2008. Per the Massachusetts Attorney General s request, NASDI executed a tolling agreement regarding the matter in 2009 and engaged in further discussions with the Massachusetts Attorney General s office in the second quarter of 2011. Should a claim be brought, NASDI intends to defend itself vigorously. Based on consideration of all of the facts and circumstances now known, the Company does not believe this claim will have a material impact on its business, financial position, results of operations or cash flows.

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

On March 19, 2013, the Company and three of its current and former executives were sued in a securities class action in the Northern District of Illinois captioned United Union of Roofers, Waterproofers & Allied Workers Local Union No. 8 v. Great Lakes Dredge & Dock Corporation et al., Case No. 1:13-cv-02115. The lawsuit, which was brought on behalf of all purchasers of the Company s securities between August 7, 2012 and March 14, 2013, primarily alleges that the defendants made false and misleading statements regarding the recognition of revenue in the demolition segment and with regard to the Company s internal control over financial reporting. This suit was filed following the Company s announcement on March 14, 2013 that it would restate its second and third quarter 2012 financial statements. Two additional, similar lawsuits captioned Boozer v. Great Lakes Dredge & Dock Corporation et al., Case No. 1:13-cv-02339, and Connors v. Great Lakes Dredge & Dock Corporation et al., Case No. 1:13-cv-02450, were filed in the Northern District of Illinois on March 28, 2013, and April 2, 2013, respectively. These three actions were consolidated and recaptioned In re Great Lakes Dredge & Dock Corporation, Case No. 1:13-cv-02115, on June 10, 2013. The Company denies liability and intends to vigorously defend this action.

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On March 28, 2013, the Company was named as a nominal defendant, and its directors were named as defendants, in a shareholder derivative action in DuPage County Circuit Court in Illinois captioned Hammoud v. Berger et al., Case No. 2013CH001110. The lawsuit primarily alleges breaches of fiduciary duties related to allegedly false and misleading statements regarding the recognition of revenue in the demolition segment and with regard to the Company s internal control over financial reporting, which exposed the Company to securities litigation. A second, similar lawsuit captioned The City of Haverhill Retirement System v. Leight et al., Case No. 1:13-cv-02470, was filed in the Northern District of Illinois on April 2, 2013 and was voluntarily dismissed on June 10, 2013. A third, similar lawsuit captioned St. Lucie County Fire District Firefighters Pension Trust Fund v. Leight et al., Case No. 13 CH 15483, was filed in Cook County Circuit Court in Illinois on July 8, 2013, and a fourth, similar lawsuit (that additionally named one current and one former executive as defendants) captioned Griffin v. Berger et al., Case No. 1:13-cv-04907, was filed in the Northern District of Illinois on July 9, 2013.

In 2012, the Company contracted with a shipyard to perform the functional design drawings, detailed design drawings and follow on construction of a new Articulated Tug & Barge (ATB) Trailing Suction Hopper Dredge. In April 2013, the Company terminated the contract with the shipyard for default and the counterparty sent the Company a notice requesting arbitration under the contract on the Company s termination for default, including but not limited to the Company s right to draw on letters of credit that had been issued by the shipyard as financial security required in the contract. In May 2013, the Company drew upon the shipyard s letters of credit related to the contract and received $13,600. As the matter is currently in arbitration, the Company has recorded the receipts from the letters of credit as a long-term liability and intends to use the proceeds to offset current and future costs of the ATB that are a result of the contract default, among other things. The Company cannot be assured of the outcome of the arbitration. The Company intends to pursue its claim for damages resulting from the termination in arbitration.

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

In May 2013, the Company concluded its litigation regarding the dredge *New York* loss of use claim. In January 2008, the Company filed suit against the M/V *Orange Sun* and her owners for damages incurred by the Company in connection with the allision in the approach channel to Port Newark, New Jersey. The Company received $13,272 which is included in proceeds from loss of use claim.

11. Subsidiary guarantors

The Company s long-term debt at June 30, 2013 includes $250,000 of 7.375% senior notes due February 1, 2019. The Company s obligations under these senior unsecured notes are guaranteed by the Company s 100% owned domestic subsidiaries. Such guarantees are full, unconditional and joint and several.

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

(i) balance sheets as of June 30, 2013 and December 31, 2012;

(ii) statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2013 and 2012; and

(iii) statements of cash flows for the six months ended June 30, 2013 and 2012.

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2013

(In thousands)

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 19,325	$ 2,298	$	$	$ 21,623
Accounts receivable net	144,876	5,064			149,940
Receivables from affiliates	94,960	6,339	14,883	(116,182)	
Contract revenues in excess of billings	70,031	2,381		(570)	71,842
Inventories	30,578				30,578
Prepaid expenses and other current assets	35,605	334	14,264		50,203
Total current assets	395,375	16,416	29,147	(116,752)	324,186
PROPERTY AND EQUIPMENT Net	355,826	28			355,854
GOODWILL AND OTHER INTANGIBLE ASSETS Net	81,902	73			81,975
INVENTORIES Noncurrent	35,762				35,762
INVESTMENTS IN JOINT VENTURES	6,072				6,072
INVESTMENTS IN SUBSIDIARIES	2,653		634,141	(636,794)	
OTHER	7,728	3	5,774		13,505
TOTAL	$ 885,318	$ 16,520	$ 669,062	$ (753,546)	$ 817,354
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Accounts payable	$ 89,762	$ 1,612	$ 696	$	$ 92,070
Payables to affiliates	92,263	11,148	13,328	(116,739)	
Accrued expenses	35,537	818	8,618		44,973
Billings in excess of contract revenues	7,893	33		(13)	7,913
Current portion of long term debt	2,515				2,515
Total current liabilities	227,970	13,611	22,642	(116,752)	147,471
7 3/8% SENIOR NOTES			250,000		250,000
REVOLVING CREDIT FACILITY			41,000		41,000
DEFERRED INCOME TAXES	(16)		105,073		105,057
OTHER	23,479		547		24,026
Total liabilities	251,433	13,611	419,262	(116,752)	567,554
Total Great Lakes Dredge & Dock Corporation Equity	633,885	2,909	249,982	(636,794)	249,982
NONCONTROLLING INTERESTS			(182)		(182)
TOTAL EQUITY	633,885	2,909	249,800	(636,794)	249,800
TOTAL	$ 885,318	$ 16,520	$ 669,062	$ (753,546)	$ 817,354

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2012

(In thousands)

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

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2013

(In thousands)

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
Contract revenues	$ 147,148	$ 10,167	$	$ (4,452)	$ 152,863
Costs of contract revenues	(141,559)	(10,575)		4,452	(147,682)
Gross profit	5,589	(408)			5,181
OPERATING EXPENSES:					
General and administrative expenses	18,124	187			18,311
Proceeds from loss of use claim	(13,272)				(13,272)
Impairment of goodwill	21,224	250			21,474
Loss on sale of assets net	58				58
Operating income (loss)	(20,545)	(845)			(21,390)
Interest expense net	(130)	(47)	(5,219)		(5,396)
Equity in loss of subsidiaries	(18)		(15,798)	15,816	
Equity in loss of joint ventures	(385)				(385)
Gain (loss) on foreign currency transactions, net	96	(357)			(261)
Income (loss) before income taxes	(20,982)	(1,249)	(21,017)	15,816	(27,432)
Income tax (provision) benefit	6,413	2	(4,171)		2,244
Net income (loss)	(14,569)	(1,247)	(25,188)	15,816	(25,188)
Net income attributable to noncontrolling interests			(53)		(53)
Net income (loss) attributable to Great Lakes Dredge & Dock Corporation	$ (14,569)	$ (1,247)	$ (25,241)	$ 15,816	$ (25,241)
Comprehensive income (loss) attributable to Great Lakes Dredge & Dock Corporation	$ (14,620)	$ (1,322)	$ (25,367)	$ 15,942	$ (25,367)

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2012

(In thousands)

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
Contract revenues	$ 163,042	$ 2,251	$	$ (2,186)	$ 163,107
Costs of contract revenues	(144,073)	(2,514)		2,186	(144,401)
Gross profit	18,969	(263)			18,706
OPERATING EXPENSES:					
General and administrative expenses	10,679	162	615		11,456
Gain on sale of assets net	(93)				(93)
Operating income (loss)	8,383	(425)	(615)		7,343
Interest expense net	(257)	(23)	(5,103)		(5,383)
Equity in earnings (loss) of subsidiaries	(223)		8,687	(8,464)	
Equity in loss of joint ventures	(8)				(8)
Loss on foreign currency transactions, net	(21)				(21)
Income (loss) before income taxes	7,874	(448)	2,969	(8,464)	1,931
Income tax (provision) benefit	1,038		(1,789)		(751)
Net income (loss)	8,912	(448)	1,180	(8,464)	1,180
Net income attributable to noncontrolling interests			91		91
Net income (loss) attributable to Great Lakes Dredge & Dock Corporation	$ 8,912	$ (448)	$ 1,271	$ (8,464)	$ 1,271
Comprehensive income (loss) attributable to Great Lakes Dredge & Dock Corporation	$ 7,150	$ (456)	$ (499)	$ (6,694)	$ (499)

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2013

(In thousands)

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
Contract revenues	$ 332,567	$ 13,926	$	$ (4,783)	$ 341,710
Costs of contract revenues	(301,491)	(14,038)		4,783	(310,746)
Gross profit	31,076	(112)			30,964
OPERATING EXPENSES:					
General and administrative expenses	37,120	378			37,498
Proceeds from loss of use claim	(13,272)				(13,272)
Impairment of goodwill	21,224	250			21,474
Loss on sale of assets net	60				60
Operating income (loss)	(14,056)	(740)			(14,796)
Interest expense net	(149)	(89)	(10,891)		(11,129)
Equity in loss of subsidiaries	(65)		(6,242)	6,307	
Equity in loss of joint ventures	(975)				(975)
Gain (loss) on foreign currency transactions net	132	(357)			(225)
Income (loss) before income taxes	(15,113)	(1,186)	(17,133)	6,307	(27,125)
Income tax (provision) benefit	9,990	2	(7,644)		2,348
Net income (loss)	(5,123)	(1,184)	(24,777)	6,307	(24,777)
Net income attributable to noncontrolling interests			(31)		(31)
Net income (loss) attributable to Great Lakes Dredge & Dock Corporation	$ (5,123)	$ (1,184)	$ (24,808)	$ 6,307	$ (24,808)
Comprehensive income (loss) attributable to Great Lakes Dredge & Dock Corporation	$ (5,157)	$ (1,265)	$ (24,923)	$ 6,422	$ (24,923)

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2012

(In thousands)

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
Contract revenues	$ 318,486	$ 4,050	$	$ (4,522)	$ 318,014
Costs of contract revenues	(279,240)	(4,568)		4,522	(279,286)
Gross profit	39,246	(518)			38,728
OPERATING EXPENSES:					
General and administrative expenses	23,248	348	1,127		24,723
(Gain) loss on sale of assets net	(135)		11		(124)
Operating income (loss)	16,133	(866)	(1,138)		14,129
Interest expense net	(538)	(51)	(10,053)		(10,642)
Equity in earnings (loss) of subsidiaries	(602)		15,034	(14,432)	
Equity in loss of joint ventures	(24)				(24)
Loss on foreign currency transactions net	(15)				(15)
Income (loss) before income taxes	14,954	(917)	3,843	(14,432)	3,448
Income tax (provision) benefit	395		(1,710)		(1,315)
Net income (loss)	15,349	(917)	2,133	(14,432)	2,133
Net loss attributable to noncontrolling interests			206		206
Net income (loss) attributable to Great Lakes Dredge & Dock Corporation	$ 15,349	$ (917)	$ 2,339	$ (14,432)	$ 2,339
Comprehensive income (loss) attributable to Great Lakes Dredge & Dock Corporation	$ 14,061	$ (921)	$ 1,047	$ (13,140)	$ 1,047

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2013

(In thousands)

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
OPERATING ACTIVITIES:					
Net cash flows provided by (used in) operating activities	$ 5,349	$ (6,349)	$ (17,888)	$	$ (18,888)
INVESTING ACTIVITIES:					
Purchases of property and equipment	(27,954)				(27,954)
Proceeds from dispositions of property and equipment	223				223
Proceeds from vendor performance obligations	13,600				13,600
Net cash flows used in investing activities	(14,131)				(14,131)
FINANCING ACTIVITIES:					
Repayments of long term note payable			(10,547)		(10,547)
Distributions paid to minority interests			(3)		(3)
Taxes paid on settlement of vested share awards			(277)		(277)
Net change in accounts with affiliates	3,871	8,509	(12,380)		
Repayments of equipment debt	(36)				(36)
Exercise of stock options			2		2
Excess income tax benefit from share-based compensation			93		93
Borrowings under revolving loans			144,000		144,000
Repayments of revolving loans			(103,000)		(103,000)
Net cash flows provided by (used in) financing activities	3,835	8,509	17,888		30,232
Effect of foreign currency exchange rates on cash and cash equivalents		(30)			(30)
Net increase (decrease) in cash and cash equivalents	(4,947)	2,130			(2,817)
Cash and cash equivalents at beginning of period	24,272	168			24,440
Cash and cash equivalents at end of period	$ 19,325	$ 2,298	$	$	$ 21,623

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GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

(In thousands)

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
OPERATING ACTIVITIES:					
Net cash flows provided by (used in) operating activities	$ 9,867	$ 331	$ (25,028)	$	$ (14,830)
INVESTING ACTIVITIES:					
Purchases of property and equipment	(22,783)				(22,783)
Proceeds from dispositions of property and equipment	226				226
Net cash flows used in investing activities	(22,557)				