Great Lakes Dredge & Dock CORP
Form 10-Q
August 01, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-33225

Great Lakes Dredge & Dock Corporation

(Exact name of registrant as specified in its charter)

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

(630) 574-3000

(Registrant's telephone number, including area code)

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

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

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

| | | |
|---|---|---|
| Large Accelerated Filer | | Accelerated Filer |
| Non-Accelerated Filer | (Do not check if a smaller reporting company) | Smaller reporting company |
| Emerging Growth Company | | |

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

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

As of July 27, 2018, 62,305,408 shares of the Registrant's Common Stock, par value $.0001 per share, were outstanding.

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, 2018

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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, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $13,538 | $15,852 |
| Accounts receivable—net | 82,306 | 75,533 |
| Contract revenues in excess of billings | 55,003 | 90,788 |
| Inventories | 32,340 | 34,600 |
| Prepaid expenses and other current assets | 40,947 | 45,411 |
| Total current assets | 224,134 | 262,184 |
| | | |
| PROPERTY AND EQUIPMENT—Net | 371,807 | 407,294 |
| GOODWILL AND OTHER INTANGIBLE ASSETS—Net | 84,186 | 84,484 |
| INVENTORIES—Noncurrent | 55,200 | 54,023 |
| INVESTMENTS IN JOINT VENTURES | 3,489 | 2,714 |
| ASSETS HELD FOR SALE—Noncurrent | 6,916 | 8,530 |
| OTHER | 12,473 | 13,128 |
| TOTAL | $758,205 | $832,357 |
| | | |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $68,751 | $87,659 |
| Accrued expenses | 45,943 | 56,218 |
| Billings in excess of contract revenues | 9,050 | 3,615 |
| Current portion of long-term debt | 1,169 | 2,758 |
| Total current liabilities | 124,913 | 150,250 |
| | | |
| LONG-TERM DEBT | 321,503 | 333,141 |
| REVOLVING CREDIT FACILITY | 70,882 | 95,000 |
| DEFERRED INCOME TAXES | 21,896 | 25,561 |
| OTHER | 7,497 | 7,109 |
| Total liabilities | 546,691 | 611,061 |
| | | |
| COMMITMENTS AND CONTINGENCIES (Note 9) | | |
| EQUITY: | | |
| Common stock—$.0001 par value; 90,000 authorized, 62,583 and 61,897 shares issued; 62,305 and 61,619 shares outstanding at June 30, 2018 and December 31, 2017, respectively. | 6 | 6 |

| | | |
|---|---|---|
| Treasury stock, at cost | (1,433 ) | (1,433 ) |
| Additional paid-in capital | 291,468 | 289,821 |
| Accumulated deficit | (78,973 ) | (67,101 ) |
| Accumulated other comprehensive income | 446 | 3 |
| Total equity | 211,514 | 221,296 |
| TOTAL | $ 758,205 | $ 832,357 |

See notes to unaudited condensed consolidated financial statements.

Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| Contract revenues | $150,590 | $176,859 | $297,183 | $347,445 |
| Costs of contract revenues | 128,350 | 156,577 | 260,238 | 312,351 |
| Gross profit | 22,240 | 20,282 | 36,945 | 35,094 |
| General and administrative expenses | 15,169 | 17,267 | 31,113 | 34,062 |
| (Gain) loss on sale of assets—net | (1,063) | 169 | (1,262) | 180 |
| Operating income | 8,134 | 2,846 | 7,094 | 852 |
| Interest expense—net | (8,997) | (6,441) | (17,657) | (12,023) |
| Equity in loss of joint ventures | — | (1,468) | — | (1,467) |
| Loss on extinguishment of debt | — | (2,330) | — | (2,330) |
| Other expense | (57) | (285) | (2,973) | (77) |
| Loss from continuing operations before income taxes | (920) | (7,678) | (13,536) | (15,045) |
| Income tax (provision) benefit | (54) | 3,454 | 3,241 | 6,247 |
| Loss from continuing operations | (974) | (4,224) | (10,295) | (8,798) |
| Income (loss) from discontinued operations, net of income taxes | — | 368 | — | (12,697) |
| Net loss | $(974) | $(3,856) | $(10,295) | $(21,495) |
| | | | | |
| Basic loss per share attributable to continuing operations | $(0.02) | $(0.07) | $(0.17) | $(0.14) |
| Basic loss per share attributable to discontinued operations, net of tax | — | — | — | (0.21) |
| Basic loss per share | $(0.02) | $(0.07) | $(0.17) | $(0.35) |
| Basic weighted average shares | 62,267 | 61,342 | 62,041 | 61,204 |
| | | | | |
| Diluted loss per share attributable to continuing operations | $(0.02) | $(0.07) | $(0.17) | $(0.14) |
| Diluted loss per share attributable to discontinued operations, net of tax | — | — | — | (0.21) |
| Diluted loss per share | $(0.02) | $(0.07) | $(0.17) | $(0.35) |
| Diluted weighted average shares | 62,267 | 61,342 | 62,041 | 61,204 |

See notes to unaudited condensed consolidated financial statements.

Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

(in thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net loss | $(974) | $(3,856) | $(10,295) | $(21,495) |
| Currency translation adjustment—net of tax (1) | (57) | 6 | 1,304 | (22) |
| Net unrealized gain on derivatives—net of tax (2) | (127) | (718) | (861) | (1,452) |
| Other comprehensive income (loss)—net of tax | (184) | (712) | 443 | (1,474) |
| Comprehensive loss | $(1,158) | $(4,568) | $(9,852) | $(22,969) |

(1) Net of income tax (provision) benefit of $5 and $(6) for the three months ended June 30, 2018 and 2017, respectively. Net of income tax (provision) benefit of $(530) and $33 for the six months ended June 30, 2018 and 2017, respectively.

(2) Net of income tax provision of $689 and $468 for the three months ended June 30, 2018 and 2017, respectively. Net of income tax provision of $949 and $947 for the six months ended June 30, 2018 and 2017, respectively.

See notes to unaudited condensed consolidated financial statements.

Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited)

(in thousands)

| | Shares of Common Stock | Common Stock | Shares of Treasury Stock | Treasury Stock | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (loss) | Total |
|---|---|---|---|---|---|---|---|---|
| BALANCE—January 1, 2018 | 61,897 | $ 6 | (278 ) | $ (1,433 ) | $ 289,821 | $ (67,101 ) | $ 3 | $ 221,296 |
| Cumulative effect of recent accounting pronouncements | — | — | — | — | — | (1,577 ) | — | (1,577 ) |
| Share-based compensation | 72 | — | — | — | 2,264 | — | — | 2,264 |
| Vesting of restricted stock units, including impact of shares withheld for taxes | 486 | — | — | — | (1,060 ) | — | — | (1,060 ) |
| Exercise of options and purchases from employee stock plans | 128 | — | — | — | 443 | — | — | 443 |
| Net loss | — | — | — | — | — | (10,295 ) | — | (10,295 ) |
| Other comprehensive income—net of tax | — | — | — | — | — | — | 443 | 443 |
| BALANCE—June 30, 2018 | 62,583 | $ 6 | (278 ) | $ (1,433 ) | $ 291,468 | $ (78,973 ) | $ 446 | $ 211,514 |

| | Shares of Common Stock | Common Stock | Shares of Treasury Stock | Treasury Stock | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (loss) | Total |
|---|---|---|---|---|---|---|---|---|
| BALANCE—January 1, 2017 | 61,240 | $ 6 | (278 ) | $ (1,433 ) | $ 286,303 | $ (35,841 ) | $ (1,145 ) | $ 247,890 |
| Share-based compensation | 164 | — | — | — | 1,758 | — | — | 1,758 |
| Vesting of restricted stock units, including impact of shares withheld for taxes | 147 | — | — | — | (328 ) | — | — | (328 ) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Exercise of options and purchases from employee stock plans | 132 | — | — | — | 434 | — | — | 434 |
| Net loss | — | — | — | — | — | (21,495 ) | — | (21,495 ) |
| Other comprehensive loss—net of tax | — | — | — | — | — | — | (1,474 ) | (1,474 ) |
| BALANCE—June 30, 2017 | 61,683 | $ 6 | (278 ) | $ (1,433 ) | $ 288,167 | $ (57,336 ) | $ (2,619 ) | $ 226,785 |

See notes to unaudited condensed consolidated financial statements.

Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)

| | Six Months Ended June 30, 2018 | 2017 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net loss | $(10,295) | $(21,495) |
| Loss from discontinued operations, net of income taxes | — | (12,697) |
| Loss from continuing operations | $(10,295) | $(8,798 ) |
| Adjustments to reconcile net loss to net cash flows provided by operating activities: | | |
| Depreciation and amortization | 28,981 | 27,501 |
| Equity in earnings of joint ventures | (1,313 ) | (3,087 ) |
| Cash distributions from joint ventures | 538 | 4,486 |
| Loss on extinguishment of 7 3/8% senior notes | — | 2,330 |
| Deferred income taxes | (2,850 ) | (6,277 ) |
| (Gain) loss on sale of assets | (1,262 ) | 180 |
| Other non-cash restructuring items | 2,015 | — |
| Amortization of deferred financing fees | 1,769 | 1,646 |
| Unrealized net loss from mark-to-market valuations of derivatives | — | 1,089 |
| Unrealized foreign currency gain | (201 ) | (115 ) |
| Share-based compensation expense | 2,264 | 1,758 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (2,297 ) | 26,126 |
| Contract revenues in excess of billings | 32,823 | 4,212 |
| Inventories | 1,083 | (1,536 ) |
| Prepaid expenses and other current assets | 11,361 | 6,169 |
| Accounts payable and accrued expenses | (30,348) | (34,498) |
| Billings in excess of contract revenues | (2,249 ) | 51 |
| Other noncurrent assets and liabilities | (4,743 ) | 1,379 |
| Net cash flows provided by operating activities from continuing operations | 25,276 | 22,616 |
| Net cash flows used in operating activities of discontinued operations | — | (20,900) |
| Cash provided by operating activities | 25,276 | 1,716 |
| | | |
| INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (11,790) | (34,266) |
| Proceeds from dispositions of property and equipment | 9,979 | 2,212 |
| Cash used in investing activities | (1,811 ) | (32,054) |

| | Six Months Ended June 30, 2018 | 2017 |
|---|---|---|
| FINANCING ACTIVITIES: | | |
| 7 3/8% senior notes tender premium | — | (744) |
| Deferred financing fees | — | (4,519) |
| Repayments of debt | (1,070) | (276,386) |
| Proceeds from issuance of debt | — | 326,241 |
| Taxes paid on settlement of vested share awards | (1,060) | (328) |
| Exercise of options and purchases from employee stock plans | 443 | 434 |
| Borrowings under revolving loans | 18,000 | 52,046 |
| Repayments of revolving loans | (42,118) | (70,157) |
| Cash provided by (used in) financing activities | (25,805) | 26,587 |
| Effect of foreign currency exchange rates on cash and cash equivalents | 26 | 64 |
| Net decrease in cash, cash equivalents and restricted cash | (2,314) | (3,687) |
| Cash, cash equivalents and restricted cash at beginning of period | 17,352 | 19,702 |
| Cash, cash equivalents and restricted cash at end of period | $15,038 | $16,015 |
| | | |
| Supplemental Cash Flow Information | | |
| Cash paid for interest | $16,245 | $19,835 |
| Cash paid for income taxes | $243 | $555 |
| | | |
| Non-cash Investing and Financing Activities | | |
| Property and equipment purchased but not yet paid | $5,220 | $4,578 |
| Repayments of debt with proceeds from sale-leaseback transactions | $13,034 | $— |

See notes to unaudited condensed consolidated financial statements.

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, 2017. 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, 2018, and its results of operations for the three and six months ended June 30, 2018 and 2017 and cash flows for the six months ended June 30, 2018 and 2017 have been included.

The Company adopted Accounting Standard Update No. 2016-18 ("ASU 2016-18"), Statement of Cashflows (Topic 230): Restricted Cash on January 1, 2018. The amendments require that the statement of cash flows explain the changes during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore amounts generally described as restricted cash or restricted cash equivalents should be included with the cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The impact of the adoption of ASU 2016-18 has been applied retrospectively and the prior period presented has been recast.

The following table provides a reconciliation of cash, cash equivalents and restricted cash at June 30, 2018 and December 31, 2017 reported within the Condensed Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Condensed Consolidated Statements of Cash Flows.

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Cash and cash equivalents | $13,538 | $ 15,852 |
| Restricted cash included in other long-term assets | 1,500 | 1,500 |
| Cash, cash equivalents and restricted cash at end of period | $15,038 | $ 17,352 |

Effective beginning the first quarter of 2018, the Company changed the method of accounting for allocated fixed equipment costs for interim periods such that fixed equipment costs are now recognized as incurred. The Company adopted this change as a result of management's belief that the new method is preferable and results in a more objective measure of quarterly expense that will better support planning and resource allocation decisions by management. The change has been applied retrospectively and all prior interim periods presented have been recast. The Company's cost structure includes significant annual equipment-related costs, including depreciation, maintenance, insurance and long-term rentals. Previously, the Company allocated fixed equipment costs to interim periods in proportion to revenues recognized over the year. Specifically, at each interim reporting date the Company compared actual revenues earned to date on its dredging contracts to expected annual revenues and recognized 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 impact of the change in accounting policy on our Condensed Consolidated Statements of Operations and Condensed Consolidated Balance Sheets is as follows:

| | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2017 |
|---|---|---|
| Costs of contract revenues | $ 5,492 | $ 6,862 |
| Income tax benefit | 2,330 | 2,849 |
| Loss from continuing operations | (3,162) | (4,013) |
| Net loss | $ (3,162) | $ (4,013) |
| | | |
| Comprehensive loss | $ (3,162) | $ (4,013) |
| | | |
| Basic loss per share attributable to continuing operations | $ (0.05) | $ (0.06) |
| Diluted loss per share attributable to continuing operations | $ (0.05) | $ (0.06) |

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| | June 30, 2017 |
|---|---|
| Prepaid expenses and other current assets | $(6,862) |
| Deferred income taxes | (2,849) |
| Accumulated deficit | $(4,013) |

The Company adopted Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), and subsequently issued other Accounting Standard Updates related to Accounting Standards Codification Topic 606 (collectively, “ASC 606”) on January 1, 2018 under the modified retrospective method such that the cumulative effect is recognized at the date of initial application. The adoption of ASC 606 may result in a change in the timing of recognition of both contract revenue and costs from our prior practices. Upon the adoption of ASC 606, the Company recorded a cumulative net adjustment of $1,950 to the beginning retained earnings balance. Refer to Note 7, Revenue, for further discussion of the adoption of ASC 606.

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update No. 2018-02 (“ASU 2018-02”), Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The new guidance allows entities to reclassify from accumulated other comprehensive income to retained earnings stranded tax effects resulting from the Tax Cut and Jobs Act. The Company elected to early adopt ASU 2018-02 during the quarter ended March 31, 2018.

The components of costs of contract revenues include labor, equipment (including depreciation, maintenance, insurance and long-term rentals), subcontracts, fuel, supplies, short-term rentals 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.

The Company has two operating segments: dredging and environmental & infrastructure, which are also the Company’s reportable segments and reporting units of which the Company tests goodwill for impairment. The Company will perform its next scheduled annual test of goodwill in the third quarter of 2018.

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.

Recent accounting pronouncements

In January 2017, the FASB issued Accounting Standard Update No. 2017-04 (“ASU 2017-04”), Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendment removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. The guidance is effective for fiscal years beginning after December 15, 2019. The Company does not anticipate that the adoption of ASU 2017-04 will have a material effect on the Company’s consolidated financial statements.

In February 2016, the FASB issued Accounting Standard Update No. 2016-02 (“ASU 2016-02”), Leases (Topic 842) and subsequently issued other Accounting Standard Updates related to the Accounting Standards Codification Topic 842 (collectively, “ASC 842”). The FASB issued ASC 842 to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods. The Company’s evaluation of ASC 842 is ongoing and not complete. The Company is currently evaluating the overall impacts that ASC 842 will have on the classification of leases and resulting pattern of expense recognition in the income statement, existing internal controls and processes to comply with the guidance. Accordingly, the Company is still evaluating the effect of the adoption of ASC 842 on its consolidated financial statements.

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 the same as 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.

The computations for basic and diluted earnings (loss) per share are as follows:

| (shares in thousands) | Three Months Ended June 30, 2018 | 2017 | Six Months Ended June 30, 2018 | 2017 |
|---|---|---|---|---|
| Loss from continuing operations | $ (974 ) | $ (4,224 ) | $ (10,295) | $ (8,798 ) |
| Income (loss) from discontinued operations, net of income taxes | — | 368 | — | (12,697) |
| Net loss | (974 ) | (3,856 ) | (10,295) | (21,495) |
| Weighted-average common shares outstanding — basic | 62,267 | 61,342 | 62,041 | 61,204 |
| Effect of stock options and restricted stock units | — | — | — | — |
| Weighted-average common shares outstanding — diluted | 62,267 | 61,342 | 62,041 | 61,204 |
| Loss per share from continuing operations — basic | $ (0.02 ) | $ (0.07 ) | $ (0.17 ) | $ (0.14 ) |
| Loss per share from continuing operations — diluted | $ (0.02 ) | $ (0.07 ) | $ (0.17 ) | $ (0.14 ) |

For the quarter and year ended June 30, 2018 and 2017, the following 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:

| (shares in thousands) | Three Months Ended June 30, 2018 | 2017 | Six Months Ended June 30, 2018 | 2017 |
|---|---|---|---|---|
| Effect of stock options and restricted stock units | 429 | 603 | 920 | 654 |

For the quarter and year ended June 30, 2018 and 2017, the following stock options and restricted stock units were excluded from the calculation of diluted earnings per share as such stock options and restricted stock units were determined to be anti-dilutive:

| (shares in thousands) | Three Months Ended June 30, 2018 | 2017 | Six Months Ended June 30, 2018 | 2017 |
|---|---|---|---|---|
| Effect of stock options and restricted stock units | 1,495 | 1,331 | 1,524 | 1,455 |

3. Accrued expenses

Accrued expenses at June 30, 2018 and December 31, 2017 are as follows:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Insurance | $14,357 | $ 22,941 |
| Payroll and employee benefits | 8,078 | 8,747 |
| Accrued rent | 5,417 | 6,519 |
| Interest | 3,853 | 4,210 |
| Percentage of completion adjustment | 3,302 | 3,591 |
| Income and other taxes | 2,341 | 2,794 |
| Other | 8,595 | 7,416 |
| Total accrued expenses | $45,943 | $ 56,218 |

4. Long-term debt

Credit agreement

On December 30, 2016, the Company, Great Lakes Dredge & Dock Company, LLC, NASDI Holdings, LLC, Great Lakes Dredge & Dock Environmental, Inc., Great Lakes Environmental & Infrastructure Solutions, LLC and Great Lakes Environmental & Infrastructure, LLC (collectively, the “Credit Parties”) entered into a revolving credit and security agreement, as subsequently amended, (the “Credit Agreement”) with certain financial institutions from time to time party thereto as lenders, PNC Bank, National Association, as Agent, PNC Capital Markets, CIBC Bank USA, Suntrust Robinson Humphrey, Inc., Capital One, National Association and Bank of America, N.A., as Joint Lead Arrangers and Joint Bookrunners, Texas Capital Bank, National Association, as Syndication Agent and Woodforest National Bank, as Documentation Agent. The Credit Agreement, which replaced the Company's former revolving credit agreement, provides for a senior secured revolving credit facility in an aggregate principal amount of up to $250,000, subfacilities for the issuance of standby letters of credit up to a $250,000 sublimit and swingline loans up to a $25,000 sublimit. The maximum borrowing capacity under the Credit Agreement is determined by a formula and may fluctuate depending on the value of the collateral included in such formula at the time of determination. The Credit Agreement also includes an increase option that will allow the Company to increase the senior secured revolving credit facility by an aggregate principal amount of up to $100,000. This increase is subject to lenders providing incremental commitments for such increase, the Credit Parties having adequate borrowing capacity and that no default or event of default exists both before and after giving effect to such incremental commitment increase.

The Credit Agreement also provides for certain actions contemplated in the plan of restructuring with respect to the Company's 2017 and 2018 fiscal years including allowing up to an aggregate of $20,000 of expenses related to the buy-out of operating leases and allowing capital expenditures planned but not incurred by all Credit Parties in fiscal year 2017 to be carried forward to fiscal year 2018; provided that, the aggregate amount of all capital expenditures incurred by all Credit Parties in fiscal years 2017 and 2018 does not exceed $135,000. Additionally, the Credit Agreement contains acknowledgments and agreements from the Agent and the required lenders with respect to certain EBITDA add-backs for fiscal years 2017 and 2018 described therein. See Note 8, Restructuring charges.

The Credit Agreement contains customary representations and affirmative and negative covenants, including a springing financial covenant that requires the Credit Parties to maintain a fixed charge coverage ratio (ratio of earnings before income taxes, depreciation and amortization, net interest expenses, non-cash charges and losses and certain other non-recurring charges, minus capital expenditures, income and franchise taxes, to net cash interest expense plus scheduled cash principal payments with respect to debt plus restricted payments paid in cash) of not more than 1.10 to 1.00. The Company is required to maintain this ratio if its availability under the Credit Agreement falls below $31,250 for five consecutive days or $25,000 for one day. The Credit Parties are also restricted in the amount of capital expenditures they may make in each fiscal year. 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 providers. The obligations of the Credit Parties under the Credit Agreement will be 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. Borrowings under the Credit Agreement were or will be used to refinance existing indebtedness under the Company's former revolving credit agreement, refinance existing indebtedness under the Company's former term loan agreement, pay fees and expenses related to the Credit Agreement, finance acquisitions permitted under the Credit Agreement and finance ongoing working capital, and for other general corporate purposes. The Credit Agreement matures on December 30, 2019.

The obligations under the Credit Agreement are secured by substantially all of the assets of the Credit Parties. The outstanding obligations thereunder shall be secured by a valid first priority perfected lien on substantially all of the vessels of the Credit Parties and a valid perfected lien on all domestic accounts receivable and substantially all other assets of the Credit Parties, subject to the permitted liens and interests of other parties (including the Company's surety bonding provider).

Interest on the senior secured revolving credit facility of the Credit Agreement is equal to either a base rate option or LIBOR option, at the Company's election. The base rate option is (1) the base commercial lending rate of PNC Bank, National Association, as publicly announced plus (2)(a) an interest margin of 2.0% or (b) after the date on which a borrowing base certificate is required to be delivered under Section 9.2 of the Credit Agreement (commencing with the fiscal quarter ending December 31, 2017, the "Adjustment Date"), an interest margin ranging between 1.5% and

2.0% depending on the quarterly average undrawn availability on the senior secured revolving credit facility. The LIBOR option is the sum of (1) LIBOR and (2)(a) an interest margin of 3.0% or (b) after the Adjustment Date, an interest rate margin ranging between 2.5% to 3.0% per annum depending on the quarterly average undrawn availability on the senior secured revolving credit facility. The Credit Agreement is subject to an unused fee ranging from 0.25% to 0.375% per annum depending on the amount of average daily outstandings under the senior secured revolving credit facility.

As of June 30, 2018, the Company had $70,882 of borrowings on the revolver, $31,587 of letters of credit outstanding and $75,520 of availability under the Credit Agreement. The availability under the Credit Agreement is suppressed by $72,011 as of June 30, 2018 as a result of certain additional limitations set forth in the Credit Agreement.

Senior Notes and subsidiary guarantors

In May 2017, the Company issued $325,000 of 8.000% senior notes (“8% Senior Notes”) due May 15, 2022. The 8% Senior Notes were issued at 100% of face value resulting in net proceeds of $321,653, net of underwriting fees. In connection with the issuance of the 8% Senior Notes, the Company retired all of its $275,000 of 7.375% senior notes due February 2019 for $282,638, which included a tender premium and accrued and unpaid interest. The Company used the remaining net proceeds from the debt offering to reduce the Company’s indebtedness under its Credit Agreement.

The Company’s obligations under these Senior Notes are guaranteed by certain of the Company’s 100% owned domestic subsidiaries. Such guarantees are full, unconditional and joint and several. The parent company issuer has no independent assets or operations and all non-guarantor subsidiaries have been determined to be minor.

Other

The Company enters into note arrangements to finance certain vessels and ancillary equipment. The current portion of all equipment notes is $1,169. The long-term portion is $376 and is included in notes payable or other long-term liabilities. In February 2018, the Company completed a sale-leaseback of a vessel yielding net proceeds of $4,500. Included in this transaction was the retirement of the asset and related equipment note, and the transaction resulted in a deferred gain that will be amortized over the life of the lease.

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 times, the Company holds certain derivative contracts that it uses to manage foreign currency risk or commodity price risk. The Company does not hold or issue derivatives for speculative or trading purposes. The fair values of these financial instruments are summarized as follows:

| Description | At June 30, 2018 | Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Fuel hedge contracts | $1,335 | $ — | 1,335 | $ — |

| Description | At December 31, 2017 | Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Fuel hedge contracts | $ 2,501 | $ — | $ 2,501 | $ — |

Fuel hedge contracts

The Company is exposed to certain market risks, primarily commodity price risk as it relates to 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 could 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 domestic backlog.

As of June 30, 2018, 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 June 2019. As of June 30, 2018, there were 5.2 million gallons remaining on these contracts which represent approximately 80% of the Company's forecasted domestic fuel purchases through June 2019. Under these swap agreements, the Company will pay fixed prices ranging from $1.74 to $2.23 per gallon.

At June 30, 2018 and December 31, 2017, the fair value assets of the fuel hedge contracts were estimated to be $1,335 and $2,501, respectively, and are recorded in prepaid expenses and other current assets. For fuel hedge contracts considered to be highly effective, the gains reclassified to earnings from changes in fair value of derivatives, net of cash settlements and taxes, for the six months ended June 30, 2018 were $1,769. The remaining gains and losses included in accumulated other comprehensive loss at June 30, 2018 will be reclassified into earnings over the next twelve months, corresponding to the period during which the hedged fuel is expected to be utilized. Changes in the fair value of fuel hedge contracts not considered highly effective are recorded as cost of contract revenues in the Statement of Operations. 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 Company is exposed to counterparty credit risk associated with non-performance of its various derivative instruments. The Company's risk would be limited to any unrealized gains on current positions. To help mitigate this risk, the Company transacts only with counterparties that are rated as investment grade or higher. In addition, all counterparties are monitored on a continuous basis.

The fair value of the fuel hedge contracts outstanding as of June 30, 2018 and December 31, 2017 is as follows:

| | | Fair Value at | |
|---|---|---|---|
| | Balance Sheet Location | June 30, 2018 | December 31, 2017 |
| Asset derivatives: | | | |
| Derivatives designated as hedging instruments | | | |
| Fuel hedge contracts | Prepaid expenses and other current assets | $ 1,335 | $ 2,501 |

Accumulated other comprehensive income

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

| | Three Months Ended | Six Months Ended |
|---|---|---|

| | June 30, 2018 | 2017 | June 30, 2018 | 2017 |
|---|---|---|---|---|
| Cumulative translation adjustments—net of tax | $ (57) | $ 6 | $ 1,304 | $ (22) |
| Derivatives: | | | | |
| Reclassification of derivative (gains) losses to earnings—net of tax | (1,037) | 155 | (1,769) | 195 |
| Change in fair value of derivatives—net of tax | 910 | (873) | 908 | (1,647) |
| Net unrealized gain on derivatives—net of tax | (127) | (718) | (861) | (1,452) |
| Total other comprehensive income (loss) | $ (184) | $ (712) | $ 443 | $ (1,474) |

Adjustments reclassified from accumulated balances of other comprehensive income (loss) to earnings are as follows:
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| | Statement of Operations Location | Three Months Ended June 30, 2018 | 2017 | Six Months Ended June 30, 2018 | 2017 |
|---|---|---|---|---|---|
| Derivatives: | | | | | |
| Fuel hedge contracts | Costs of contract revenues | $ (1,404) | $ 257 | $ (2,396) | $ 323 |
| | Income tax (provision) benefit | (367) | 102 | (627) | 128 |
| | | $ (1,037) | $ 155 | $ (1,769) | $ 195 |

The Company substantially completed the closeout of its Brazil operations, during the first quarter of 2018. This liquidation resulted in the reversal of the Company's cumulative translation adjustment of $2,015, recorded during the first quarter of 2018, related to Brazil which is included in other expense in the Condensed Consolidated Statements of Operations.

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 revolving credit agreement approximates fair value. In May 2017, the Company issued a total of $325,000 of 8% senior notes due May 15, 2022, which were outstanding at June 30, 2018, refer to Note 4, Long-term debt. The 8% Senior Notes are senior unsecured obligations of the Company and its subsidiaries that guarantee the 8% Senior Notes. The fair value of the senior notes was $332,313 at June 30, 2018, which is a Level 1 fair value measurement as the senior notes' value was obtained using quoted prices in active markets. It is impracticable to determine the fair value of outstanding letters of credit or performance, bid and payment bonds due to uncertainties as to the amount and timing of future obligations, if any.

## 6. Share-based compensation

On May 11, 2017, the Company's stockholders approved the Great Lakes Dredge & Dock Corporation 2017 Long-Term Incentive Plan (the "Incentive Plan"), which previously had been approved by the Company's board of directors subject to stockholder approval. The Incentive Plan permits the granting of stock options, stock appreciation rights, restricted stock and restricted stock units to the Company's employees and directors for up to 3.3 million shares of common stock, plus an additional 1.7 million shares underlying equity awards issued under the 2007 Long-Term Incentive Plan.

During the six months ended June 30, 2018, the Company granted 1,976 thousand restricted stock units to certain employees. 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 or restricted stock units. Compensation cost charged to expense related to share-based compensation arrangements was $1,255 and $840 for the three months ended June 30, 2018 and 2017, respectively, and $2,264 and $1,758 for the six months ended June 30, 2018 and 2017, respectively.

## 7. Revenue

The Company's revenue is derived from contracts for services with federal, state, local and foreign governmental entities and private customers. Dredging revenues are generally derived from the enhancement or preservation of navigability of waterways or the protection of shorelines through the removal or replenishment of soil, sand or rock. Revenues within the environmental & infrastructure segment are generally generated from environmental and geotechnical construction as well as soil, water and sediment environmental remediation.

Previously, the Company measured completion based on engineering estimates of the physical percentage completed for dredging contracts and based upon cost incurred to date compared to total estimated costs, also known as cost-to-cost, for environmental & infrastructure contracts. Under the new accounting principle, the Company measures progress toward completion on all contracts utilizing the cost-to-cost method. Additionally, the Company capitalizes certain pre-contract and pre-construction costs, and defers recognition over the life of the contract. At June 30, 2018, the impact of this change in accounting principle on the Condensed Consolidated Balance Sheets is as follows:

| | June 30, 2018 |
|---|---|
| ASSETS | |
| Contract revenues in excess of billings | $(19,353) |
| Other current assets | 10,310 |
| Other | 5,012 |
| LIABILITIES AND EQUITY | |
| Accrued expenses | (547) |
| Billings in excess of contract revenues | 2,259 |
| Deferred taxes | (1,493) |
| | |
| Accumulated deficit | $(4,250) |

For the three and six months ended June 30, 2018, the impact of this change in accounting principle on the Condensed Consolidated Statements of Operations is as follows:

| | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2018 |
|---|---|---|
| Contract revenues | $ (12,951) | $ (21,612) |
| Cost of contract revenues | (9,174) | (15,869) |
| Income tax benefit | 982 | 1,493 |
| Loss from continuing operations | (2,795) | (4,250) |
| Net loss | $ (2,795) | $ (4,250) |
| | | |
| Comprehensive loss | $ (2,795) | $ (4,250) |

Performance obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account upon which the Company's revenue is calculated. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue as the performance obligation is satisfied. Fixed-price contracts, which comprise substantially all of the Company's revenue, will most often represent a single performance obligation as the promise to transfer the individual services is not separately identifiable from other promises in the contracts and, therefore, not distinct.

The Company capitalizes certain pre-contract and pre-construction costs, and defers recognition over the life of the contract. The Company's performance obligations are satisfied over time and revenue is recognized using contract fulfillment costs incurred to date compared to total estimated costs at completion, also known as cost-to-cost, to measure progress towards completion. As the Company's performance creates an asset that customer controls, this method provides a faithful depiction of the transfer of an asset to the customer. Generally, the Company has an enforceable right to payment for performance completed to date.

The dredging and environmental & infrastructure segments typically satisfy their performance obligations upon completion of service. The majority of the Company’s contracts are completed in a year or less. At June 30, 2018, the Company had $534,965 of remaining performance obligations, which the Company refers to as total backlog. Approximately 52% of the Company’s backlog will be completed in 2018 with the remaining balance expected to be completed by 2020.

Transaction price

The transaction price is calculated using the Company’s estimated costs to complete a project. These costs are based on the types of equipment required to perform the specified service, project site conditions, the estimated project duration, seasonality, location and complexity of a project.

The nature of the Company’s contracts gives rise to several types of variable consideration, including pay on quantity dredged for dredging projects and contract modifications for both dredging and environmental & infrastructure projects. For dredging projects, estimated pay quantity is the amount of material the Company expects to dredge for which it will receive payment. Estimated quantity to be dredged is calculated using engineering estimates based on current survey data and the Company’s knowledge based on historical project experience. Contract modifications are changes in the scope or price (or both) of a contract that are approved by the parties to the contract. The Company recognizes a contract modification when the parties to a contract approve a modification that either creates new, or changes existing, enforceable rights and obligations of the parties to the contract. Contract modifications are included in the transaction price only if it is probable that the modification estimate will not result in a significant reversal of revenue. Contract modifications are routine in the performance of the Company's contracts. In most instances, contract modifications are for services that are not distinct, and, therefore, are accounted for as part of the existing contract.

Revisions in estimated gross profit percentages are recorded in the period during which the change in circumstances is experienced or becomes known. As the duration of most of the Company's contracts is one year or less, the cumulative net impact of these revisions in estimates, individually and in the aggregate across our projects, does not significantly affect our results across annual reporting periods. Provisions for estimated losses on contracts in progress are made in the period in which such losses are determined.

Revenue by category

The following series of tables presents our revenue disaggregated by several categories.

Domestically, our work generally is performed in coastal waterways and deep water ports. The U.S. dredging market consists of four primary types of work: capital, coastal protection, maintenance and rivers & lakes. Foreign projects typically involve capital work.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| Revenues (in thousands) | 2018 | 2017 | 2018 | 2017 |
| Dredging: | | | | |
| Capital—U.S. | $69,651 | $31,472 | $146,603 | $98,073 |
| Capital—foreign | 3,279 | 12,420 | 8,802 | 31,574 |
| Coastal protection | 38,121 | 60,304 | 79,982 | 100,639 |
| Maintenance | 19,077 | 34,337 | 26,880 | 56,250 |
| Rivers & lakes | 5,142 | 13,974 | 6,626 | 19,025 |
| Total dredging revenues | 135,270 | 152,507 | 268,893 | 305,561 |
| Environmental & infrastructure | 15,320 | 24,711 | 28,290 | 43,935 |
| Intersegment revenue | — | (359) | — | (2,051) |
| Total revenues | $150,590 | $176,859 | $297,183 | $347,445 |

The following table sets forth, by segment and type of customer, the Company’s contract revenues for the periods ended:

| Revenues (in thousands) | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| Dredging: | | | | |
| Federal government | $92,913 | $83,632 | $169,607 | $195,126 |
| State and local government | 23,346 | 45,027 | 69,971 | 60,672 |
| Private | 15,732 | 11,428 | 20,513 | 18,189 |
| Foreign | 3,279 | 12,420 | 8,802 | 31,574 |
| Total dredging revenues | 135,270 | 152,507 | 268,893 | 305,561 |
| Environmental & infrastructure: | | | | |
| Private | 11,037 | 10,961 | 17,401 | 21,496 |
| Other | 4,283 | 13,750 | 10,889 | 22,439 |
| Intersegment revenue | — | (359) | — | (2,051) |
| Total revenues | $150,590 | $176,859 | $297,183 | $347,445 |

Foreign dredging revenue was $3,279 and $12,420 for the three months ended June 30, 2018 and 2017, respectively, and $8,802 and $31,574 for the six months ended June 30, 2018 and 2017, respectively, and was mostly attributable to work done in the Middle East.

Contract balances

Billings on contracts are generally submitted after verification with the customers of physical progress and are recognized as accounts receivable in the balance sheet. For billings that do not match the timing of revenue recognition, the difference between amounts billed and recognized as revenue is reflected in the balance sheet as either contract revenues in excess of billings or billings in excess of contract revenues. Certain pre-contract and pre-construction costs are capitalized and reflected as contract assets in the balance sheet. Customer advances, deposits and commissions are reflected in the balance sheet as contract liabilities.

Accounts receivable at June 30, 2018 and December 31, 2017 are as follows:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Completed contracts | | |