

Orion Marine Group Inc
Form 10-Q
May 06, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from _____ to _____

Commission file number:

1-33891

ORION MARINE GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
Incorporation or organization)

26-0097459

(I.R.S. Employer
Identification Number)

12000 Aerospace Dr. Suite 300

Houston, Texas

(Address of principal executive offices)

77034

(Zip Code)

(713) 852-6500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes No

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

Yes No

Edgar Filing: Orion Marine Group Inc - Form 10-Q

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

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

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

As of May 1, 2011, 27,005,232 shares of the Registrant's common stock, \$0.01 par value were outstanding.

ORION MARINE GROUP, INC.
Quarterly Report on Form 10-Q for the period ended March 31, 2011
INDEX

PART I FINANCIAL INFORMATION

Item 1	Financial Statements (Unaudited)	Page
	<u>Condensed Consolidated Balance Sheets at March 31, 2011 and December 31, 2010</u>	3
	<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2011 and 2010</u>	4
	<u>Condensed Consolidated Statement of Stockholders' Equity for the Three Months Ended March 31, 2011</u>	5
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	7
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4	<u>Controls and Procedures</u>	22
PART II OTHER INFORMATION		
Item 1	<u>Legal Proceedings</u>	23
Item 1A	<u>Risk Factors</u>	23
Item 6	<u>Exhibits</u>	23
	<u>SIGNATURES</u>	24

Part I – Financial Information

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

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$23,746	\$23,174
Accounts receivable:		
Trade, net of allowance of \$0 and \$1,153, respectively	36,857	40,211
Retainage	7,355	10,643
Other	2,519	4,988
Income taxes receivable	7,270	7,668
Note receivable	90	90
Inventory	3,638	2,991
Deferred tax asset	2,199	1,794
Costs and estimated earnings in excess of billings on uncompleted contracts	28,466	26,103
Prepaid expenses and other	2,806	2,076
Total current assets	114,946	119,738
Property and equipment, net	153,749	155,311
Goodwill	32,168	32,168
Intangible assets, net of accumulated amortization	--	5
Other assets	317	357
Total assets	\$301,180	\$307,579
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$12,894	25,519
Retainage	350	377
Accrued liabilities	13,030	12,463
Taxes payable	181	262
Billings in excess of costs and estimated earnings on uncompleted contracts	7,042	4,389
Total current liabilities	33,497	43,010
Other long-term liabilities	690	746
Deferred income taxes	17,718	16,707
Deferred revenue	245	260
Total liabilities	52,150	60,723
Commitments and contingencies		
Stockholders' equity:		
Common stock -- \$0.01 par value, 50,000,000 authorized, 27,017,165 issued; 27,004,934 outstanding at March 31, 2011 and December 31, 2010	270	270
Treasury stock, 12,231 shares, at cost	--	--
Additional paid-in capital	155,302	154,667

Edgar Filing: Orion Marine Group Inc - Form 10-Q

Retained earnings	93,458	91,919
Total stockholders' equity	249,030	246,856
Total liabilities and stockholders' equity	\$301,180	\$307,579

See notes to unaudited condensed consolidated financial statements

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

	March 31, 2011	March 31, 2010
Contract revenues	\$79,057	\$75,556
Costs of contract revenues	68,635	59,960
Gross profit	10,422	15,596
Selling, general and administrative expenses	7,898	10,125
Operating income	2,524	5,471
Other (income) expense		
Other income	--	(2,176)
Interest income	(9)	(24)
Interest expense	85	69
Other (income) expense, net	76	(2,131)
Income before income taxes	2,448	7,602
Income tax expense	909	2,821
Net income	\$1,539	\$4,781
Basic earnings per share	\$0.06	\$0.18
Diluted earnings per share	\$0.06	\$0.18
Shares used to compute earnings per share		
Basic	27,004,933	26,862,933
Diluted	27,180,094	27,217,659

See notes to unaudited condensed consolidated financial statements

Orion Marine Group, Inc. and Subsidiaries
 Condensed Consolidated Statement of Stockholders' Equity
 As of March 31, 2011
 (Unaudited)
 (In Thousands, Except Share Information)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
Balance, January 1, 2011	27,017,165	\$270	(12,231)	\$--	\$154,667	\$91,919	\$246,856
Stock-based compensation					635		635
Net income	—	—			—	1,539	1,539
Balance, March 31, 2011	27,017,165	\$270	(12,231)	\$--	\$155,302	\$93,458	\$249,030

See notes to unaudited condensed consolidated financial statements

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

	March 31, 2011	March 31, 2010
Cash flows from operating activities		
Net income	\$1,539	\$4,781
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,531	4,570
Deferred financing cost amortization	33	63
Bad debt expense	--	18
Deferred income taxes	606	(109)
Stock-based compensation	635	770
Gain on sale of property and equipment	(104)	(69)
Gain on bargain purchase from acquisition of business	--	(2,176)
Excess tax benefit from stock option exercise	--	(16)
Change in operating assets and liabilities, excluding effects of businesses acquired:		
Accounts receivable	9,111	4,639
Income tax receivable	398	2,769
Inventory	(647)	(700)
Note receivable	--	537
Prepaid expenses and other	(723)	(302)
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,363)	(8,804)
Accounts payable	(12,078)	(10,120)
Accrued liabilities	1,047	835
Income tax payable	(81)	(434)
Billings in excess of costs and estimated earnings on uncompleted contracts	2,653	(846)
Deferred revenue	(15)	(14)
Net cash provided by (used in) operating activities	5,542	(4,608)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	314	98
Purchase of property and equipment	(5,284)	(7,139)
Acquisition of business in Pacific Northwest	--	(6,653)
Acquisition of TW LaQuay Dredging (net of cash acquired)	--	(64,000)
Net cash used in investing activities	(4,970)	(77,694)
Cash flows from financing activities:		
Exercise of stock options	--	321
Excess tax benefit from stock option exercise	--	16
Payments on long-term debt	--	--
Net cash provided by financing activities	--	337
Net change in cash and cash equivalents	572	(81,965)
Cash and cash equivalents at beginning of period	23,174	104,736
Cash and cash equivalents at end of period	\$23,746	\$22,771

Edgar Filing: Orion Marine Group Inc - Form 10-Q

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$1	\$2
Taxes	\$2	\$571

See notes to unaudited condensed consolidated financial statements

Orion Marine Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

Three Months Ended March 31, 2011

(Unaudited)

(Tabular Amounts in thousands, Except for Share and per Share Amounts)

1. Description of Business and Basis of Presentation

Description of Business

Orion Marine Group, Inc. and its subsidiaries (hereafter collectively referred to as “Orion” or the “Company”) provide a broad range of marine construction services on, over and under the water along the Gulf Coast, the Atlantic Seaboard, the West Coast and the Caribbean Basin. Our heavy civil marine projects include marine transportation facilities; bridges and causeways; marine pipelines; mechanical and hydraulic dredging and specialty projects. We are headquartered in Houston, Texas.

Although we describe our business in this report in terms of the services we provide, our base of customers and the geographic areas in which we operate, we have concluded that our operations comprise one reportable segment pursuant to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 280 – Segment Reporting. In making this determination, we considered that each project has similar characteristics, includes similar services, has similar types of customers and is subject to the same regulatory environment. We organize, evaluate and manage our financial information around each project when making operating decisions and assessing our overall performance.

Basis of Presentation

The accompanying condensed consolidated financial statements and financial information included herein have been prepared pursuant to the interim period reporting requirements of Form 10-Q. Consequently, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. Readers of this report should also read our consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (“2010 Form 10-K”) as well as Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations also included in our 2010 Form 10-K.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments considered necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the periods presented. Such adjustments are of a normal recurring nature. Interim results of operations for the three months ended March 31, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Current Year Presentation

Certain reclassifications have been made to prior year’s financial statements to conform to the current year presentation. These reclassifications were related to the inclusion of financing cost amortization as a component of interest expense and not selling, general and administrative expenses and had no effect on previously reported net income or retained earnings.

2. Summary of Significant Accounting Principles

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of 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. The Company’s significant accounting policies are more fully described in Note 2 of the Notes to Consolidated Financial Statements in the 2010 Form 10-K.

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

Revenue recognition from construction contracts;

- Allowance for doubtful accounts;
- Testing of goodwill and other long-lived assets for possible impairment;
 - Income taxes;
 - Self-insurance; and
- Stock based compensation

Revenue Recognition

The Company records revenue on construction contracts for financial statement purposes on the percentage-of-completion method, measured by the percentage of contract costs incurred to date to total estimated costs for each contract. This method is used because management considers contract costs incurred to be the best available measure of progress on these contracts. The Company follows the guidance of ASC 605-35 – Revenue Recognition, Construction-Type and Production-Type Contracts, for its accounting policy relating to the use of the percentage-of-completion method, estimated costs and claim recognition for construction 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. Revenue is recorded net of any sales taxes collected and paid on behalf of the customer, if applicable.

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

The Company’s projects are typically short in duration, and usually span a period of three to nine months. Historically, we have not combined or segmented contracts.

Classification of Current Assets and Liabilities

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At times, cash held by financial institutions may exceed federally insured limits. The Company has not historically sustained losses on our cash balances in excess of federally insured limits. Cash equivalents at March 31, 2011 and December 31, 2010 consisted primarily of money market mutual funds and overnight bank deposits.

Risk Concentrations

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

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

Edgar Filing: Orion Marine Group Inc - Form 10-Q

At March 31, 2011, 19.6% of our accounts receivable was due from a single customer, and at December 31, 2010, one customer accounted for 17.7% of total receivables. In the three months ended March 31, 2011, two customers generated 39% of total revenues for the period. In the three months ended March 31, 2010, one customer generated 31% of total revenue in the period.

Accounts Receivable

Accounts receivable are stated at the historical carrying value, less write-offs and allowances for doubtful accounts. 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 March 31, 2011 and December 31, 2010, the Company had not recorded an allowance for doubtful accounts.

Balances billed to customers but not paid pursuant to retainage provisions in construction contracts generally become payable upon contract completion and acceptance by the owner. Retention at March 31, 2011 totaled \$7.4 million, of which \$0.5 million is expected to be collected beyond 2011. Retention at December 31, 2010 totaled \$10.6 million.

Fair Value Measurements

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

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

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

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

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

Income Taxes

The Company determines its consolidated income tax provision using the asset and liability method prescribed by US GAAP, which requires the recognition of income tax expense for the amount of taxes payable or refundable for the current period and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity’s financial statements or tax returns. The Company accounts for any 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 our consolidated tax return. The Company has not recorded a liability for uncertain tax positions at December 31, 2010 or March 31, 2011.

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.

Separately, the Company’s employee health care is provided through a trust, administered by a third party. The Company funds the trust based on current claims. The administrator has purchased appropriate stop-loss coverage. Losses on these policies up to the deductible amounts are accrued based upon known claims incurred and

an estimate of claims incurred but not reported. The accruals are derived from known facts, historical trends and industry averages to determine the best estimate of the ultimate expected loss. Actual claims may vary from our estimate. We include any adjustments to such reserves in our consolidated results of operations in the period in which they become known.

Stock-Based Compensation

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

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.

Goodwill and Other Intangible Assets

Goodwill

The Company has acquired businesses and assets in purchase transactions that resulted in the recognition of goodwill. Goodwill represents the costs in excess of fair values assigned to the underlying net assets in the acquisition. In accordance with US GAAP, acquired goodwill is not amortized, but is subject to impairment testing at least annually or more frequently if events or circumstances indicate that the asset more likely than not may be impaired.

Intangible assets

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

New Accounting Standards

Accounting Standards Update ("ASU") No. 2010-28, Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts was issued in December 2010. The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this accounting standard update did not have a material impact on the Company's financial position, results of operations, cash flows or disclosures.

ASU 2010-29, Business Combinations (Topic 805) – Disclosure of Supplementary Pro Forma Information for Business Combinations was issued in December 2010. ASU 2010-29 provides clarification as to the presentation of pro forma revenue and earnings disclosure requirements for business combinations and expands supplemental pro forma disclosures to include a description of the nature and amount of material, non-recurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The Company will comply with the provisions of ASU 2010-29 for any future business combinations.

3. Contracts in Progress

Contracts in progress are as follows at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Costs incurred on uncompleted contracts	\$283,046	\$268,603
Estimated earnings	80,071	79,208
	363,117	347,811
Less: Billings to date	(341,693)	(326,097)
	\$21,424	\$21,714
Included in the accompanying consolidated balance sheet under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$28,466	\$26,103
Billings in excess of costs and estimated earnings on uncompleted contracts	(7,042)	(4,389)
	\$21,424	\$21,714

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

4. Property and Equipment

The following is a summary of property and equipment at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Automobiles and trucks	\$2,024	\$2,134
Building and improvements	13,109	13,026
Construction equipment	124,323	122,792
Dredges and dredging equipment	92,784	91,018
Office equipment	3,569	3,528
	235,809	232,498
Less: accumulated depreciation	(105,172)	(100,170)
Net book value of depreciable assets	130,637	132,328
Construction in progress	13,758	13,629
Land	9,354	9,354
	\$153,749	\$155,311

For the three months ended March 31, 2011 and 2010, depreciation expense was \$5.5 million and \$4.6 million, respectively, substantially all of which is included in the cost of contract revenue in the Company's Condensed Consolidated Statements of Income. The assets of the Company are pledged as collateral for the Company's line of credit.

6. Inventory

Inventory at March 31, 2011 and December 31, 2010, of \$3.6 million and \$3.0 million, respectively, consists of spare parts and small equipment held for use in the ordinary course of business.

7. Fair Value

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. Due to their short term nature, we believe that the carrying value of our accounts receivables, other current assets, accounts payables and other current liabilities approximate their fair values. We have a note receivable in the amount of \$90,000, for which we believe that the carrying value approximates its fair value, and which bears interest at 10%.

8. Goodwill and Intangible Assets

Goodwill

The table below summarizes changes in goodwill recorded by the Company during the periods ended March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Beginning balance, January 1	\$32,168	\$12,096
Additions	--	20,072
Ending balance	\$32,168	\$32,168

Intangible assets

The Company's intangible assets consists primarily of non-compete agreements, which were fully amortized at March 31, 2011.

9. Long-term Debt and Line of Credit

In June 2010, the Company entered into a credit agreement with Wells Fargo Bank, National Association, as administrative agent, and Wells Fargo Securities, LLC as sole lead arranger and bookrunner; and the Lenders (as defined) from time to time as party thereto.

The Credit Agreement provides for borrowings of up to \$75,000,000 under revolving and swingline loans (as defined in the Credit Agreement) with a \$20,000,000 sublimit for the issuance of letters of credit. An additional \$25 million is available under the facility subject to the lenders' discretion (together, the "Credit Facility"). The Credit Facility matures on June 30, 2013, and is guaranteed by the subsidiaries of the Company. The Credit Facility may be used to finance working capital, repay indebtedness, fund acquisitions, and for other general corporate purposes.

Revolving loans may be designated as prime rate based loans ("ABR Loans") or Eurodollar Loans, at the Company's request, and may be made in an integral multiple of \$500,000, in the case of an ABR Loan, or \$1,000,000 in the case of a Eurodollar Loan. Swingline loans may only be designated as ABR Loans, and may be made in amounts equal to integral multiples of \$100,000. The Company may convert, change or modify such designations from time to time. Interest is computed based on the designation of the Loans, and bear interest at either a prime-based interest rate or a LIBOR-based interest rate. Principal balances drawn under the Credit Facility may be prepaid at any time, in whole or in part, without premium or penalty. Amounts repaid under the Credit Facility may be re-borrowed.

The Credit Facility contains certain restrictive financial covenants that are usual and customary for similar transactions, including;

- A Fixed Charge Coverage Ratio of not less than 1.50 to 1.00 at all times;
- A Leverage Ratio of not greater than 2.50 to 1.00 at all times;
- Minimum Net Worth of not less than a base amount of \$180 million, plus the sum of 50% of each prior period consolidated net income plus 50% of the Borrower's and its subsidiaries consolidated net income for that quarter, plus 75% of all issuances of equity interests by Borrower during that quarter.

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

The Company is subject to a commitment fee, payable quarterly in arrears on the unused portion of the Credit Facility at a current rate of 0.25% of the unused balance. As of March 31, 2011, no amounts had been drawn under the Credit Facility.

At March 31, 2011, the Company was in compliance with all its financial covenants with a sufficient margin as to not impair its ability to incur additional debt or violate the terms of the Credit Facility, and had outstanding letters of credit of \$979,221. Historically, the Company has not relied on debt financing to fund its operations or working capital.

10. Income Taxes

The Company's effective tax rate is based on expected income, statutory tax rates and tax planning opportunities available to it. For interim financial reporting, the Company estimates its annual tax rate based on projected taxable income for the full year and records a quarterly tax provision in accordance with the anticipated annual rate. The effective rate for the three months ended March 31, 2011 and 2010 was 37.1% in each period, and differed from the Company's statutory rate primarily due to state income taxes, the non-deductibility of certain permanent tax items, such as incentive stock compensation expense, offset in part by the benefit of the domestic production activities deduction on its federal tax return, which net effect increased the overall effective tax rate.

	Current	Deferred	Total
Three months ended March 31, 2011:			
U.S. Federal	\$283	\$614	\$897
State and local	20	(8)	12
	\$303	\$606	\$909
Three months ended March 31, 2010:			
U.S. Federal	\$2,924	\$(111)	\$2,813
State and local	6	2	8
	\$2,930	\$(109)	\$2,821

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 March 31, 2012.

11. Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per share is based on the weighted average number of common shares outstanding and the effect of all dilutive common stock equivalents during each period.

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

	Three months ended March 31	
	2011	2010
Basic:		
Weighted average shares outstanding	27,004,933	26,862,933
Diluted:		
Total basic weighted average shares outstanding	27,004,933	26,862,933
Effect of dilutive securities:		
Common stock options	175,161	354,726
Total weighted average shares outstanding assuming dilution	27,180,094	27,217,659
Anti-dilutive stock options	890,028	261,813

12. Stock-Based Compensation

The Compensation Committee of the Company's Board of Directors is responsible for the administration of the Company's two stock incentive plans. In general, the plans provide 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 generally are 10 years. Options generally vest over a three to five year period. Total shares of common stock that may be delivered under the LTIP and the 2005 Plan may not exceed 2,943,946.

For the three months ended March 31, 2011 and 2010, compensation expense related to stock options outstanding for the periods was \$635,000 and \$770,000, respectively. In March 2010, the Company granted options to purchase 3,879 shares of common stock and used the Black-Scholes option pricing model to estimate the fair value of stock-based awards. The option awards granted in March 2010 used the following assumptions:

Expected life of options	3 years	
Expected volatility	62.8	%
Risk-free interest rate	1.49	%
Dividend yield	0.0	%
Grant date fair value	\$7.53	

In March 2010, 3,539 shares of common stock were granted to certain employees of the Company. These shares are restricted from sale until vesting requirements are fulfilled, which vesting is over a period of three years from the date of grant. Compensation expense to be recorded over the three year vesting period is approximately \$63,000.

No grants of stock or options was made in the three months ended March 31, 2011.

During the three months ended March 31, 2010, the Company received proceeds of approximately \$321,000 from the exercise of 28,318 stock options. No options were exercised in the three months ended March 31, 2011.

13. Commitments and Contingencies

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

14. Enterprise Wide Disclosures

The Company is a heavy civil contractor specializing in marine construction, and operates as a single segment, as each project has similar characteristics, includes similar services, has similar types of customers and is subject to the same regulatory environment. The Company organizes and evaluates its financial information around each project when making operating decisions and assessing its overall performance.

The following table represents concentrations of revenue by type of customer for the three months ended March 31, 2011 and 2010.

	Three months ended March 31,					
	2011	%		2010	%	
Federal.....	\$36,645	46	%	\$27,876	37	%
State.....	11,587	15	%	7,280	10	%
Local.....	10,095	13	%	12,924	17	%
Private.....	20,730	26	%	27,476	36	%
	\$79,057	100	%	\$75,556	100	%

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

15. Subsidiary Guarantors

The Company filed a registration statement on Form S-3 which became effective August 7, 2009, and registered certain securities described therein, including debt securities, which may be guaranteed by certain of the Company's subsidiaries and are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933. Orion Marine Group, Inc., as the parent company, has no independent assets or operations. The Company contemplates that if it offers guaranteed debt securities pursuant to the registration statement, all guarantees will be full and unconditional and joint and several, and any subsidiaries of the Company other than the subsidiary guarantors will be minor. In addition, there are no restrictions on the ability of Orion Marine Group, Inc. to obtain funds from its subsidiaries by dividend or loan. Finally, there are no restricted assets in any subsidiaries.

16. Subsequent Event

On May 4, 2011, the Board of Directors of the Company approved a common share repurchase program that authorizes the repurchase of up to \$40 million in open market value. The shares may be repurchased over time, depending on market conditions, the market price of the Company's common shares, the Company's capital levels and other considerations. The share repurchase program is expected to expire one year from the date the Plan was approved by the Company's Board of Directors.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These and other important factors, including those described under "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2010 ("2010 Form 10-K") may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements in this quarterly report on Form 10-Q speak only as of the date of this report; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly.

MD&A provides a narrative analysis explaining the reasons for material changes in the Company's (i) financial condition since the most recent fiscal year-end, and (ii) results of operations during the current fiscal year-to-date period and current fiscal quarter as compared to the corresponding periods of the preceding fiscal year. In order to better understand such changes, this MD&A should be read in conjunction with the Company's fiscal 2010 audited consolidated financial statements and notes thereto included in its 2010 Form 10-K, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2010 Form 10-K and with our unaudited financial statements and related notes appearing elsewhere in this quarterly report.

Overview

We are a leading marine specialty contractor serving the heavy civil marine infrastructure market. We provide a broad range of marine construction and specialty services on, over and under the water along the Gulf Coast, the Atlantic Seaboard, the West Coast, Canada, and the Caribbean Basin. Our customers include federal, state and municipal governments, the combination of which accounted for approximately 74% of our revenue in the three months ended March 31, 2011, as well as private commercial and industrial enterprises. We are headquartered in Houston, Texas.

Our contracts are obtained primarily through competitive bidding in response to "requests for proposals" by federal, state and local agencies and through negotiation with private parties. Our bidding activity is affected by such factors as backlog, current utilization of equipment and other resources, 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.

Edgar Filing: Orion Marine Group Inc - Form 10-Q

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

- completeness and accuracy of the original bid;
- increases in commodity prices such as concrete, steel and fuel;
- customer delays and work stoppages 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 impose inefficiencies on contract performance, which can impact the timing of revenue recognition and contract profitability. We plan our operations and bidding activity with these factors in mind and they have not had a material adverse impact on the results of our operations in the past.

Recent Developments and Outlook. In the first quarter of 2011, we experienced additional pressure on margins primarily as a result of an increase in our estimates for self-insured claims and the strategic decision to continue on a job with additional costs related to adverse site conditions, which are not expected to be reimbursed by the customer. Looking forward, we continue to experience pricing pressure, increased competition in our markets, and delays in capital infrastructure improvements. In addition, uncertainties in the level of federal government funding has slowed certain projects put out to bid. However, despite the uncertain economic and political environments, we continue to see positive long term trends in our end markets, including:

- Ports in our geographic markets have released plans for expansion as a result of recent cargo volume increases and expected future increases as larger ships begin to transit the Panama Canal;
 - Good opportunities for coastal restoration and protection projects; and.
- The continuation of the highway transportation program for highway construction, including bridges over water.

Our focus in 2011 will be to concentrate on our core business objectives; to manage our business effectively and efficiently, while maintaining pricing discipline; to pursue rational growth strategies while closely monitoring the costs of our operations; and to maintain our strong balance sheet.

Consolidated Results of Operations

Three months ended March 31, 2011 compared with three months ended March 31, 2010

	2011		Three months ended March 31, 2010		
	Amount	Percent	Amount	Percent	
Contract revenues	\$79,057	100.0	% \$75,556	100.0	%
Cost of contract revenues	68,635	86.8	59,960	79.4	
Gross profit	10,422	13.2	15,596	20.6	
Selling, general and administrative expenses	7,898	10.0	10,125	13.4	
Operating income	2,524	3.2	5,471	7.2	
Other (income) expense					
Other income	--	--	(2,176)	(2.9)	
Interest (income)	(9)	(0.0)	(24)	0.0	
Interest expense	85	0.1	69	0.1	
Other (income) expense, net	76	0.1	(2,131)	(2.8)	
Income before income taxes	2,448	3.1	7,602	10.0	
Income tax expense	909	1.1	2,821	3.7	
Net income	\$1,539	2.0	% \$4,781	6.3	%

Contract Revenues. Revenues for the three months ended March 31, 2011 increased approximately 4.6% as compared with the same period last year and is reflective of the size, composition and schedules of the jobs in progress. Contract revenue generated from public agencies, including the US Corps of Engineers, represented 74% of total revenues in the first quarter of 2011, as compared with 64% of publicly funded projects in the prior year period. Revenue generated from the private sector was 26% and 36% in the first quarter of 2011 and 2010, respectively.

Gross Profit. Gross profit was \$10.4 million, a decrease of \$5.2 million compared with the first quarter of 2010, and gross margin was 13.2%, as compared with 20.6% in the prior year period. The decrease in profit and margin was due primarily to additional costs related to adverse site conditions on one job in progress, which are not expected to be reimbursed by the customer (\$1.3 million); an increase in our estimates for self-insurance claims (\$1.1 million) related to two non-fatal job related accidents; and to the difference in pricing leading to reduced margins in the comparison of projects between periods. Our contract self-performance rate increased to 87.1% of costs, as compared with a 85.1% self-performance rate in the first quarter of 2010, resulting from the scope of work in the mix of contracts between periods.

Selling, General and Administrative Expense. Selling, general and administrative expenses (“SG&A”) were lower by approximately \$2.2 million in the three months ended March 31, 2011 as compared with the first quarter of 2010, which included \$1.7 million in costs related to the acquisitions of businesses in the first quarter of 2010. The balance of the variance related to a decrease in general overhead costs.

Other Income, net of Other Expense. In 2010, the Company recognized a gain of approximately \$2.2 million on the preliminary valuation of the bargain purchase of the business acquired in February of that year.

Income Tax Expense Our effective rate for the three months ended March 31, 2011 and 2010 was 37.1% in each period, and differed from the Company’s statutory rate of 35% primarily due to state income taxes and the non-deductibility of certain permanent tax items, such as incentive stock compensation expense, offset in part by the benefit of the domestic production activities deduction on our federal tax return, which net effect increased our overall effective tax rate.

Liquidity and Capital Resources

Our primary liquidity needs are to finance our working capital, invest in 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.

Our working capital position fluctuates from period to period due to normal increases and decreases in operational activity. At March 31, 2011, our working capital was \$81.5 million, as compared with \$76.7 million at December 31, 2010. As of March 31, 2011, we had cash on hand and availability under our revolving credit facility (including an accordion at the Lender’s discretion) of \$122.8 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 in our operating activities for at least the next 12 months. We believe our cash position, combined with the capacity available under our revolving credit facility, is adequate for our general business requirements.

The following table provides information regarding our cash flows and capital expenditures for the three months ended March 31, 2011 and 2010 (unaudited):

	Three months ended March 31,	
	2011	2010
Cash flows provided by (used in) operating activities	\$5,542	\$(4,608)
Cash flows used in investing activities	\$(4,970)	\$(77,694)
Cash flows provided by financing activities	\$--	\$337

Operating Activities. During the three months ended March 31, 2011, our operations provided approximately \$5.5million in cash, which was primarily due to the timing of cash receipts and vendor payments, and is not indicative of any fundamental change within working capital components or trend in the underlying business. In the prior year, changes in non-cash items included a gain on the fair value in excess of the purchase price of a business acquired during the period.

Investing Activities. In the current year, we added to our capital assets in the amount of \$5.3 million. In January 2010, we purchased the membership interest of TW LaQuay Dredging for \$60.0 million with an additional \$4.0 million held in escrow. The escrow portion was settled for a final purchase price of \$60.9 million. In February 2010,

we purchased a marine construction business for approximately \$7.0 million.

Financing Activities. In the three months ended March 31, 2010, we received proceeds from stock option exercises, including related tax benefits of \$337,000.

Sources of Capital

In June 2010, the Company entered into a credit agreement with Wells Fargo Bank, National Association, as administrative agent, and Wells Fargo Securities, LLC as sole lead arranger and bookrunner; and the Lenders (as defined) from time to time as party thereto.

The Credit Agreement provides for borrowings of up to \$75,000,000 under revolving and swingline loans (as defined in the Credit Agreement) with a \$20,000,000 sublimit for the issuance of letters of credit. An additional \$25 million is available under the facility subject to the Lenders' discretion (together, the "Credit Facility"). The Credit Facility matures on June 30, 2013, and is guaranteed by the subsidiaries of the Company. The Credit Facility may be used to finance working capital, repay indebtedness, fund acquisitions, and for other general corporate purposes. 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 Credit Facility may be re-borrowed.

The Credit Facility contains certain restrictive financial covenants that are usual and customary for similar transactions, including;

- A Fixed Charge Coverage Ratio of not less than 1.50 to 1.00 at all times;
- A Leverage Ratio of not greater than 2.50 to 1.00 at all times;
- Minimum Net Worth of not less than a base amount of \$180 million, plus the sum of 50% of each prior period consolidated net income plus 50% of the Borrower's and its subsidiaries consolidated net income for that quarter, plus 75% of all issuances of equity interests by Borrower during that quarter.

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

The Company is subject to a commitment fee, payable quarterly in arrears on the unused portion of the Credit Facility at a current rate of 0.25% of the unused balance. As of March 31, 2011, no amounts had been drawn under the Credit Facility.

At March 31, 2011, the Company was in compliance with all its financial covenants with a sufficient margin as to not impair its ability to incur additional debt or violate the terms of the Credit Facility, and had outstanding letters of credit of \$979,221. Historically, the Company has not relied on debt financing to fund its operations or working capital.

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 March 31, 2011, we believe our capacity under our current bonding arrangement with Liberty Mutual was in excess of \$400 million, of which we had approximately \$125 million in surety bonds outstanding. During the quarter ended March 31, 2011, approximately 74% of projects, measured by revenue, required us to post a bond.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial position, results of operations or capital resources.

Inflation

Inflation historically has not had a material effect on our financial position or results of operations. Due to the short-term duration of our contracts, we are generally able to include anticipated price increases in the cost of our bids.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Commodity price risk

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

Interest rate risk

At March 31, 2011, we had no borrowings under our revolving credit facility or line of credit. 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.

Item 4. Controls and Procedures

- (a) Evaluation of Disclosure Controls and Procedures. As required, the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based on that evaluation, such officers have concluded that the disclosure controls and procedures are effective.
- (b) Changes in Internal Controls. There have been no changes in our internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – Other Information

Item 1. Legal Proceedings

For information about litigation involving us, see Note 13 to the condensed consolidated financial statements in Part I of this report, which we incorporate by reference into this Item 1 of Part II.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in our 2009 Form 10-K

Item 6. Exhibits

Exhibit

Number	Description
3	.1

Edgar Filing: Orion Marine Group Inc - Form 10-Q

Amended and Restated Certificate of Incorporation of Orion Marine Group, Inc.

3 .2

Amended and Restated Bylaws of Orion Marine Group, Inc.

4 .1

Registration Rights Agreement between Friedman, Billings, Ramsey & Co., Inc. and Orion Marine Group, Inc. dated May 17, 2007

- 31.1 Certification of the Chief Executive Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of the Chief Financial Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32 Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
-

SIGNATURES

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

ORION MARINE GROUP, INC.

May 6, 2011

By: /s/ J. Michael Pearson
J. Michael Pearson
President and Chief Executive Officer

May 6, 2011

By: /s/ Mark R. Stauffer
Mark R. Stauffer
Executive Vice President and Chief Financial
Officer