Orion Group Holdings Inc
Form 10-Q
November 08, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2016
OR

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

For the transition period from ________ to_________
Commission File Number:
1-33891

ORION GROUP HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	26-0097459
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

12000 Aerospace Avenue, Suite 300 Houston, Texas	77034
(Address of principal executive offices)	(Zip Code)

713-852-6500
(Registrant’s telephone number, including area code)

ORION MARINE GROUP, INC.
(Former name, former address and former fiscal year, if changed since last report)
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 þ 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 þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ¨ Accelerated filer þ 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 þ
As of November 8, 2016, 27,680,643 shares of the Registrant’s common stock, $0.01 par value, were outstanding.

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ORION GROUP HOLDINGS, INC.
Quarterly Report on Form 10-Q for the period ended September 30, 2016
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Part I - Financial Information
Item 1 Financial Statements

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

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,146	$ 1,345
Accounts receivable:		
Trade, net of allowance of $0 and $0, respectively	88,854	72,358
Retainage	37,546	21,040
Other current	3,785	5,313
Income taxes receivable	83	83
Inventory	5,518	4,867
Deferred tax asset	3,108	3,108
Costs and estimated earnings in excess of billings on uncompleted contracts	52,720	59,608
Assets held for sale	6,375	6,375
Prepaid expenses and other	2,624	4,627
Total current assets	203,759	178,724
Property and equipment, net	161,243	165,989
Accounts receivable, non-current	765	222
Retainage, non-current	6,664	14,393
Inventory, non-current	4,327	6,218
Goodwill	66,351	65,982
Intangible assets, net of amortization	23,854	29,319
Other noncurrent	1,244	615
Total assets	$ 468,207	$ 461,462
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current debt, net of debt issuance costs	$ 26,125	$ 12,004
Accounts payable:		
Trade	50,992	52,719
Retainage	763	1,671
Accrued liabilities	19,445	22,149
Taxes payable	826	813
Billings in excess of costs and estimated earnings on uncompleted contracts	29,568	28,484
Total current liabilities	127,719	117,840
Long-term debt, net of debt issuance costs	85,367	94,605
Other long-term liabilities	2,387	1,813
Deferred income taxes	20,302	19,345
Interest rate swap liability	971	145
Total liabilities	236,746	233,748
Commitments and contingencies		
Stockholders' equity:		
Preferred stock -- $0.01 par value, 10,000,000 authorized, none issued	—	—
	283	279

Common stock -- $0.01 par value, 50,000,000 authorized, 28,391,874 and 27,992,589 issued; 27,680,643 and 27,281,358 outstanding at September 30, 2016 and December 31, 2015, respectively		
Treasury stock, 711,231 and 711,231 shares, at cost, as of September 30, 2016 and December 31, 2015, respectively	(6,540)	(6,540)
Accumulated other comprehensive loss	(971)	(145)
Additional paid-in capital	170,582	168,736
Retained earnings	68,107	65,384
Total stockholders’ equity	231,461	227,714
Total liabilities and stockholders’ equity	$ 468,207	$ 461,462

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

Orion Group Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(In Thousands, Except Share and Per Share Information)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Contract revenues	$164,017	$137,061	$433,941	$304,607
Costs of contract revenues	139,849	128,783	378,116	281,848
Gross profit	24,168	8,278	55,825	22,759
Selling, general and administrative expenses	15,291	14,496	47,728	31,982
(Gain) loss on sale of assets, net	(654)	2,107	(1,260)	2,007
Operating income (loss) from operations	9,531	(8,325)	9,357	(11,230)
Other (expense) income				
Other income	10	190	32	190
Interest income	—	13	1	30
Interest expense	(1,578)	(943)	(4,695)	(1,433)
Other expense, net	(1,568)	(740)	(4,662)	(1,213)
Income (loss) before income taxes	7,963	(9,065)	4,695	(12,443)
Income tax expense (benefit)	3,224	(1,669)	1,972	(2,945)
Net income (loss)	$4,739	$(7,396)	$2,723	$(9,498)
Basic earnings (loss) per share	$0.17	$(0.27)	$0.10	$(0.35)
Diluted earnings (loss) per share	$0.17	$(0.27)	$0.10	$(0.35)
Shares used to compute income (loss) per share				
Basic	27,462,794	27,243,128	27,485,730	27,397,342
Diluted	27,463,987	27,243,128	27,485,730	27,397,342

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$4,739	$(7,396)	$2,723	$(9,498)
Change in fair value of cash flow hedge, net of tax expense of $67 and tax benefit of $613 for the three and nine months ended September 30, 2016, respectively, and net of tax benefit of $273 for the three and nine months ended September 30, 2015	271	(562)	(826)	(562)
Total comprehensive income (loss)	$5,010	$(7,958)	$1,897	$(10,060)

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

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

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Additional Paid-In Capital	Retained Earnings	Total
Balance, December 31, 2015	27,992,589	$ 279	(711,231)	$(6,540)	$ (145)	$168,736	$65,384	$227,714
Stock-based compensation	—	$ —	—	$—	$ —	$1,842	$—	$1,842
Exercise of stock options	3,924	$ —	—	$—	$ —	$8	$—	$8
Issuance of restricted stock	402,945	$ 4	—	$—	$ —	$(4)	$—	$—
Cash flow hedge (net of tax)	—	$ —	—	$—	$ (826)	$—	$—	$(826)
Forfeiture of restricted stock	(7,584)	$ —	—	$—	$ —	$—	$—	$—
Net income	—	$ —	—	$—	$ —	$—	$2,723	$2,723
Balance, September 30, 2016	28,391,874	$ 283	(711,231)	$(6,540)	$ (971)	$170,582	$68,107	$231,461

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

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

	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income (loss)	$2,723	$(9,498)
Adjustments to reconcile net income (loss) to net cash provided by (used in) Operating activities:		
Depreciation and amortization	25,765	18,831
Deferred financing cost amortization	921	—
Bad debt expense	—	67
Deferred income taxes	957	(2,665)
Stock-based compensation	1,842	1,750
(Gain) loss on sale of property and equipment	(1,260)	2,007
Change in operating assets and liabilities:		
Accounts receivable	(24,290)	(33,000)
Income tax receivable	—	233
Inventory	1,241	(397)
Prepaid expenses and other	2,127	(3,266)
Costs and estimated earnings in excess of billings on uncompleted contracts	6,888	1,440
Accounts payable	(2,638)	10,114
Accrued liabilities	(1,942)	6,271
Income tax payable	13	(1,891)
Billings in excess of costs and estimated earnings on uncompleted contracts	1,084	7,417
Deferred revenue	—	(34)
Net cash provided by (used in) operating activities	13,431	(2,621)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	1,737	667
Contributions to CSV life insurance	(634)	—
TAS acquisition adjustment	(369)	—
Acquisition of TAS	—	(111,977)
Acquisition of HITS, net	—	(357)
Purchase of property and equipment	(16,334)	(13,577)
Net cash used in investing activities	(15,600)	(125,244)
Cash flows from financing activities:		
Borrowings from Credit Facility	47,000	149,021
Payments made on borrowings from Credit Facility	(42,552)	(6,268)
Loan costs from Credit Facility	(486)	—
Extinguishment of debt	—	(32,427)
Exercise of stock options	8	28
Purchase of shares into treasury	—	(3,101)
Net cash provided by financing activities	3,970	107,253
Net change in cash and cash equivalents	1,801	(20,612)
Cash and cash equivalents at beginning of period	1,345	38,893

Cash and cash equivalents at end of period	$3,146	$18,281
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$3,864	$978
Taxes (net of refunds)	$999	$490

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

Orion Group Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Tabular Amounts in thousands, Except for Share and per Share Amounts)
(Unaudited)

1. Description of Business and Basis of Presentation
Description of Business

On May 19, 2016, the Board of Directors of Orion Marine Group, Inc. approved a name change to Orion Group Holdings, Inc. (the “Company”), to better reflect its operating profile and strategic outlook, following the acquisition of a commercial concrete construction company. The Company now operates as two segments: the heavy civil marine construction segment, which will continue to operate under the Orion Marine Group brand and logo, and the commercial concrete construction segment, which will continue to operate under the TAS Commercial Concrete brand and logo.

Orion Group Holdings, Inc., its subsidiaries and affiliates, provide a broad range of construction and specialty services in the continental United States, Alaska, Canada and the Caribbean Basin through its heavy civil marine construction and commercial concrete construction segments. The Company’s heavy civil marine construction segment services include marine transportation facility construction, marine pipeline construction, marine environmental structures, dredging of waterways, channels and ports, environmental dredging, design, and specialty services. Its commercial concrete construction segment provides turnkey concrete construction services including pour and finish, dirt work, layout, forming, rebar, and mesh across the light commercial structural and other associated business areas. The Company is headquartered in Houston, Texas with offices throughout its operating areas.

The tools used by the chief operating decision maker to allocate resources and assess performance are based on two reportable and operating segments: heavy civil marine construction and commercial concrete construction.
Although we describe the business in this report in terms of the services the Company provides, the base of customers and the areas in which the Company operates, the Company has determined that its operations currently comprise two reportable segments pursuant to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 280 - Segment Reporting. In previous reporting periods, the Company reported its financial information based on one reportable segment, now known as the heavy civil marine construction segment. With the acquisition of TAS, the Company has expanded to two reportable and operating segments, adding the commercial concrete construction segment. See Note 3 for more information on the acquisition of TAS.
In making this determination, the Company considered the similar economic characteristics of its operations. For the heavy civil marine construction segment, the methods used, and the internal processes employed, to deliver heavy civil marine construction services are similar throughout the segment, including standardized estimating, project controls and project management. This segment has the same customers with similar funding drivers, and it complies with regulatory environments driven through Federal agencies such as the U.S. Army Corps of Engineers, U.S. Fish and Wildlife Service, U.S. Environmental Protection Agency ("EPA") and the U.S. Occupational Safety and Health Administration ("OSHA"), among others. Additionally, the segment is driven by macro-economic considerations including the level of import/export seaborne transportation, development of energy related infrastructure, cruise line expansion and operations, marine bridge infrastructure development, waterway pipeline crossings and the maintenance of waterways. These considerations, and others, are key catalysts for future prospects and are similar across the segment.
For the commercial concrete construction segment, the Company also considered the similar economic characteristics of these operations. The methods used, and the internal processes employed, to deliver commercial concrete construction services are similar throughout the segment, including standardized estimating, project controls and project management. This segment complies with regulatory environments such as OSHA. Additionally, this segment is driven by macro-economic considerations, including movements in population, commercial real estate

development, institutional funding and expansion, and recreational development, specifically in metropolitan areas of Texas. These considerations, and others, are key catalysts for future prospects and are similar across the segment.

Basis of Presentation

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 ("U.S. GAAP") 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, 2015 (“2015 Form 10-K”) as well as Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations also included in our 2015 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 and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

In addition, we have made certain reclassifications to prior period amounts in order to conform to the current period's presentation.

2. Summary of Significant Accounting Principles

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates, judgments and assumptions are continually evaluated based on available information and experience; however, actual amounts could differ from those estimates. Please refer to Note 2 of the Notes to Consolidated Financial Statements included in our 2015 Form 10-K for a discussion of other significant estimates and assumptions affecting our condensed consolidated financial statements which are not discussed below.

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;
- Assessing of goodwill and other long-lived assets for indicators of impairment;
- Income taxes;
- Self-insurance; and
- Stock-based compensation.

Revenue Recognition

For financial statement purposes, the Company records revenue on construction contracts using the percentage-of-completion method, measured by the percentage of actual contract costs incurred to date to total estimated costs for each contract. This method is used because management considers contract costs incurred to be the best available measure of progress on these contracts. Contract revenue is derived from the original contract price adjusted for agreed upon change orders. Contract costs include all direct costs, such as material and labor, and those indirect costs incurred that are related to contract performance such as payroll taxes and insurance. General and administrative costs are charged to expense as incurred. Incentive fees, if available, are billed to the customer based on the terms and conditions of the contract. Pending claims are recognized as an increase in contract revenue only when the collection is deemed probable and if the amount can be reasonably estimated for purposes of calculating total profit or loss on long-term contracts. The Company records revenue and the unbilled receivable for project claims to the extent of costs incurred and to the extent management believes related collection is probable and includes no profit on claims recorded. During the second quarter of 2016, in accordance with ASC 605-35-25-30, the Company recognized a claim of approximately $11.0 million with a customer. The Company believes collection of this claim is probable, although the full amount of the recorded claim may not be recognized. Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined, without regard to the percentage of completion. 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 less than one year. Historically, the Company has not had cause to combine or segment 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 its cash balances in excess of federally insured limits. Cash equivalents at September 30, 2016 and December 31, 2015 consisted primarily of money market mutual funds and overnight bank deposits.

Foreign Currencies

Historically, the Company's exposure to foreign currency fluctuations has not been material and has been limited to temporary field accounts, located in foreign countries where it performs work. Foreign currency fluctuations were immaterial for the reporting periods presented.

Risk Concentrations

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

The Company depends on its ability to continue to obtain federal, state and local governmental contracts, and indirectly on the amount of funding available to these agencies for new and current governmental projects. Therefore, a portion of the Company's operations is dependent upon the level and timing of government funding. Statutory mechanics liens provide the Company high priority in the event of lien foreclosures following financial difficulties of private owners, thus minimizing credit risk with private customers.

Accounts Receivable

Accounts receivable are stated at the historical carrying value, less allowances for doubtful accounts. The Company has significant investments in billed and unbilled receivables. Billed receivables represent amounts billed upon the completion of small contracts and progress billings on large contracts in accordance with contract terms and milestone achievements. Unbilled receivables on contracts, which are included in costs in excess of billings, arise as revenues are recognized under the percentage-of-completion method. Unbilled amounts on contracts represent recoverable costs and accrued profits not yet billed. Revenue associated with these billings is recorded net of any sales tax, if applicable. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. In establishing an allowance for doubtful accounts, the Company evaluates its contract receivables and costs in excess of billings and thoroughly reviews historical collection experience, the financial condition of its customers, billing disputes and other factors. The Company writes off uncollectible accounts receivable against the allowance for doubtful accounts if it is determined that the amounts will not be collected or if a settlement is reached for an amount that is less than the carrying value. As of September 30, 2016 and December 31, 2015, 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.

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

Advertising Costs

The Company primarily obtains contracts through an open bid process, and therefore advertising costs are not a significant component of expense. Advertising costs are expensed as incurred.

Environmental Costs

Costs related to environmental remediation are charged to expense. Other environmental costs are also charged to expense unless they increase the value of the property and/or provide future economic benefits, in which event the costs are capitalized. Environmental liabilities, if any, are recognized when the expenditure is considered probable and the amount can be reasonably estimated.

Fair Value Measurements

The Company evaluates and presents certain amounts included in the accompanying condensed consolidated financial statements at "fair value" in accordance with U.S. GAAP, which requires the Company to base its estimates on assumptions that market participants, in an orderly transaction, would use to price an asset or liability, and to establish a hierarchy that prioritizes the information used to determine fair value. Refer to Note 8 for more information regarding fair value determination.

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

Inventory

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

Property and Equipment

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

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

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

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

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

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or the fair value, less the costs to sell, and are no longer depreciated. Assets held for sale at September 30, 2016 and December 31, 2015 are expected to be disposed of within one year.

Goodwill and Other Intangible Assets

Goodwill

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

At September 30, 2016, goodwill totaled $66.4 million, of which $33.8 million relates to the heavy civil marine construction segment and $32.6 million relates to the commercial concrete construction segment. The Company assesses the fair value of its reporting units based on a weighted average of valuations based on market multiples, discounted cash flows, and consideration of its market capitalization. The key assumptions used in the discounted cash flow valuations are discount rates, weighted average cost of capital and perpetual growth rates applied to cash flow projections. Also, inherent in the discounted cash flow valuation models are past performance, projections and assumptions in current operating plans, and revenue growth rates over the next five years. These assumptions contemplate business, market and overall economic conditions. Other considerations are assumptions that market participants may use and analysis of comparable companies.

The Company's annual impairment test of goodwill is performed as of October 31 of each year or when circumstances arise that indicate a possible impairment might exist. Test of impairment requires a two-step process to be performed to analyze whether or not goodwill has been impaired. The first step of this test, used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount. The second step, if necessary, quantifies the impairment. The underlying assumptions used for determining fair value, as discussed above, require significant judgment and are susceptible to change from period to period and could potentially cause a material impact to the income statement. In the future, the Company's estimated fair value could be negatively impacted by extended declines in stock price, changes in macroeconomic indicators, sustained operating losses, and other factors which may affect of assessment of fair value.

Intangible Assets

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

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

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, and is measured as the mean price of the stock on the date of grant.

Compensation expense is recognized only for share-based payments expected to vest. The Company estimates forfeitures at the date of grant based on historical experience and future expectations and this assessment is updated on a periodic basis. See Note 14 for further discussion of the Company's stock-based compensation plan.

Income Taxes

The Company determines its consolidated income tax provision using the asset and liability method prescribed by U.S. GAAP, which requires the recognition of income tax expense for the amount of taxes payable or refundable for the current period and for deferred tax 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 must make significant assumptions, judgments and estimates to determine its current provision for income taxes, its deferred tax assets and liabilities, and any valuation allowance to be recorded against any deferred tax asset. The current provision for income tax is based upon the current tax laws and the Company's interpretation of these laws, as well as the probable outcomes of any tax audits. The value of any net deferred tax asset depends upon estimates of the amount and category of future taxable income reduced by the amount of any tax benefits that the Company does not expect to realize. Actual operating results and the underlying amount and category of income in future years could render current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate, thus impacting the Company's financial position and results of operations. The Company computes deferred income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date.

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

Insurance Coverage

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

The heavy civil marine construction segment maintains three levels of excess loss insurance coverage, totaling $150.0 million in excess of primary coverage. This excess loss coverage responds to most of its liability policies when a primary limit of $1.0 million has been exhausted; provided that the primary limit for Contingent Maritime Employer's Liability is $10.0 million and the Watercraft Pollution Policy primary limit is $5.0 million. The commercial concrete construction segment maintains two levels of excess loss insurance coverage, totaling $150.0 million in excess of primary coverage. This excess loss coverage responds to most of its liability policies when a primary limit of $1.0 million has been exhausted.

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

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

The accrued liability for insurance includes incurred but not reported claims of $5.0 million and $8.0 million at September 30, 2016 and December 31, 2015, respectively.

Prior Period Adjustment

The accompanying financial statements for the nine months ended September 30, 2016 include the correction of prior period accounting errors which resulted in additional net after-tax income in the period of approximately $0.4 million. The Company determined that the errors primarily impacted 2015. These corrections are reflected on the condensed consolidated statement of income in contract revenues, cost of contract revenues, selling, general and administrative expenses, and income tax expense for $4.8 million, $4.2 million, $0.1 million and $0.1 million, respectively.

The Company has considered the guidance found in ASC 250-10 and ASC 270-10 (SEC Staff Accounting Bulletin No. 99, Materiality, Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), in evaluating whether a restatement of prior financial statements is required as a result of the misstatement to such financial statements. ASC 250 requires that corrections of errors be recorded by restatement of prior periods if the error is material. The Company quantitatively and qualitatively assessed the materiality of the errors and concluded that the errors were not material to the Company's forecasted earnings for the year ended December 31, 2016, or any of its previously issued financial statements. This conclusion is based on current internal forecasts of operating results for the year ended December 31, 2016 as well as actual operating results for the years ended December 31, 2015. Actual results for the year ended December 31, 2016 could differ from those forecasted and result in a different conclusion.

Recent Accounting Pronouncements

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The FASB issued this update to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact to its financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The FASB issued this update as part of its Simplification Initiative. The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those annual periods. The Company is currently evaluating the impact to its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The FASB issued this update 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 is currently evaluating the impact to its financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. The Board issued this Update as part of its initiative to reduce complexity in accounting standards. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position.

The guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those annual periods. The Company is currently evaluating the impact to its financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This comprehensive new revenue recognition standard will supersede existing revenue guidance under U. S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The effective date of this guidance was deferred through the issuance of ASU 2015-14 and is effective for the Company beginning January 1, 2018. The Company is currently evaluating the impact to its financial statements.

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

3. Business Acquisition

On August 5, 2015, the Company completed its acquisition of all the issued and outstanding memberships interest of T.A.S. Commercial Concrete Construction, LLC, T.A.S. Commercial Concrete Solutions, LLC, directly and indirectly all of the issued and outstanding membership interests of T.A.S. Proco, LLC, and 49% of the issued and outstanding membership interests of GLM Concrete Solutions, LLC, collectively known as "TAS", which is headquartered in Houston, Texas, for approximately $112 million in cash. The purpose of the acquisition was primarily to achieve growth by expanding the Company's current service offerings in addition to expansion into new markets. The tangible assets acquired include accounts receivable, prepaid assets, work in progress and fixed assets.

Under the acquisition method of accounting, the total acquisition consideration is allocated to the acquired tangible and intangible assets and assumed liabilities of TAS based on their estimated fair values as of the closing of the acquisition. The table below outlines the total actual acquisition consideration allocated to the fair values of TAS's tangible and intangible assets and liabilities as of August 5, 2015 and subsequent adjustments:

Accounts receivable	$54,987
Costs and estimated earnings in excess of billings on uncompleted contracts	4,372
Prepaid expenses and other current assets	828
Fixed assets, net	15,720
Investment in GLM Concrete Services, LLC	76
Goodwill	33,817
Other intangible assets	33,650
Accounts payable	(18,458)
Accrued expenses and other current liabilities	(13,015)
Total Acquisition Consideration At August 5, 2015	$111,977
Working Capital Adjustment	(1,633)
Final Adjustment(1)	$385
Total Acquisition Consideration	$110,729

(1) On June 17, 2016, the Company and TAS agreed to an amendment of the original purchase agreement. The purpose of this amendment was to revise the total purchase price by $385 thousand for certain adjustments to post-closing items.

The excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed was allocated to goodwill. The goodwill of $32.6 million arising from the acquisition consists primarily of synergies and business opportunities expected to be realized from the purchase of the Company. Goodwill for tax purposes is $32.6 million, which is amortizable over a 15 year period.

Finite-lived intangible assets include customer relationships and contractual backlog. Indefinite-lived intangible assets acquired include the trade name. (See Note 9).

The fixed assets acquired include construction equipment, office equipment, building improvements, and automobiles and trucks and will be depreciated in accordance with Company policy, generally 3 to 15 years.
The external costs associated with the transaction incurred and recorded during 2015 were approximately $400,000 and were included in selling, general and administrative expenses.
Pro Forma Results (unaudited)
The Company has calculated the pro forma impact of the acquisition of TAS on its operating results for the three and nine months ended September 30, 2015. The following pro forma results give effect to this acquisition, assuming the transaction occurred on January 1, 2015.

	Pro Forma Results	
	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2015
Contract Revenues	$164,716	$440,646
Operating loss from continuing operations	$(7,305)	$(5,177)
Net loss	$(5,279)	$(5,050)
Basic loss per share	$(0.19)	$(0.18)
Diluted loss per share	$(0.19)	$(0.18)

The Company derived the pro forma results of the acquisition based upon historical financial information obtained from the seller and certain management assumptions. The pro forma adjustments related to incremental amortization expense associated with the acquired finite-lived intangible assets and interest expense associated with borrowings to effect the transaction, assuming a January 1, 2015 effective transaction date. In addition, the tax impact of these adjustments was calculated at a 35% statutory rate.

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

4. Concentration of Risk and Enterprise Wide Disclosures

Accounts receivable include amounts billed to governmental agencies and private customers and do not bear interest. Balances billed to customers but not paid pursuant to retainage provisions generally become payable upon contract completion and acceptance by the owner. The table below presents the concentrations of current receivables (trade and retainage) at September 30, 2016 and December 31, 2015, respectively:

	September 30, 2016		December 31, 2015	
Federal Government	$812	1 %	$4,230	5 %
State Governments	6,994	6 %	1,274	1 %
Local Governments	16,582	13 %	16,650	18 %
Private Companies	102,012	80 %	71,244	76 %
Total receivables	$126,400	100 %	$93,398	100 %

At September 30, 2016 and December 31, 2015 no single customer accounted for more than 10% of total current receivables.

Additionally, the table below represents concentrations of revenue by type of customer for the three and nine months ended September 30, 2016 and 2015, respectively:

	Three months ended September 30,				Nine months ended September 30,			
	2016	%	2015	%	2016	%	2015	%
Federal	$13,268	8 %	$10,629	8 %	$25,200	6 %	$34,302	11 %
State	13,285	8 %	8,351	6 %	29,114	7 %	30,924	10 %
Local	29,718	18 %	43,768	32 %	71,865	17 %	95,076	31 %
Private	107,746	66 %	74,313	54 %	307,762	70 %	144,305	48 %
Total contract revenues	$164,017	100%	$137,061	100%	$433,941	100%	$304,607	100%

In the three and nine months ended September 30, 2016 and 2015, no single customer generated more than 10% of total contract revenues.

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

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

5. Contracts in Progress

Contracts in progress are as follows at September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Costs incurred on uncompleted contracts	$ 872,607	$ 782,934
Estimated earnings	167,697	132,694
	1,040,304	915,628
Less: Billings to date	(1,017,152)	(884,504)
	$ 23,152	$ 31,124
Included in the accompanying condensed consolidated balance sheet under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 52,720	$ 59,608
Billings in excess of costs and estimated earnings on uncompleted contracts	(29,568)	(28,484)
	$ 23,152	$ 31,124

Costs and estimated earnings in excess of billings on completed contracts totaled $0.5 million at September 30, 2016 and $0.6 million at December 31, 2015.

6. Property and Equipment

The following is a summary of property and equipment at September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Automobiles and trucks	$ 2,525	$ 2,749
Building and improvements	31,374	28,226
Construction equipment	164,985	159,963
Vessels and other equipment	86,402	89,485
Office equipment	7,059	6,057
	292,345	286,480
Less: accumulated depreciation	(176,681)	(164,371)
Net book value of depreciable assets	115,664	122,109
Construction in progress	7,348	5,649
Land	38,231	38,231
	$ 161,243	$ 165,989

For the three months ended September 30, 2016 and 2015, depreciation expense was $6.7 million and $6.2 million, respectively. For the nine months ended September 30, 2016 and 2015, depreciation expense was $20.3 million and $16.8 million, respectively. Substantially all depreciation expense is included in the cost of contract revenue in the Company's Condensed Consolidated Statements of Operations. Substantially all of the assets of the Company are pledged as collateral under the Company's Credit Agreement (as defined in Note 11).

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

During 2015, the Company committed to a plan to review property and equipment within the heavy civil marine construction segment and adopted a plan to dispose of underutilized assets. These assets have been separately presented in the Condensed Consolidated Balance Sheets as "Assets held for sale" and are no longer depreciated. In connection with this disposal plan, the Company determined that the carrying value of certain of these assets exceeded its fair value, and consequently, the Company recorded an impairment loss of $1.7 million on those assets during 2015, which included any expected costs to sell. Approximately $6.4 million remain as held for sale on the Company's Consolidated Balance Sheet at September 30, 2016. The Company expects to dispose of the remaining assets within one year of the balance sheet date. Additionally, various other assets were identified as underutilized and will be sold for salvage value. During the nine months ended September 30, 2016 approximately $0.3 million of these assets were sold for a loss of $0.2 million.

7. Inventory

Current inventory at September 30, 2016 and December 31, 2015, of $5.5 million and $4.9 million respectively, consisted primarily of spare parts and small equipment held for use in the ordinary course of business.

Non-current inventory at September 30, 2016 and December 31, 2015 of $4.3 million and $6.2 million respectively, consisted primarily of spare engine components or items which require longer lead times for sourcing or fabrication for certain of the Company's assets to reduce equipment downtime.

8. 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, the Company believes that the carrying value of its accounts receivable, other current assets, accounts payable and other current liabilities approximate their fair values.

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

- Level 1- fair values are based on observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2 - fair values are based on pricing inputs other than quoted prices in active markets for identical assets and liabilities and are either directly or indirectly observable as of the measurement date; and
- Level 3- fair values are based on unobservable inputs in which little or no market data exists.

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

The following table sets forth by level within the fair value hierarchy the Company's recurring financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2016 and December 31, 2015:

	Carrying Value	Fair Value Measurements Level 1	Level 2	Level 3
September 30, 2016				
Assets:				
Cash surrender value of life insurance policy	$ 1,069	—	1,069	—
Liabilities:				
Derivatives	$ 1,674	—	1,674	—
December 31, 2015				
Assets:				
Cash surrender value of life insurance policy	$ 436	—	436	—
Liabilities:				
Derivatives	$ 235	—	235	—

The Company's derivatives, which are comprised of interest rate swaps, are valued using a discounted cash flow analysis that incorporates observable market parameters, such as interest rate yield curves and credit risk adjustments that are necessary to reflect the probability of default by us or the counterparty. These derivatives are classified as a Level 2 measurement within the fair value hierarchy. See Note 11 for additional information on the Company's derivative instrument.

Our commercial concrete segment has life insurance policies covering 4 employees with a combined face value of $11.1 million. The policies are invested in mutual funds and the fair value measurement of the cash surrender balance associated with these policies is determined using Level 2 inputs within the fair value hierarchy and will vary with investment performance. These assets are included in the "Other noncurrent" asset section in the consolidated balance sheets.

Other Fair Value Measurements

In 2015, the Company acquired the assets of TAS, which resulted in the valuation of acquired assets and liabilities on a non-recurring basis, classified as Level 3 in the fair value hierarchy, of which there are none in the current year. See Note 3 for further information associated with the values recorded in our TAS acquisition.

The fair value of the Company's debt at September 30, 2016 and December 31, 2015 approximated its carrying value of $115.1 million and $110.6 million, respectively, as interest is based on current market interest rates for debt with similar risk and maturity. If the Company's debt was measured at fair value, it would have been classified as a Level 2 measurement in the fair value hierarchy.

9. Goodwill and Intangible Assets

Goodwill

The table below summarizes changes in goodwill recorded by the Company during the periods ended September 30, 2016 and December 31, 2015, respectively:

	September 30, 2016	December 31, 2015
Beginning balance, January 1	$ 65,982	$ 33,798
Additions	369	32,184
Ending balance	$ 66,351	$ 65,982

No indicators of goodwill impairment were identified during the nine months ended September 30, 2016.

Intangible assets

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

	Nine months ended September 30,	
	2016	2015
Intangible assets, January 1	$34,362	$7,602
Additions	—	26,220
Total intangible assets, end of period	34,362	33,822
Accumulated amortization, January 1	$(11,933)	$(7,571)
Current year amortization	(5,466)	(1,733)
Total accumulated amortization	(17,399)	(9,304)
Net intangible assets, end of period	$16,963	$24,518

Finite-lived intangible assets were acquired as part of the purchase of TAS which included contractual backlog and customer relationships. Contractual backlog was valued at approximately $8.7 million and will be amortized over two years. Customer relationships were valued at approximately $18.1 million and will be amortized over eight years. Both of these assets will be amortized using an accelerated method based on the pattern in which the economic benefits of the assets are consumed. For the nine months ended September 30, 2016, $5.5 million of amortization expense was recognized for these assets. Future expense remaining of approximately $17.0 million will be amortized as follows:

2016	$1,821
2017	4,554
2018	3,168
2019	2,462
2020	1,955
Thereafter	3,003
	$16,963

Additionally, an indefinite-lived asset (trade name) was acquired as part of the purchase of TAS and valued at approximately $6.9 million. This asset will not be amortized but rather will be tested for impairment at least annually or when indicators of impairment exist. No indicators of impairment existed at September 30, 2016.

10. Accrued Liabilities

Accrued liabilities at September 30, 2016 and December 31, 2015 consisted of the following:

	September 30, 2016	December 31, 2015
Accrued salaries, wages and benefits	$ 9,587	$ 8,115
Accrual for insurance liabilities	5,041	7,998
Property taxes	1,641	2,020
Sales taxes	2,248	1,991
Interest	—	112
Payable to TAS Seller	—	728
Other accrued expenses	928	1,185
Total accrued liabilities	$ 19,445	$ 22,149

11. Long-term Debt, Line of Credit and Derivatives

The Company entered into a syndicated credit agreement (the "Credit Agreement") on August 5, 2015 with Regions Bank, as administrative agent and collateral agent, and the following co-syndication agents: Bank of America, N.A., BOKF, NA dba Bank of Texas, Branch Banking & Trust Company, Frost Bank, Bank Midwest, a division of NBH Bank, N.A., IBERIABANK, KeyBank NA, Trustmark National Bank, and First Tennessee Bank NA. The primary purpose of the Credit Agreement was to finance the acquisition of TAS, to provide a revolving line of credit, and to provide financing to extinguish all prior indebtedness with Wells Fargo Bank, National Associates, as administrative agent, and Wells Fargo Securities, LLC.

The Credit Agreement, which may be amended from time to time, provides for borrowings under a revolving line of credit and swingline loans with a commitment amount of $50.0 million and a term loan with a commitment amount of $135.0 million (together, the “Credit Facility”). The Credit Facility is guaranteed by the subsidiaries of the Company, secured by the assets of the Company, including stock held in its subsidiaries, and may be used to finance general corporate and working capital purposes, to finance capital expenditures, to refinance existing indebtedness, to finance permitted acquisitions and associated fees, and to pay for all related expenses to the Credit Facility. Interest is due and is computed based on the designation of the loan, with the option of a Base Rate Loan (the base rate plus the Applicable Margin), or an Adjusted LIBOR Rate Loan (the adjusted LIBOR rate plus the Applicable Margin). Interest is due on the last day of each quarter end for Base Rate Loans and at the end of the LIBOR rate period for Adjusted LIBOR Rate Loans. The rate for all loans at the time of loan origination was 4.75%. Principal balances drawn under the Credit Facility may be prepaid at any time, in whole or in part, without premium or penalty. Amounts repaid under the revolving line of credit may be re-borrowed. The Credit Facility matures on August 5, 2020.

Total debt issuance costs, which included underwriter fees, legal fees and syndication fees were approximately $4.5 million. During the first quarter of 2016, the Company executed the First Amendment of the Credit Agreement and additional costs were incurred of approximately $0.5 million. These costs were initially capitalized as non-current deferred charges and amortized using the effective interest rate method over the duration of the loan. During the first quarter of 2016, the Company adopted ASU 2015-03, Interest - Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs. Upon adoption of this guidance, debt issuance costs are now presented as a direct deduction from the carrying amount of the debt liability, of which $0.8 million was allocated to current debt and $2.8 million was allocated to long-term debt as of September 30, 2016. As of December 31, 2015, $0.5 million was allocated to current debt and $3.6 million was allocated to long-term debt.

The quarterly weighted average interest rate for the Credit Facility as of September 30, 2016 was 3.81%.

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

	September 30, 2016			December 31, 2015		
	Principal	Debt Issuance Costs[(1)]	Total	Principal	Debt Issuance Costs[(1)]	Total
Revolving line of credit	$16,000	$(501)	$15,499	$4,021	$(147)	$3,874
Term loan - current	10,969	(343)	10,626	8,438	(308)	8,130
Total current debt	26,969	(844)	26,125	12,459	(455)	12,004
Term loan - long-term	88,125	(2,758)	85,367	98,188	(3,583)	94,605
Total debt	$115,094	$(3,602)	$111,492	$110,647	$(4,038)	$106,609

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

Provisions of the revolving line of credit and accordion

The Company has a maximum borrowing availability under the revolving line of credit and swingline loans (as defined in the Credit Agreement) of $50.0 million. The letter of credit sublimit is equal to the lesser of $20.0 million and the aggregate unused amount of the revolving commitments then in effect. The swingline sublimit is equal to the lesser of $5.0 million and the aggregate unused amount of the revolving commitments then in effect.

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

The Company is subject to a Commitment Fee for the unused portion of the maximum available to borrow under the revolving line of credit. The Commitment Fee, which is due quarterly in arrears, is equal to the Applicable Margin of the actual daily amount by which the Aggregate Revolving Commitments exceeds the Total Revolving Outstanding. The revolving line of credit termination date is the earlier of the Credit Facility termination date, August 5, 2020, or the date the outstanding balance is permanently reduced to zero. The Company has the intent and ability to repay the amounts outstanding on the revolving line of credit within one year, therefore, the outstanding balance as of September 30, 2016 has been classified as current.

As of September 30, 2016, the outstanding balance on the revolving line of credit was $16.0 million and was designated as an Adjusted LIBOR Rate Loan at a rate of 3.56%. There was also $1.3 million in outstanding letters of credit as of September 30, 2016, which reduced the maximum borrowing availability on the revolving line of credit to $32.7 million as of September 30, 2016. The Company made payments of $11.0 million on the outstanding revolving balance during the third quarter of 2016. Subsequent to the third quarter, the Company drew $10.0 million on the revolving line of credit.

Provisions of the term loan

The original principal amount of $135.0 million for the term loan commitment shall be repaid in quarterly installment payments (as stated in the Credit Agreement). At September 30, 2016, the outstanding term loan component of the Credit Facility totaled $99.1 million and was secured by specific assets of the Company. The table below outlines the total remaining payment amounts annually for the next five years for the term loan through maturity of the Credit Facility:

2016	$2,531
2017	11,813
2018	13,500
2019	15,188
2020	56,062
	$99,094

During the three months ended September 30, 2016, the Company made the scheduled quarterly principal payment of $2.5 million, which reduced the outstanding principal balance to $99.1 million at September 30, 2016. The current portion of debt is $11.0 million and the non-current portion is $88.1 million. As of September 30, 2016, the term loan was designated as an Adjusted LIBOR Rate Loan with an interest rate of 3.56%.

Financial covenants

Restrictive financial covenants under the Credit Facility include:

- A consolidated Fixed Charge Coverage Ratio as of the end of any fiscal quarter to be less than 1.25 to 1.00.
- A consolidated Leverage Ratio to not exceed the following during each noted period:

-Closing Date through and including December 31, 2015, to not exceed 3.25 to 1.00;
-Fiscal Quarter Ending March 31, 2016, to not exceed 4.00 to 1.00;
-Fiscal Quarter Ending June 30, 2016, to not exceed 3.75 to 1.00;
-Fiscal Quarter Ending September 30, 2016, to not exceed 3.25 to 1.00;
-Fiscal Quarter Ending December 31, 2016, to not exceed 3.00 to 1.00;
-Fiscal Quarter Ending March 31, 2017, to not exceed 2.75 to 1.00;
-Fiscal Quarter Ending June 30, 2017 and each Fiscal Quarter thereafter, to not exceed 2.50 to 1.00.

As of September 30, 2016, the Company was in compliance with all financial covenants.

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

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

Derivative Financial Instruments

On September 16, 2015, the Company entered into a series of receive-variable, pay-fixed interest rate swaps to hedge the variability in the interest payments on 50% of the aggregate principal amount of the Regions Term Loan outstanding, beginning with a notional amount of $67.5 million. There are a total of five sequential interest rate swaps to achieve the hedged position and each year on August 31, with the exception of the final swap, the existing interest rate swap is scheduled to expire and will be immediately replaced with a new interest rate swap until the expiration of the final swap on July 31, 2020. At inception, these interest rate swaps were designated as a cash flow hedge for hedge accounting, and as such, the effective portion of unrealized changes in market value are recorded in accumulated other comprehensive income (loss) and reclassified into earnings during the period in which the hedged forecasted transaction affects earnings. Gains and losses from hedge ineffectiveness are recognized in current earnings. The change in fair market value of the swaps as of September 30, 2016 is $1.0 million, which is reflected in the balance sheet as a liability. The fair market value of the swaps as of September 30, 2016 is $1.7 million.

12. Income Taxes

The Company's effective tax rate is based on expected income, statutory rates and tax planning opportunities available to it. For interim financial reporting, the Company estimates its annual tax rate based on projected taxable income (or loss) for the full year and records a quarterly tax provision in accordance with the anticipated annual rate. The effective rate for the nine months ended September 30, 2016 and 2015 was 42.0% and 23.7%, respectively. The 2016 effective tax rate differed from the Company’s statutory rate of 35.0% primarily due to state income taxes, the non-deductibility of certain permanent items, such as incentive stock compensation expense, and a true up to prior year taxes. The 2015 effective tax rate differed from the Company's statutory rate of 35.0% primarily due to state income taxes and the non-deductibility of certain permanent items, such as incentive stock compensation expense, offset by a benefit related to the domestic production gross receipts deduction.

The Company assessed the realizability of its deferred tax assets at September 30, 2016, and considered whether it was more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets depends upon the generation of future taxable income, which includes the reversal of deferred tax liabilities related to depreciation, during the periods in which these temporary differences become deductible.

The Company has a tax effected net operating loss carryforward ("NOL") of approximately $3.7 million for state income tax reporting purposes due to the losses sustained in various states. The Company believes it will be able to partially utilize these NOLs against future income primarily with reversing of temporary differences attributable to depreciation and due to expiration dates well into the future. However, the Company has determined that a portion of the NOLs specifically related to Florida will more likely than not be unable to be fully utilized. Therefore, a valuation allowance of $1.6 million was established during the third quarter of 2015 for this portion of the NOL. For federal tax reporting purposes, the Company has utilized its ability to carry losses back prior to 2015. Approximately $3.8 million remains as a federal tax carryforward, which the Company believes it will be able to utilize before expiration.

The Company does not believe that its tax positions will significantly change due to any settlement and/or expiration of statutes of limitations prior to December 31, 2016.

13. Earnings (Loss) Per Share

Basic earnings (loss) per share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per share are based on the weighted average number of common shares outstanding and the effect of all dilutive common stock equivalents during each period. The exercise price for certain stock options awarded by the Company exceeds the average market price of the Company's common stock. Such stock options are antidilutive and are not included in the computation of earnings (loss) per share. In the three months ended September 30, 2016, 1,193 of dilutive common stock equivalents were included in the calculation and at September 30, 2015, no potential common stock equivalents were included as the effect of such would be anti-dilutive. For the nine months ended September 30, 2016 and 2015, no potential common stock equivalents were included as the effect of such would be anti-dilutive. For the three month periods ended September 30, 2016 and September 30, 2015, the Company had 2,540,826 and 2,015,415 securities, respectively, that were potentially dilutive in future earnings per share calculations. For the nine months ended September 30, 2016 and September 30, 2015, the Company had 2,340,874 and 2,006,744 securities, respectively, that were potentially dilutive in future earnings calculations. Such dilution will be dependent on the excess of the market price of our stock over the exercise price and other components of the treasury stock method.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Basic:				
Weighted average shares outstanding	27,462,794	27,243,128	27,485,730	27,397,342
Diluted:				
Total basic weighted average shares outstanding	27,462,794	27,243,128	27,485,730	27,397,342
Effect of dilutive securities:				
Common stock options	1,193	—	—	—
Total weighted average shares outstanding assuming dilution	27,463,987	27,243,128	27,485,730	27,397,342
Anti-dilutive stock options	2,491,502	1,077,816	2,304,701	959,631
Shares of common stock issued from the exercise of stock options	—	—	3,924	3,970

14. Stock-Based Compensation

The Compensation Committee of the Company's Board of Directors is responsible for the administration of the Company's stock incentive plans, which include the 2011 Long Term Incentive Plan, or the "2011 LTIP", which was approved by shareholders in May 2011 and authorized the maximum aggregate number of shares of common stock to be issued at 3,000,000. In general, the Company's 2011 LTIP provides for grants of restricted stock and stock options to be issued with a per-share price equal to the fair market value of a share of common stock on the date of grant. Option terms are specified at each grant date, but are generally 10 years from the date of issuance. Options generally vest over a three to five year period.

In the three months ended September 30, 2016 and 2015, compensation expense related to stock based awards outstanding was $540,000 and $439,000, respectively. In the nine months ended September 30, 2016 and 2015, compensation expense related to stock based awards outstanding was $1.8 million and $1.7 million, respectively.

In May 2016, the Company granted certain executives options to purchase 519,314 shares of common stock and used the Black Scholes option pricing model to estimate the fair value of these options using the following assumptions:

Grant-date fair value	$1.67	
Risk-free interest rate	1.06	%
Expected volatility	49	%
Expected term of options (in years)	3.0	
Dividend yield	—	%

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

Also, in May 2016, certain officers and executives of the Company were awarded 384,359 shares of restricted common stock. The fair value on the date of the grant was $4.94 per share.

In May 2016, the Company awarded certain executives 68,977 shares of performance based stock options, with 100% of shares to be earned based on the achievement of an objective return on invested capital measured over a two-year performance period. The fair value on the date of the grant of $4.94 per share.

The Company applies a 3.2% and a 5.5% forfeiture rate to its restricted stock and option grants from the 2011 LTIP, based on historical analysis.

In the three months ended September 30, 2016 and September 30, 2015, no options were exercised, generating no proceeds to the Company. In the nine months ended September 30, 2016, 3,924 options were exercised, generating proceeds to the Company of approximately $8,000. In the nine months ended September 30, 2015, 3,970 options were exercised, generating proceeds to the Company of approximately $28,000.

At September 30, 2016, total unrecognized compensation expense related to unvested stock and options was approximately $3.2 million, which is expected to be recognized over a period of approximately two years.

15. 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 other proceedings, individually or in the aggregate, would be expected to have a material adverse effect on results of operations, cash flows or financial condition.

16. Segment Information

The Company currently operates in two reportable segments: heavy civil marine construction and commercial concrete construction. The Company's financial reporting systems present various data for management to run the business, including profit and loss statements prepared according to the segments presented. Management uses operating income to evaluate performance between the two segments. Segment information for the periods presented is provided as follows:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Heavy Civil Marine Construction				
Contract revenues	$82,169	$90,068	$224,550	$257,614
Operating income (loss)	3,272	(10,746)	(1,082)	(13,651)
Depreciation and amortization expense	(5,547)	(5,585)	(15,790)	(16,239)
Total Assets	$306,788	$348,074	$306,788	$348,074
Property, Plant and Equipment, net	146,361	149,162	146,361	$149,162
Commercial Concrete Construction				
Contract revenues	$81,848	$46,993	$209,391	$46,993
Operating income	6,259	2,421	10,439	2,421
Depreciation and amortization expense	(3,015)	(2,592)	(9,975)	(2,592)
Total Assets	$161,419	$156,325	$161,419	$156,325
Property, Plant and Equipment, net	14,882	14,759	14,882	14,759

There were no intersegment revenues between the Company's two reportable segments for the three and nine months ended September 30, 2016 and 2015. The heavy civil marine construction segment had foreign revenues of $1.1 million and $4.5 million for the three months ended September 30, 2016 and 2015 and $7.2 million and $17.1 million for the nine months ended September 30, 2016 and 2015. These revenues are derived from projects in Mexico and the Caribbean and are paid in U.S. dollars. There was no foreign revenue for the commercial concrete construction segment.

17. Related Party Transactions

Upon the completion of the acquisition of TAS, the Company entered into a lease arrangement with an entity in which an employee owns an interest. This lease is for office space and yard facilities used by the commercial concrete construction segment. Annual lease expense will be approximately $820,000, of which approximately $205,000 and $615,000 represented lease expense during the three and nine months ended September 30, 2016, respectively.

GLM Concrete Solutions, LLC ("GLM"), of which the Company owns 49% of the issued and outstanding membership interests, employs certain employees that are subcontracted to TAS, a wholly owned subsidiary of the Company, for certain projects. As of the three and nine months ended September 30, 2016, payroll expense related to these subcontracted employees was $0.2 million and $0.5 million, respectively. Additionally, GLM provides certain management services to TAS, including safety, human resources and project management. As of the three and nine months ended September 30, 2016, management expense for these services was $0.1 million and $0.4 million, respectively.

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" a to Orion Group Holdings, 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, including unforeseen productivity delays and other difficulties encountered in project execution, levels of government funding or other governmental budgetary constraints, and contract cancellation at the discretion of the customer. 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, 2015 ("2015 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 2015 audited consolidated financial statements and notes thereto included in its 2015 Form 10-K, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2015 Form 10-K and with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this quarterly report.

Overview

On May 19, 2016, the Board of Directors of Orion Marine Group, Inc. approved a name change to Orion Group Holdings, Inc. (the "Company"), to better reflect its operating profile and strategic outlook, following the acquisition of a commercial concrete construction company. The Company now operates as two segments: the heavy civil marine construction segment, which will continue to operate under the Orion Marine Group brand and logo, and the commercial concrete constructions segment, which will continue to operate under the TAS Commercial Concrete brand and logo.

Orion Group Holdings, Inc., its subsidiaries and affiliates, provide a broad range of construction and specialty services in the continental United States, Alaska, Canada and the Caribbean Basin through its heavy civil marine construction and commercial concrete construction segments. The Company's heavy civil marine construction segment services include marine transportation facility construction, marine pipeline construction, marine environmental structures, dredging of waterways, channels and ports, environmental dredging, design, and specialty services. Its commercial concrete construction segment provides turnkey concrete construction services including pour and finish, dirt work, layout, forming, rebar, and mesh across the light commercial structural and other associated business areas. The Company is headquartered in Houston, Texas with offices throughout its operating areas.

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

Most of our revenue is derived from fixed-price contracts. We record revenue on construction contracts using the percentage-of-completion method, measured by the percentage of contract costs incurred to date to total estimated costs for each contract. There are a number of factors that can create variability in contract performance and therefore impact the results of our operations. The most significant of these include the following:
- completeness and accuracy of the original bid;
- increases in commodity prices such as concrete, steel and fuel;
- customer delays, work stoppages, and other costs due to weather and environmental restrictions;
- availability and skill level of workers; and
- a change in availability and proximity of equipment and materials.

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

Third quarter 2016 recap and 2017 Outlook

During the third quarter, we were encouraged by the productivity of our operations and the sustained level of opportunities we see. In our heavy civil marine construction segment, we have materially completed the remaining troubled Tampa projects. With these projects substantially behind us, we are confident that new management in our Tampa office have the tools and structure in place for profitable operations in the future. Bridge projects funded by various state departments of transportation, as well as projects led by local port authorities, continue to be let at normal levels. We are focused on maintaining equipment utilization by targeting the right projects from our bid opportunities. The commercial concrete construction segment continues to perform well, particularly in the Dallas market with solid market drivers and new bid opportunities in the private sector.

In the beginning of October, Hurricane Matthew impacted our operations on the East Coast. This resulted in delayed projects as we took appropriate precautions necessary to maintain the safety of our employees, prevent any significant damage to ongoing projects, and prevent damage to our equipment. We were successful in our approach, but our East Coast operations saw delays in projects as a result of the storm. Additionally, some of our customers have experienced permit delays causing the anticipated start date of certain jobs to push out into 2017. As a result of these two factors, we believe fourth quarter results will fall below our initial expectations, however, this delay in activity will benefit 2017. Given the backlog we have today, the amount of low bids outstanding, and the amount of work to bid in the coming quarters, we are confident we will have a strong year in 2017.

Heavy Civil Marine Construction Segment

Demand for our heavy civil marine construction services remains strong. We continue to see solid demand to help maintain and expand the infrastructure that facilitates the movement of goods and people on and over waterways. Specifically, we continue to see bid opportunities from our private sector energy related customers as they expand their marine facilities related to the storage, transportation and refining of domestically produced energy. Over the long term, we expect further opportunities in this sector from petrochemical related customers, energy exporters, and liquefied natural gas facilities. Opportunities from local port authorities also remain solid, many of which are related to the completion of the Panama Canal expansion project. Additionally, we expect to see some bid opportunities related to coastal restoration funded through the Resources and Ecosystems Sustainability, Tourism Opportunities and Revived Economy of the Gulf Coast Act of 2011 (the "RESTORE Act") towards the end of 2016. We believe the adjustments we have made to our capital assets will allow us to better meet market demand for projects from both our public and private customers in the future.

Commercial Concrete Construction Segment

Our commercial concrete construction segment's demand for services also remains strong. In the Houston market, we are seeing increasing demand for education, medical and retail space. The Dallas market continues to be a source of growth and continues to maintain peak backlog levels for that market. We believe solid demand for our commercial concrete construction segment will continue in our current operating markets and support our expansion in the Dallas market. We also continue to explore potential opportunities to bring both our heavy civil marine construction and commercial concrete construction services to work on projects.

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

- General demand to repair and improve degrading U. S. marine infrastructure;

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

Consolidated Results of Operations

Backlog Information

Our contract backlog represents our estimate of the revenues we expect to realize under the portion of contracts remaining to be performed. Given the typical duration of our contracts, which is generally less than a year, our backlog at any point in time usually represents only a portion of the revenue that we expect to realize during a twelve month period. Many projects that make up our backlog may be canceled at any time without penalty; however, we can generally recover actual committed costs and profit on work performed up to the date of cancellation. Although we have not been adversely affected by contract cancellations or modifications in the past, we may be in the future, especially in economically uncertain periods. Consequently, backlog is not necessarily indicative of future results. In addition to our backlog under contract, we also have a substantial number of projects in negotiation or pending award at any time.

Backlog for our heavy civil marine construction segment at September 30, 2016 was $201.9 million, as compared with $223.7 million at September 30, 2015.

Backlog for our commercial concrete construction segment at September 30, 2016 was $186.3 million, as compared with $180.3 million at September 30, 2015.

Three months ended September 30, 2016 compared with three months ended September 30, 2015

	Three months ended September 30,			
	2016		2015	
	Amount	Percent	Amount	Percent
	(dollar amounts in thousands)			
Contract revenues	$164,017	100.0 %	$137,061	100.0 %
Cost of contract revenues	139,849	85.3 %	128,783	94.0 %
Gross profit	24,168	14.7 %	8,278	6.0 %
Selling, general and administrative expenses	15,291	9.3 %	14,496	10.6 %
(Gain) loss on sale of assets, net	(654)	(0.4)%	2,107	1.5 %
Operating income (loss) from operations	9,531	5.8 %	(8,325)	(6.1)%
Other (expense) income				
Other income	10	— %	190	0.1 %
Interest income	—	— %	13	— %
Interest expense	(1,578)	(0.9)%	(943)	(0.7)%

Other expense, net	(1,568)	(0.9)%	(740)	(0.6)%
Income (loss) before income taxes	7,963	4.9 %	(9,065)	(6.7)%
Income tax expense (benefit)	3,224	2.0 %	(1,669)	(1.2)%
Net income (loss)	$4,739	2.9 %	$(7,396)	(5.5)%

Contract Revenues. Consolidated contract revenues for the three months ended September 30, 2016 were $164.0 million as compared with $137.1 million in the comparable prior year period, which was an increase of $26.9 million, or 19.7% from the comparable period in the prior year. This increase is mainly attributable to a full quarter of operations for the commercial concrete construction segment which was acquired during third quarter of 2015.

Contract revenues generated from private sector customers for the heavy civil marine construction segment represented 43.5% of segment contract revenues in the third quarter of 2016, or approximately $35.8 million as compared with $32.7 million or 36.3% for the comparable prior year period. The increase in revenue is due to the addition of several key projects partially offset by some project completions prior to the quarter.

Contract revenues generated from public sector customers for the heavy civil marine construction segment represented 56.5% of segment contract revenues in the third quarter of 2016, or approximately $46.4 million, as compared with $57.4 million or 63.7%, in the comparable prior year period. The decrease in revenue is due to a shift in timing of projects as well as completion of certain projects during 2015.

Contract revenues in the commercial concrete construction segment are primarily derived from private sector customers. Private sector customers represent $72.0 million, or 88.0%, of total contract revenues for the commercial concrete construction segment in the third quarter of 2016, compared to $41.7 million, or 88.6% in the comparable prior year period.

Gross Profit. Gross profit was $24.2 million in the three months ended September 30, 2016, as compared with $8.3 million in the comparable prior year period. Gross margin in the third quarter was 14.7%, as compared with 6.0% in the comparable prior year period. Gross profit increased primarily as a result of a full quarter of operating results from the commercial concrete construction segment, which contributed $11.0 million to gross profit in the third quarter of 2016, compared to $6.8 million in the comparable prior year period. In addition, during this same period, gross profit for the heavy civil marine construction segment increased by approximately $11.7 million, despite a decrease in revenues, due to the completion of the troubled Tampa jobs.

Selling, General and Administrative Expense. Selling, general and administrative ("SG&A") expenses in the third quarter of 2016 were $15.3 million as compared with $14.5 million in the comparable prior year period, which was an increase of $0.8 million, or 5.5%. The increase is partially attributable to a full quarter of operating results for the commercial concrete construction segment, which increased $0.5 million between the comparable periods. Additional increases are associated with higher payroll and payroll related costs, specifically increases in group health insurance costs.

Other income, net of expense. Other expense primarily reflects interest on our borrowings.

Income Tax Benefit. We have estimated our annual effective tax rate at 42% for 2016. This differs from the statutory rate of 35%, primarily due to state income taxes, the non-deductibility of certain permanent items, such as incentive stock compensation expense, and a true up of prior year taxes.

Nine months ended September 30, 2016 compared with nine months ended September 30, 2015

	Nine months ended September 30,			
	2016		2015	
	Amount	Percent	Amount	Percent
	(dollar amounts in thousands)			
Contract revenues	$433,941	100.0 %	$304,607	100.0 %
Cost of contract revenues	378,116	87.1 %	281,848	92.5 %
Gross profit	55,825	12.9 %	22,759	7.5 %
Selling, general and administrative expenses	47,728	11.0 %	31,982	10.5 %
(Gain) loss on sale of assets, net	(1,260)	(0.3)%	2,007	0.7 %
Operating income (loss) from operations	9,357	2.2 %	(11,230)	(3.7)%

Other (expense) income				
Other income	32	— %	190	0.1 %
Interest income	1	— %	30	— %
Interest expense	(4,695)	(1.1)%	(1,433)	(0.5)%
Other expense, net	(4,662)	(1.1)%	(1,213)	(0.4)%
Income (loss) before income taxes	4,695	1.1 %	(12,443)	(4.1)%
Income tax expense (benefit)	1,972	0.5 %	(2,945)	(1.0)%
Net income (loss)	$2,723	0.6 %	$(9,498)	(3.1)%

Contract Revenues. Consolidated contract revenues for the nine months ended September 30, 2016 were $433.9 million as compared with $304.6 million in the comparable prior year period, which was an increase of $129.3 million, or 42.5% from the

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comparable prior year period. This increase is attributable to a full period of operations for the commercial concrete construction segment which was acquired during third quarter of 2015.

Contract revenues generated from private sector customers for the heavy civil marine construction segment represented 54.5% of segment contract revenues in the nine months ended September 30, 2016, or approximately $122.4 million, as compared with $102.6 million or 39.8%, in the comparable prior year period. The increase in revenue is due to the addition of several significant projects during the year.

Contract revenues generated from public sector customers for the heavy civil marine construction segment represented 45.5% of segment contract revenues in the nine months ended September 30, 2016, or approximately $102.1 million, as compared with $155.0 million or 60.2%, in the comparable prior year period. The decrease in revenue is due to a shift in timing of projects as well as completion of certain projects during 2015.

Contract revenues in the commercial concrete construction segment are primarily derived from private sector customers. Private sector customers represent $185.3 million, or 88.5%, of total contract revenues for the commercial concrete construction segment in the nine months ended September 30, 2016, compared to $41.7 million or 88.6% in the comparable prior year period.

Gross Profit.   Gross profit was $55.8 million in the nine months ended September 30, 2016, as compared with $22.8 million in the comparable prior year period. Gross margin in the third quarter was 12.9%, as compared with 7.5% in the comparable prior year period. Gross profit increased primarily as a result of having a full period of operations for the commercial concrete construction segment, which contributed $26.1 million to gross profit in the 2016 period, compared to $6.8 million for the prior year period. In addition, during the current period, gross profit for the heavy civil marine construction segment increased by approximately $13.8 million, despite a decrease in revenues, due to the completion of the troubled Tampa jobs.

Selling, General and Administrative Expense. Selling, general and administrative ("SG&A") expenses in the third quarter of 2016 were $47.7 million as compared with $32.0 million in the comparable prior year period, which was an increase of $15.7 million, or 49.2%. The increase is partially attributable to a full period of operating results for the commercial concrete construction segment, which contributed $15.9 million in additional SG&A expenses during the period compared to $4.4 million for the prior year period. Additional increases are associated with higher payroll and payroll related costs, specifically increases in group health insurance costs.

Other income, net of expense. Other expense primarily reflects interest on our borrowings.

Income Tax Benefit. We have estimated our annual effective tax rate at 42% for 2016. This differs from the statutory rate of 35%, primarily due to state income taxes, the non-deductibility of certain permanent items, such as incentive stock compensation expense, and a true up to prior year taxes.

Segment Results

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

Three months ended September 30, 2016 compared with three months ended September 30, 2015

	Three months ended September 30,			
	2016		2015	
	Amount	Percent	Amount	Percent
	(dollar amounts in thousands)			
Contract revenues				
Heavy Civil Marine Construction Segment	$82,169	50.1 %	$90,068	65.7 %
Commercial Concrete Construction Segment	81,848	49.9 %	46,993	34.3 %
Total	$164,017	100.0%	$137,061	100.0 %
Operating income (loss)				
Heavy Civil Marine Construction Segment	$3,272	4.0 %	$(10,746)	(11.9)%
Commercial Concrete Construction Segment	6,259	7.6 %	2,421	5.2 %
Total	$9,531		$(8,325)	

Heavy Civil Marine Construction Segment

Revenues for our heavy civil marine construction segment for the three months ended September 30, 2016 were $82.2 million compared to $90.1 million for the three months ended September 30, 2015, a decrease of $7.9 million, or 8.8%. This decrease is primarily attributable to the timing and mix of jobs, including the material completion of certain jobs.

Operating income for our heavy civil marine construction segment for the three months ended September 30, 2016 was $3.3 million, compared to a $10.7 million loss, an improvement of $14.0 million from the three months ended September 30, 2015. The margin improvement was primarily due to the completion of troubled Tampa jobs prior to the quarter. As a percentage of revenues, operating income for our heavy civil marine construction segment was 4.0% for the three months ended September 30, 2016 compared to (11.9)% for the three months ended September 30, 2015.

Commercial Concrete Construction Segment

Revenues for our commercial concrete construction segment for the three months ended September 30, 2016 were $81.8 million compared to $47.0 million for the three months ended September 30, 2015, an increase of $34.8 million, or 74.2%. This increase in revenue was primarily due to a full quarter of operations compared to a partial quarter during the prior year period due to the timing of the acquisition. In addition there was also growth in the Dallas market which was partially offset by our Houston market.

Operating income for our commercial concrete construction segment for the three months ended September 30, 2016 was $6.3 million, compared to $2.4 million, an increase of $3.9 million from the three months ended September 30, 2015. The margin improvement was primarily due to a full quarter of operations compared to a partial quarter during the prior year period due to the timing of the acquisition. As a percentage of revenues, operating income for our commercial concrete construction segment was 7.6% for the three months ended September 30, 2016 compared to 5.2% for the three months ended September 30, 2015.

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Nine months ended September 30, 2016 compared with nine months ended September 30, 2015

	Nine months ended September 30,			
	2016		2015	
	Amount	Percent	Amount	Percent
	(dollar amounts in thousands)			
Contract revenues				
Heavy Civil Marine Construction Segment	$224,550	51.7 %	$257,614	84.6 %
Commercial Concrete Construction Segment	209,391	48.3 %	46,993	15.4 %
Total	$433,941	100.0 %	$304,607	100.0 %
Operating (loss) income				
Heavy Civil Marine Construction Segment	$(1,082)	(0.5)%	$(13,651)	(5.3)%
Commercial Concrete Construction Segment	10,439	5.0 %	2,421	5.2 %
Total	$9,357		$(11,230)	

Heavy Civil Marine Construction Segment

Revenues for our heavy civil marine construction segment for the nine months ended September 30, 2016 were $224.6 million compared to $257.6 million for the nine months ended September 30, 2015, a decrease of $33.0 million, or 12.8%. This decrease is primarily attributable to the timing and mix of jobs.

Operating loss for our heavy civil marine construction segment for the nine months ended September 30, 2016 was $1.1 million, compared to a $13.7 million loss, an improvement of $12.6 million from the nine months ended September 30, 2015. The margin improvement was primarily due to the completion of the troubled Tampa jobs. As a percentage of revenues, operating losses for our heavy civil marine segment were (0.5)% for the nine months ended September 30, 2016 compared to (5.3)% for the nine months ended September 30, 2015.

Commercial Concrete Construction Segment

Revenues for our commercial concrete construction segment for the nine months ended September 30, 2016 were $209.4 million compared to $47.0 million for the nine months ended September 30, 2015, an increase of $162.4 million, or 345.6%. This increase in revenue was primarily due to a full period of operations compared to a partial period during the prior year period due to the timing of the acquisition as well as additional projects in the Dallas market.

Operating income for our commercial concrete construction segment for the nine months ended September 30, 2016 was $10.4 million, compared to $2.4 million, an increase of $8.0 million from the nine months ended September 30, 2015. The margin improvement was primarily due to a full period of operations compared to a partial period during the prior year period due to the timing of the acquisition. As a percentage of revenues, operating income for our commercial concrete construction segment was 5.0% for the nine months ended September 30, 2016 compared to 5.2% for the nine months ended September 30, 2015.

Liquidity and Capital Resources

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

Our working capital position fluctuates from period to period due to normal increases and decreases in operational activity. At September 30, 2016, our working capital was $76.0 million, as compared with $60.9 million at December 31, 2015. As of September 30, 2016, we had cash on hand of $3.1 million. Due to the outstanding amount on our revolver and outstanding letters of credit, our borrowing capacity at September 30, 2016 was approximately $32.7 million.

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

The following table provides information regarding our cash flows and our capital expenditures for the nine months ended September 30, 2016 and 2015:

	Nine months ended September 30,	
	2016	2015
Cash flows provided by (used in) operating activities	$13,431	$(2,621)
Cash flows used in investing activities	$(15,600)	$(125,244)
Cash flows provided by financing activities	$3,970	$107,253
Capital expenditures (included in investing activities above)	$(16,334)	$(13,577)

Operating Activities. In the nine months of 2016, our operations provided approximately $13.4 million of cash, as compared with cash used in operations in the comparable prior year period of $2.6 million. The change in cash between periods was $16.1 million and was primarily attributable to additional net income of $12.2 million, changes in depreciation and amortization expense and deferred financing costs of approximately $7.9 million, offset by changes of $4.4 million in working capital.

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

Investing Activities. Capital asset additions and betterments to our fleet were $16.3 million in the nine months ended September 30, 2016, as compared with $13.6 million in the comparable prior year period. The increase is primarily a result of timing of purchase of capital assets. The Company is on track to meet its projected capital expenditures budget for the current fiscal year.

Financing Activities. Through the nine months ended September 30, 2016, we drew down $47.0 million from our revolving line of credit. Additionally, we repaid $35.0 million on this draw, as well as made our regularly scheduled debt payments and an additional payment on the term loan of $7.6 million for a total of $42.6 million in debt payments. In the comparable prior year period, we paid back the temporary draw on our line of credit to fund the purchase of a dry-dock of $3.5 million and made our first quarterly payment on new debt for a total of approximately $1.7 million.

Sources of Capital

The Company entered into a syndicated credit agreement (the "Credit Agreement") on August 5, 2015 with Regions Bank, as administrative agent and collateral agent, and the following co-syndication agents: Bank of America, N.A., BOKF, NA dba Bank of Texas, Branch Banking & Trust Company, Frost Bank, Bank Midwest, a division of NBH Bank, N.A., IBERIABANK, KeyBank NA, Trustmark National Bank, and First Tennessee Bank NA. The primary purpose of the Credit Agreement was to finance the acquisition of TAS, to provide a revolving line of credit, and to provide financing to extinguish all prior indebtedness with Wells Fargo Bank, National Associates, as administrative agent, and Wells Fargo Securities, LLC.

The Credit Agreement, which may be amended from time to time, provides for borrowings under a revolving line of credit and swingline loans with a commitment amount of $50.0 million and a term loan with a commitment amount of $135.0 million (together, the “Credit Facility”). The Credit Facility is guaranteed by the subsidiaries of the Company, secured by the assets of the Company, including stock held in its subsidiaries, and may be used to finance general corporate and working capital purposes, to finance capital expenditures, to refinance existing indebtedness, to finance permitted acquisitions and associated fees, and to pay for all related expenses to the Credit Facility. Interest is due and is computed based on the designation of the loan, with the option of a Base Rate Loan (the base rate plus the

Applicable Margin), or an Adjusted LIBOR Rate Loan (the adjusted LIBOR rate plus the Applicable Margin). Interest is due on the last day of each quarter end for Base Rate Loans and at the end of the LIBOR rate period for Adjusted LIBOR Rate Loans. The rate for all loans at the time of loan origination was 4.75%. Principal balances drawn under the Credit Facility may be prepaid at any time, in whole or in part, without premium or penalty. Amounts repaid under the revolving line of credit may be re-borrowed. The Credit Facility matures on August 5, 2020.

Total debt issuance costs, which included underwriter fees, legal fees and syndication fees were approximately $4.5 million. During the first quarter of 2016, the Company executed the First Amendment of the Credit Agreement and additional costs were incurred of approximately $0.5 million. These costs were initially capitalized as non-current deferred charges and amortized using the effective interest rate method over the duration of the loan. During the first quarter of 2016, the Company adopted ASU 2015-03, Interest - Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs. Upon adoption of this guidance, debt issuance costs are now presented as a direct deduction from the carrying amount of the debt liability, of which $0.8 million was allocated to current debt and $2.8 million was allocated to long-term debt as of September 30, 2016. As of December 31, 2015, $0.5 million was allocated to current debt and $3.6 million was allocated to long-term debt.

The quarterly weighted average interest rate for the Credit Facility as of September 30, 2016 was 3.81%.

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

	September 30, 2016			December 31, 2015		
	Principal	Debt Issuance Costs(1)	Total	Principal	Debt Issuance Costs(1)	Total
Revolver	$16,000	$(501)	$15,499	$4,021	$(147)	$3,874
Term Loan - Current	10,969	(343)	10,626	8,438	(308)	8,130
Total Current	26,969	(844)	26,125	12,459	(455)	12,004
Term Loan - LT	88,125	(2,758)	85,367	98,188	(3,583)	94,605
Total Debt	$115,094	$(3,602)	$111,492	$110,647	$(4,038)	$106,609

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

Provisions of the revolving line of credit and accordion

The Company has a maximum borrowing availability under the revolving line of credit and swingline loans (as defined in the Credit Agreement) of $50.0 million. The letter of credit sublimit is equal to the lesser of $20.0 million and the aggregate unused amount of the revolving commitments then in effect. The swingline sublimit is equal to the lesser of $5.0 million and the aggregate unused amount of the revolving commitments then in effect.

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

The Company is subject to a Commitment Fee for the unused portion of the maximum available to borrow under the revolving line of credit. The Commitment Fee, which is due quarterly in arrears, is equal to the Applicable Margin of the actual daily amount by which the Aggregate Revolving Commitments exceeds the Total Revolving Outstanding. The revolving line of credit termination date is the earlier of the Credit Facility termination date, August 5, 2020, or the date the outstanding balance is permanently reduced to zero. The Company has the intent and ability to repay the amounts outstanding on the revolving line of credit within one year, therefore, the outstanding balance as of September 30, 2016 has been classified as current.

As of September 30, 2016, the outstanding balance on the revolving line of credit was $16.0 million and was designated as an Adjusted LIBOR Rate Loan at a rate of 3.56%. There was also $1.3 million in outstanding letters of credit as of September 30, 2016, which reduced the maximum borrowing availability on the revolving line of credit to $32.7 million as of September 30, 2016. The Company made payments of $11.0 million on the outstanding revolving balance during the third quarter of 2016. Subsequent to the third quarter, the Company drew $10.0 million on the revolving line of credit.

Provisions of the term loan

The original principal amount of $135.0 million for the term loan commitment shall be repaid in quarterly installment payments (as stated in the Credit Agreement). At September 30, 2016, the outstanding term loan component of the Credit Facility totaled $99.1 million and was secured by specific assets of the Company. The table below outlines the total remaining payment amounts annually for the next five years for the term loan through maturity of the Credit

Facility:

2016	$2,531
2017	11,813
2018	13,500
2019	15,188
2020	56,062
	$99,094

During the three months ended September 30, 2016, the Company made the scheduled quarterly principal payment of $2.5 million , which reduced the outstanding principal balance to $99.1 million at September 30, 2016. The current portion of debt is $11.0 million and the non-current portion is $88.1 million. As of September 30, 2016, the term loan was designated as an Adjusted LIBOR Rate Loan with an interest rate of 3.56%.

Financial covenants

Restrictive financial covenants under the Credit Facility include:
•A consolidated Fixed Charge Coverage Ratio as of the end of any fiscal quarter to be less than 1.25 to 1.00.
•A consolidated Leverage Ratio to not exceed the following during each noted period:
-Closing Date through and including December 31, 2015, to not exceed 3.25 to 1.00;
-Fiscal Quarter Ending March 31, 2016, to not exceed 4.00 to 1.00;
-Fiscal Quarter Ending June 30, 2016, to not exceed 3.75 to 1.00;
-Fiscal Quarter Ending September 30, 2016, to not exceed 3.25 to 1.00;
-Fiscal Quarter Ending December 31, 2016, to not exceed 3.00 to 1.00;
-Fiscal Quarter Ending March 31, 2017, to not exceed 2.75 to 1.00;
-Fiscal Quarter Ending June 30, 2017 and each Fiscal Quarter thereafter, to not exceed 2.50 to 1.00.

As of September 30, 2016, the Company was in compliance with all financial covenants.

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

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

On September 16, 2015, the Company entered into a series of receive-variable, pay-fixed interest rate swaps to hedge the variability in the interest payments on 50% of the aggregate principal amount of the Regions Term Loan outstanding, beginning with a notional amount of $67.5 million. There are a total of five sequential interest rate swaps to achieve the hedged position and each year on August 31, with the exception of the final swap, the existing interest rate swap is scheduled to expire and will be immediately replaced with a new interest rate swap until the expiration of the final swap on July 31, 2020. At inception, these interest rate swaps were designated as a cash flow hedge for hedge accounting, and as such, the effective portion of unrealized changes in market value are recorded in accumulated other comprehensive income (loss) and reclassified into earnings during the period in which the hedged forecasted transaction affects earnings. Gains and losses from hedge ineffectiveness are recognized in current earnings. The change in fair market value of the swaps as of September 30, 2016 is $1.0 million, which is reflected in the balance sheet as a liability. The fair market value of the swaps as of September 30, 2016 is $1.7 million.

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 September 30, 2016, our capacity under our current bonding arrangement was in excess of $400 million, of which we had approximately $214 million in surety bonds outstanding. We believe our strong balance sheet and working capital position will allow us to continue to access our bonding capacity.

Effect of Inflation

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

Item 3. Quantitative and Qualitative Disclosures about 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. Historically, our exposure to foreign currency fluctuations has not been material and has been limited to temporary field accounts, located in foreign countries where we perform work. Foreign currency fluctuations were immaterial in this reporting period.

Commodity price risk
We are subject to fluctuations in commodity prices for concrete, steel products and fuel. Although we routinely attempt to secure firm quotes from our suppliers, we generally do not hedge against increases in prices for 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 September 30, 2016, we had $115.1 million in outstanding borrowings under our credit facility, with a weighted average interest rate over the three month period of 3.81%. Also we have entered into a series of receive-variable, pay-fixed interest rate swaps to hedge the variability in the interest payments on 50% of the aggregate principal amount of the term loan component of the credit facility outstanding, beginning with a notional amount of $67.5 million. At inception, these interest rate swaps were designated as a cash flow hedge for hedge accounting. Our objectives in managing interest rate risk are to lower our overall borrowing costs and limit interest rate changes on our earnings and cash flows. To achieve this, we closely monitor changes in interest rates and we utilize cash from operations to reduce our debt position, if warranted.

Item 4. Controls and Procedures

- 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 the Company's 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, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.
- 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 15 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 2015 Form 10-K.

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

There were no sales of equity securities in the period ended September 30, 2016.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
2.1	Membership Interests Purchase Agreement dated August 5, 2015 by and among T.A.S. Holdings, LLC and Orion Concrete Construction, LLC (Schedules, exhibits and similar attachments to the Purchase Agreement that are not material have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish supplementally a copy of any omitted schedule, exhibit or similar attachment to the SEC upon request) (incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, filed with the Securities and Exchange Commission on August 7, 2015 (File No. 1-33892)).
2.2	First Amendment, effective June 17, 2016, to the Membership Interests Purchase Agreement dated August 5, 2015 (incorporated herein by reference to Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 5, 2016 (File No. 1-33891)).
2.3	Post Closing Supplemental Agreement Amendment, effective June 17, 2016, as a supplement to the Membership Interests Purchase Agreement dated August 5, 2015 (incorporated herein by reference to Exhibit 2.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 5, 2016 (File No. 1-33891)).
3.1	Amended and Restated Certificate of Incorporation of Orion Group Holdings, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 5, 2016 (File No. 1-33891)).
3.2	Amended and Restated Bylaws of Orion Group Holdings, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 5, 2016 (File No. 1-33891)).
4.1	Registration Rights Agreement by and between Friedman, Billings, Ramsey & Co., Inc. and Orion Marine Group, Inc. dated May 17, 2007 (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on August 20, 2007 (File No. 333-145588)).
10.1	Credit Agreement dated as of August 5, 2015 among Orion Marine Group, Inc. as Borrower, Certain Subsidiaries of the Borrower Party Hereto From Time to Time, as Guarantors, The Lenders Party Hereto, Regions Bank, as Administrative Agent and Collateral Agent, and Bank of America, N.A., BOKF, NA DBA Bank of Texas, and Branch Banking and Trust Company, as Co-Syndication Agents, Regions Capital Markets, a division of Regions Bank, as Lead Arranger and Book Manager (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, filed with the Securities and Exchange Commission on August 7, 2015 (File No. 1-33982)).
10.2	First amendment, effective March 31, 2016, to the Credit Agreement dated as of August 5, 2015 among Orion Marine Group, Inc. as Borrower, Certain Subsidiaries of the Borrower Party Hereto From Time to Time, as Guarantors, The Lenders Party Hereto, Regions Bank, as Administrative Agent and Collateral Agent, and Bank of America, N.A., BOKF, NA DBA Bank of Texas, and Branch Banking and Trust Company, as Co-Syndication Agents, Regions Capital Markets, a division of Regions Bank, as Lead Arranger and Book Manager (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed with the Securities and Exchange Commission on May 6, 2016 (File No. 1-33892)).
* 31.1	Certification of the Chief Executive Officer Pursuant to Rules 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

* 31.2	Certification of the Chief Financial Officer Pursuant to Rules 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
* 32.1	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Title 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* filed herewith
† management or compensatory arrangement

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 GROUP HOLDINGS, INC.
By:	/s/ Mark R. Stauffer
November 8, 2016	Mark R. Stauffer
	President and Chief Executive Officer
By:	/s/ Christopher J. DeAlmeida
November 8, 2016	Christopher J. DeAlmeida
	Vice President and Chief Financial Officer

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