

Orion Marine Group Inc  
Form 10-Q  
November 03, 2011  
Table of Contents

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

(Mark One)

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

For the quarterly period ended September 30, 2011  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number:  
1-33891

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

DELAWARE  
(State or other jurisdiction of  
Incorporation or organization)

26-0097459  
(I.R.S. Employer  
Identification Number)

12000 Aerospace Dr. Suite 300  
Houston, Texas  
(Address of principal executive offices)

77034  
(Zip Code)

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

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

Yes  No

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

Yes  No

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

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

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

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

As of November 1, 2011, 27,119,191 shares of the Registrant's common stock, \$0.01 par value were outstanding.

1

---

Table of Contents

ORION MARINE GROUP, INC.

Quarterly Report on Form 10-Q for the period ended September 30, 2011

INDEX

PART I FINANCIAL INFORMATION

	Page
Item 1	
Financial Statements (Unaudited)	
<u>Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2011 and 2010</u>	<u>4</u>
<u>Condensed Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2011</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
Item 3	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>21</u>
Item 4	
<u>Controls and Procedures</u>	<u>21</u>

PART II OTHER INFORMATION

Item 1	<u>Legal Proceedings</u>	<u>22</u>
Item 1A	<u>Risk Factors</u>	<u>22</u>
Item 6	<u>Exhibits</u>	<u>22</u>

<u>SIGNATURES</u>	<u>23</u>
-------------------	-----------

Table of Contents

## Part I – Financial Information

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

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$35,188	\$23,174
Accounts receivable:		
Trade, net of allowance of \$0	22,873	40,211
Retainage	7,153	10,643
Other	885	4,988
Income taxes receivable	12,810	7,668
Note receivable	51	90
Inventory	3,400	2,991
Deferred tax asset	1,815	1,794
Costs and estimated earnings in excess of billings on uncompleted contracts	14,209	26,103
Prepaid expenses and other	1,133	2,076
Total current assets	99,517	119,738
Property and equipment, net	149,540	155,311
Accounts receivable, long-term	1,410	—
Goodwill	32,168	32,168
Intangible assets, net of accumulated amortization	—	5
Other assets	245	357
Total assets	\$282,880	\$307,579
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable:		
Trade	\$9,949	25,519
Retainage	352	377
Accrued liabilities	8,227	12,463
Taxes payable	—	262
Billings in excess of costs and estimated earnings on uncompleted contracts	4,225	4,389
Total current liabilities	22,753	43,010
Other long-term liabilities	776	746
Deferred income taxes	21,174	16,707
Deferred revenue	217	260
Total liabilities	44,920	60,723
Commitments and contingencies		
Stockholders' equity:		
Common stock -- \$0.01 par value, 50,000,000 authorized, 27,436,922 and 27,017,165 issued; 27,119,191 and 27,004,934 outstanding at September 30, 2011 and December 31, 2010, respectively	274	270
Treasury stock, 317,731 and 12,231 shares, at cost	(3,003)	—
Additional paid-in capital	156,666	154,667

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

Retained earnings	84,023	91,919
Total stockholders' equity	237,960	246,856
Total liabilities and stockholders' equity	\$282,880	\$307,579

See notes to unaudited condensed consolidated financial statements

3

---

Table of Contents

Orion Marine Group, Inc. and Subsidiaries  
Condensed Consolidated Statements of Operations  
Three and Nine Months Ended September 30,  
(Unaudited)  
(In Thousands, Except Share and Per Share Information)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Contract revenues	\$54,583	\$100,024	\$204,539	\$262,706
Costs of contract revenues	57,014	81,594	194,699	209,100
Gross profit (loss)	(2,431	) 18,430	9,840	53,606
Selling, general and administrative expenses	6,631	6,949	21,643	25,490
Operating (loss)/income	(9,062	) 11,481	(11,803	) 28,116
Other income (expense)				
Gain from bargain purchase of a business	—	—	—	2,176
Other income	44	—	44	—
Interest income	5	11	22	43
Interest expense	(95	) (89	) (263	) (322
Other income (expense), net	(46	) (78	) (197	) 1,897
(Loss)/income before income taxes	(9,108	) 11,403	(12,000	) 30,013
Income tax (benefit)/expense	(2,890	) 4,305	(4,104	) 11,125
Net (loss)/income	\$(6,218	) \$7,098	\$(7,896	) \$18,888
Basic (loss)/earnings per share	\$(0.23	) \$0.26	\$(0.29	) \$0.70
Diluted (loss)/earnings per share	\$(0.23	) \$0.26	\$(0.29	) \$0.70
Shares used to compute (loss)/earnings per share				
Basic	26,909,559	26,899,591	26,946,482	26,883,815
Diluted	26,909,559	27,094,326	26,946,482	27,165,987

See notes to unaudited condensed consolidated financial statements

Table of Contents

Orion Marine Group, Inc. and Subsidiaries  
Condensed Consolidated Statement of Stockholders' Equity  
As of September 30, 2011  
(Unaudited)  
(In Thousands, Except Share Information)

	Common Stock Shares	Amount	Treasury Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Total
Balance, December 31, 2010	27,017,165	\$270	(12,231 )	—	\$154,667	\$91,919	\$246,856
Stock-based compensation	—	—	—	—	1,818	—	1,818
Exercise of stock options	32,123	—			185		185
Issue restricted stock	400,417	4			(4 )		—
Excess tax benefits from the exercise of stock options	—	—		—	—		—
Forfeiture of restricted stock	(12,783 )	—			—		—
Purchase of treasury stock			(305,500 )	(3,003 )			(3,003 )
Net loss						(7,896 )	(7,896 )
Balance, September 30, 2011	27,436,922	\$274	(317,731 )	\$(3,003 )	\$156,666	\$84,023	\$237,960

See notes to unaudited condensed consolidated financial statements

Table of Contents

Orion Marine Group, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
Nine months ended September 30,  
(Unaudited)  
(In Thousands)

	2011	2010	
Cash flows from operating activities			
Net (loss) income	\$(7,896	) \$18,888	
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	16,738	14,061	
Deferred financing cost amortization	98	231	
Bad debt expense (recoveries)	165	(328	)
Deferred income taxes	4,446	332	
Stock-based compensation	1,818	1,876	
Gain on sale of property and equipment	(184	) (357	)
Gain on bargain purchase from acquisition of business	—	(2,176	)
Excess tax benefit from stock option exercise	—	(59	)
Change in operating assets and liabilities, excluding effects of businesses acquired:			
Accounts receivable	23,356	3,100	
Income tax receivable	(5,142	) 75	
Inventory	(409	) (883	)
Note receivable	39	1,214	
Prepaid expenses and other	957	637	
Accounts payable	(15,022	) (2,967	)
Accrued liabilities	(3,670	) 3,633	
Income tax payable	(262	) (10	)
Billings in excess of costs and estimated earnings on uncompleted contracts, net	11,730	(18,347	)
Deferred revenue	(43	) (41	)
Net cash provided by operating activities	26,719	18,879	
Cash flows from investing activities:			
Proceeds from sale of property and equipment	807	526	
Purchase of property and equipment	(12,694	) (25,071	)
Acquisition of business in Pacific Northwest	—	(6,653	)
Acquisition of TW LaQuay Dredging (net of cash acquired)	—	(64,000	)
Net cash used in investing activities	(11,887	) (95,198	)
Cash flows from financing activities:			
Exercise of stock options	185	528	
Issuance of restricted stock	—	—	
Excess tax benefit from stock option exercise	—	59	
Increase in loan costs	—	(404	)
Purchase of shares into treasury	(3,003	) —	
Net cash (used in) provided by financing activities	(2,818	) 183	
Net change in cash and cash equivalents	12,014	(76,136	)
Cash and cash equivalents at beginning of period	23,174	104,736	
Cash and cash equivalents at end of period	\$35,188	\$28,600	
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			



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

Interest	\$160	\$84
Taxes (net of refunds)	\$(3,185	) \$10,696

See notes to unaudited condensed consolidated financial statements

6

---

Table of Contents

Orion Marine Group, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
Nine months ended September 30, 2011  
(Unaudited)  
(Tabular Amounts in thousands, Except for Share and per Share Amounts)

1. Description of Business and Basis of Presentation

Description of Business

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

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

Basis of Presentation

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments considered necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the periods presented. Such adjustments are of a normal recurring nature. Interim results of operations for the three and nine months ended September 30, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Current Year Presentation

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

2. Summary of Significant Accounting Principles

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates, judgments and assumptions are continually evaluated based on available information and experience; however, actual amounts could differ from those estimates. The Company's significant accounting policies are more fully described in Note 2 of the Notes to Consolidated Financial Statements in the 2010 Form 10-K.

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

- Revenue recognition from construction contracts;
- Allowance for doubtful accounts;
- Testing of goodwill and other long-lived assets for possible impairment;

## Table of Contents

Income taxes;  
Self-insurance; and  
Stock based compensation

### Revenue Recognition

The Company records revenue on construction contracts for financial statement purposes on the percentage-of-completion method, measured by the percentage of contract costs incurred to date to total estimated costs for each contract. This method is used because management considers contract costs incurred to be the best available measure of progress on these contracts. The Company follows the guidance of ASC 605-35 – Revenue Recognition, Construction-Type and Production-Type Contracts, for its accounting policy relating to the use of the percentage-of-completion method, estimated costs and claim recognition for construction contracts. Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Revenue is recorded net of any sales taxes collected and paid on behalf of the customer, if applicable.

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

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

### Classification of Current Assets and Liabilities

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

### Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At times, cash held by financial institutions may exceed federally insured limits. The Company has not historically sustained losses on our cash balances in excess of federally insured limits. Cash equivalents at September 30, 2011 and December 31, 2010 consisted primarily of money market mutual funds and overnight bank deposits.

### Risk Concentrations

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

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

At September 30, 2011, 16.3% of our accounts receivable was due from a single customer, and at December 31, 2010, one customer accounted for 17.7% of total receivables. In the three months ended September 30, 2011 four customers generated 64.3% of revenues in the period, of which one was the US Army Corps of Engineers (the "Corps"), which generated 26% of total revenues, and in the three months ended September 30, 2010, two customers generated 47.5% of total revenues, of which the Corps represented 35%. In the nine months ended September 30, 2011, two customers represented 36.1% of total revenues, of which one was the Corps, at 24.6% of total revenues, whereas in the comparable period in 2010, the Corps generated 30.3% of total revenue. Revenue and receivables are a reflection of the nature, scope, schedules and customer base of projects under contract at a given point in time. The Company believes that the loss of a single customer, other than the Corps, would not have a material adverse effect on the Company and its subsidiaries and affiliates.

## Table of Contents

### Accounts Receivable

Accounts receivable are stated at the historical carrying value, less write-offs and allowances for doubtful accounts. The Company writes off uncollectible accounts receivable against the allowance for doubtful accounts if it is determined that the amounts will not be collected or if a settlement is reached for an amount that is less than the carrying value. In the three months ended September 30, 2011, the Company identified and recorded \$165,000 of bad debt expense, of which over half related to quantity adjustments on projects acquired in 2010 from the acquisition of the dredging business of T.W. LaQuay Dredging. As of September 30, 2011 and December 31, 2010, the Company had not recorded an allowance for doubtful accounts.

Balances billed to customers but not paid pursuant to retainage provisions in construction contracts generally become payable upon contract completion and acceptance by the owner. Retention at September 30, 2011 totaled \$7.2 million, of which \$0.2 million is expected to be collected beyond 2011. Retention at December 31, 2010 totaled \$10.6 million.

### Fair Value Measurements

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

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

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

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

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

### Income Taxes

The Company determines its consolidated income tax provision using the asset and liability method prescribed by US GAAP, which requires the recognition of income tax expense for the amount of taxes payable or refundable for the current period and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity’s financial statements or tax returns. The Company accounts for any uncertain tax positions in accordance with the provisions of ASC 740-10, Income Taxes, which prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken, or expected to be taken, on our consolidated tax return. The Company had not recorded a liability for uncertain tax positions at December 31, 2010 or September 30, 2011.

### Insurance Coverage

The Company maintains insurance coverage for its business and operations. Insurance related to property, equipment, automobile, general liability, and a portion of workers' compensation is provided through traditional policies, subject

to a deductible or deductibles. A portion of the Company's workers' compensation exposure is covered through a mutual association, which is subject to supplemental calls.

Separately, the Company's employee health care is provided through a trust, administered by a third party. The Company funds the trust based on current claims. The administrator has purchased appropriate stop-loss coverage. Losses on these policies up to the deductible amounts are accrued based upon known claims incurred and an estimate of claims incurred but not reported. The accruals are derived from known facts, historical trends and industry averages to determine the best estimate of the ultimate expected loss. Actual claims may vary from our estimate. We include any adjustments to such reserves in our consolidated results of operations in the period in which they become known.

#### Stock-Based Compensation

The Company recognizes compensation expense for equity awards over the vesting period based on the fair value of these awards at the date of grant. The computed fair value of these awards is recognized as a non-cash cost over the period the employee

## Table of Contents

provides services, which is typically the vesting period of the award. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of restricted stock grants is equivalent to the fair value of the stock issued on the date of grant.

Compensation expense is recognized only for share-based payments expected to vest. The Company estimates forfeitures at the date of grant based on historical experience and future expectations.

### Goodwill and Other Intangible Assets

#### Goodwill

The Company has acquired businesses and assets in purchase transactions that resulted in the recognition of goodwill. Goodwill represents the costs in excess of fair values assigned to the underlying net assets in the acquisition. In accordance with 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. New accounting guidance was recently issued that will allow the Company to qualitatively assess the likelihood that the carrying value of its reporting units is less than fair value in lieu of, or prior to, performance of step one of the impairment test process.

#### Intangible assets

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

#### New Accounting Standards

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

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



ASU 2011-08, Intangibles -- Goodwill and Other (Topic 350): Testing Goodwill for Impairment was issued in September 2011. This accounting standard update amends accounting guidance on goodwill impairment testing, and is intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. In addition, this amendment expands upon examples of events and circumstances that an entity should consider in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. This accounting standard update is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. Early adoption of this standard in September 2011 did not have an impact on the Company's financial position, results or operations or cash flows, as it is intended to simplify the assessment of goodwill impairment.

Table of Contents

## 3. Contracts in Progress

Contracts in progress are as follows at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Costs incurred on uncompleted contracts	\$270,277	\$268,603
Estimated earnings	51,414	79,208
	321,691	347,811
Less: Billings to date	(311,707	) (326,097
	\$9,984	\$21,714
Included in the accompanying consolidated balance sheet under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	14,209	\$26,103
Billings in excess of costs and estimated earnings on uncompleted contracts	(4,225	) (4,389
	\$9,984	\$21,714

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

## 4. Property and Equipment

The following is a summary of property and equipment at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Automobiles and trucks	\$1,552	\$2,134
Building and improvements	13,361	13,026
Construction equipment	130,525	122,792
Dredges and dredging equipment	94,831	91,018
Office equipment	3,802	3,528
	244,071	232,498
Less: accumulated depreciation	(114,881	) (100,170
Net book value of depreciable assets	129,190	132,328
Construction in progress	10,996	13,629
Land	9,354	9,354
	\$149,540	\$155,311

For the three months ended September 30, 2011 and 2010, depreciation expense was \$5.6 million and \$4.9 million, respectively, and for the comparable nine month period depreciation expense was \$16.7 million and \$14.0 million, respectively. Substantially all depreciation expense is included in the cost of contract revenue in the Company's Condensed Consolidated Statements of Income. The assets of the Company are pledged as collateral for the Company's line of credit.

## 5. Inventory

Inventory at September 30, 2011 and December 31, 2010, of \$3.4 million and \$3.0 million respectively, consists of spare parts and small equipment held for use in the ordinary course of business.

#### 6. Fair Value

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. Due to their short term nature, we believe that the carrying value of our accounts receivables, other current assets, accounts payables and other current liabilities approximate their fair values. We have a note receivable in the amount of \$51,000, for which we believe that the carrying value approximates its fair value, and which bears interest at 10%.

Table of Contents

## 7. Goodwill and Intangible Assets

## Goodwill

The table below summarizes changes in goodwill recorded by the Company during the periods ended September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Beginning balance, January 1	32,168	\$12,096
Additions	—	20,072
Ending balance	\$32,168	\$32,168

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

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

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

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

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

- ▲ Fixed Charge Coverage Ratio of not less than 1.50 to 1.00 at all times;
- ▲ Leverage Ratio of not greater than 2.5 to 1.00 at all times;
- Minimum Net Worth of not less than a base amount of \$180 million, plus the sum of 50% of each prior period consolidated net income plus 50% of the Borrower's and its subsidiaries consolidated net income for that quarter, plus 75% of all issuances of equity interests by Borrower during that quarter.

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

The Company is subject to a commitment fee, payable quarterly in arrears on the unused portion of the Credit Facility at a current rate of 0.25% of the unused balance. As of September 30, 2011, no amounts had been drawn under the Credit Facility, and the Company's availability under the Credit Facility was approximately \$74.9 million.

At September 30, 2011, the Company was in compliance with all its financial covenants with a sufficient margin as to not impair its ability to incur additional debt or violate the terms of the Credit Facility, and had outstanding letters of credit of \$979,221. Historically, the Company has not relied on debt financing to fund its operations or working capital.

Table of Contents

## 9. Income Taxes

The Company's effective tax rate is based on expected income, statutory tax rates and tax planning opportunities available to it. For interim financial reporting, the Company estimates its annual tax rate based on projected taxable income (or loss) for the full year and records a quarterly tax provision in accordance with the anticipated annual rate. The effective rate for the three months ended September 30, 2011 and 2010 was 31.7% and 37.8%, in each period, respectively. For the nine month period ended September 30, 2011 and 2010, the effective tax rate was 34.2% and 37.1%, respectively. This differed from the Company's statutory rate of 35% primarily due to state income taxes, and the non-deductibility of certain permanent tax items, such as incentive stock compensation expense.

	Current	Deferred	Total
Three months ended September 30, 2011:			
U.S. Federal	\$(4,927	) \$2,106	\$(2,821 )
State and local	(160	) 91	(69 )
	\$(5,087	) \$2,197	\$(2,890 )
Three months ended September 30, 2010:			
U.S. Federal	\$3,752	\$328	\$4,080
State and local	158	67	225
	\$3,910	\$395	\$4,305
	Current	Deferred	Total
Nine months ended September 30, 2011			
U.S. Federal	\$(8,638	) \$4,643	\$(3,995 )
State and local	(256	) 147	(109 )
	\$(8,894	) \$4,790	\$(4,104 )
Nine months ended September 30, 2010			
U.S. Federal	\$10,570	\$253	\$10,823
State and local	223	79	302
	\$10,793	\$332	\$11,125

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 September 30, 2012.

## 10. Earnings Per Share

Basic (loss) earnings per share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per share is based on the weighted average number of common shares outstanding and the effect of all dilutive common stock equivalents during each period. For the three and nine months ended September 30, 2011, no potential common stock equivalents were included as the effect of such would be anti-dilutive.

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Basic:				
Weighted average shares outstanding	26,909,559	26,899,591	26,946,482	26,883,815
Diluted:				
Total basic weighted average shares outstanding	26,909,559	26,899,591	26,946,482	26,883,815

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

Effect of dilutive securities:				
Common stock options	—	194,735	—	282,172
Total weighted average shares outstanding assuming dilution	26,909,559	27,094,326	26,946,482	27,165,987
Anti-dilutive stock options	2,132,469	539,351	2,132,469	283,340
Share of Common Stock issued from the Exercise of Stock Options	1,433	224	32,123	55,964

Table of Contents

## 11. Stock-Based Compensation

The Compensation Committee of the Company's Board of Directors is responsible for the administration of the Company's stock incentive plans, which include the balance of shares remaining under the 2007 Long Term Incentive Plan (the "2007 LTIP") and the 2011 Long Term Incentive Plan (the "2011 LTIP") which was approved by the shareholders in May 2011. The 2011 LTIP provides for a maximum aggregate number of shares to be issued of 3,000,000. In general, both plans provide for grants of restricted stock and stock options to be issued with a per-share price equal to the fair market value of a share of common stock on the date of grant. Option terms are specified at each grant date, but are generally are 10 years from the date of issuance. Options generally vest over a three to five year period.

For the three months ended September 30, 2011 and 2010, compensation expense related to stock based awards outstanding for the periods was \$697,000 and \$481,000, respectively, and for the nine month period was \$1.8 million and \$1.9 million in 2011 and 2010, respectively.

In August 2011, the Company granted options to purchase 948,760 shares of common stock and used the Black Scholes option pricing model to estimate the fair value of stock-based awards. The option awards granted in August 2011 used the following assumptions:

Expected life of options	7.5 years	
Expected volatility	68.5	%
Risk-free interest rate	1.47	%
Dividend yield	—	%
Grant date fair value	\$4.03	

Also in August 2011, the Company granted 400,417 shares of restricted common stock to its named executive officers and directors. The fair value on the date of grant was \$6.00 per share. By the terms of the 2011 LTIP, these shares may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered during the applicable restricted period. The restricted period for the Company's directors is over a six month period, and for the named executive officers is over a five year period, in each case commencing from the date of grant. Compensation expense to be recorded over the restricted period of six months for the director grants is \$240,000, and expense over the five year restricted period for the named executive officers is approximately \$2.2 million.

In April 2011, the Company granted options to purchase 5,040 shares of common stock and used the Black-Scholes option pricing model to estimate the fair value of stock-based awards. The option awards granted in April 2011 used the following assumptions:

Expected life of options	5.75 years	
Expected volatility	49.6	%
Risk-free interest rate	2.28	%
Dividend yield	—	%
Grant date fair value	\$4.96	

The Company applies a 5.5% forfeiture rate to its restricted stock and option grants.

In the nine months ended September 30, 2011, 57,177 unvested options and 12,783 unvested shares were forfeited. In the nine months ended September 30, 2011, 41,026 vested options expired unexercised. At September 30, 2011, the Company's unrecognized compensation expense related to options awards was approximately \$5.2 million, to be recognized over approximately 3 years.



During the three and nine months ended September 30, 2011, the Company received proceeds of approximately \$3,000 and \$185,000 from the exercise of 1,433 and 32,124 options, respectively. During the three and nine months ended September 30, 2010, the Company received proceeds of approximately \$1,000 and \$528,000 from the exercise of 224 and 55,964 stock options, respectively.

## 12. 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,

Table of Contents

property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to such lawsuits, the Company accrues reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on results of operations, cash flows or financial condition.

## 13. Enterprise Wide Disclosures

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

The following table represents concentrations of revenue by type of customer for the three and nine months ended September 30, 2011 and 2010.

	Three months ended September 30,				Nine months ended September 30,				
	2011	%	2010	%	2011	%	2010	%	
Federal.....	\$24,175	44	% \$45,136	45	% \$91,377	45	% \$100,128	38	%
State.....	9,559	18	% 10,363	10	% 41,631	20	% 26,364	10	%
Local.....	12,644	23	% 4,627	5	% 34,820	17	% 32,409	12	%
Private.....	8,205	15	% 39,898	40	% 36,711	18	% 103,805	40	%
	\$54,583	100	% \$100,024	100	% \$204,539	100	% \$262,706	100	%

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

## 14. Subsidiary Guarantors

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

## 15. Purchase of Common Shares

On May 4, 2011, the Board of Directors of the Company approved a common share repurchase program that authorizes the repurchase of up to \$40 million in open market value. The shares may be repurchased over time, depending on market conditions, the market price of the Company's common shares, the Company's capital levels and other considerations. The share repurchase program is expected to expire one year from the date the Plan was approved by the Company's Board of Directors. During the three and nine months ended September 30, 2011, the Company repurchased 0 and 305,500 shares at an average price of \$9.83 per share.

## 16. Capitalization Structure

Pursuant to its amended and restated certificate of incorporation, the Company has the authority to issue an aggregate of 60,000,000 shares of capital stock, consisting of 50,000,000 shares of common stock and 10,000,000 shares of

preferred, both with \$0.01 par value.

At September 30, 2011, and December 31, 2010, the Company had issued 27,436,922 and 27,017,165 shares of common stock, respectively, of which 27,119,191 shares were outstanding at September 30, 2011 and 27,004,933 were outstanding at December 31, 2010.

As discussed in Note 15, above, the Company repurchased 305,500 shares into treasury in the second quarter of 2011 at an aggregate cost of \$3.0 million. At September 30, 2011, shares held in treasury by the Company totaled 317,731.

No shares of preferred stock had been issued or were outstanding at September 30, 2011 and December 31, 2010.

15

---

Table of Contents

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

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control, including unforeseen productivity delays, 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, 2010 ("2010 Form 10-K") may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements in this quarterly report on Form 10-Q speak only as of the date of this report; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly.

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

Overview

We are a leading marine specialty contractor serving the heavy civil marine infrastructure market. We provide a broad range of marine construction and specialty services on, over and under the water along the Gulf Coast, the Atlantic Seaboard, the West Coast, Canada, and the Caribbean Basin. Our customers include federal, state and municipal governments, the combination of which accounted for approximately 85% of our revenue in the three months ended September 30, 2011, as well as private commercial and industrial enterprises. We are headquartered in Houston, Texas.

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

as backlog, current utilization of equipment and other resources, ability to obtain necessary surety bonds and competitive considerations. The timing and location of awarded contracts may result in unpredictable fluctuations in the results of our operations.

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

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

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

Table of Contents

Recent Developments and Outlook. We continue to experience pricing pressure on margins, increased competition in our markets, and delays in capital infrastructure projects, particularly in the level of federal government funding, which has slowed the pace of projects put out to bid. Continued delays in Navy and Corps of Engineers project lettings, due to the overall uncertainty regarding federal government budget and funding processes, as well as the general malaise in the economy, could have an adverse effect on our business, financial condition and results of operations. We have responded to these pressures by implementing cost cutting measures to right-size our cost structure, facilities and overhead, while continuing to bid responsibly.

Despite these uncertainties, we increased backlog during the quarter as compared with the second quarter of 2011, and, in the long-term, we see positive trends in demands for our services in our end markets, including:

- Inland waterways continue to silt in, which has been exacerbated by the Mississippi River flooding this spring, and require dredging;

- On-going demand for marine construction services; and

As a result of recent cargo volume increases and expected additional future demands as larger ships begin to transit the Panama Canal, we expect ports in our geographic area to require additional dredging services and port infrastructure expansion.

Our focus in 2011 is to manage our business effectively and efficiently, while maintaining pricing discipline; to closely monitor the costs of our operations; and to maintain our strong balance sheet.

## Consolidated Results of Operations

Three months ended September 30, 2011 compared with three months ended September 30, 2010

	Three months ended September 30,		2010		
	2011		Amount	Percent	
	Amount	Percent	Amount	Percent	
	(dollar amounts in thousands)				
Contract revenues	\$54,583	100.0	% \$100,024	100.0	%
Cost of contract revenues	57,014	104.5	81,594	81.6	
Gross profit (loss)	(2,431)	) (4.5)	) 18,430	18.4	
Selling, general and administrative expenses	6,631	12.1	6,949	6.9	
Operating (loss) income	(9,062)	) (16.6)	) 11,481	11.5	
Other income (expense)					
Gain from bargain purchase of a business	—	—	—	—	
Other income	44	0.1	—	—	
Interest income	5	—	11	—	
Interest (expense)	(95)	) (0.2)	) (89)	) (0.2)	)
Other expense, net	(46)	) (0.1)	) (78)	) (0.2)	)
(Loss) income before income taxes	(9,108)	) (16.7)	) 11,403	11.3	
Income tax (benefit) expense	(2,890)	) (5.3)	) 4,305	4.3	
Net (loss) income	\$(6,218)	) (11.4)	)% \$7,098	7.0	%

Contract Revenues. Revenues for the three months ended September 30, 2011 decreased approximately 45% as compared with the same period last year, reflecting a general slowdown in the letting of contracts by government agencies faced with budgetary constraints. The decrease was due primarily to gaps between project end dates and the remobilization of equipment to new projects. In addition, we were unable to commence work as expected on two major projects due to permitting and other factors beyond our control, which has shifted revenue to later periods.

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

Contract revenue generated from public agencies, including the US Corps of Engineers, represented 85% of total revenues in the third quarter of 2011, as compared with 60% of publicly funded projects in the prior year period. Revenue generated from the private sector was 15% and 40% in the third quarter of 2011 and 2010, respectively. The shift in work toward the public sector is due in part to the dredging assets purchased in 2010, which added to our capacity to bid on federal projects, as well as to the weak economy, which has reduced capital expenditure spending by the private sector.

**Gross Profit.** Gross profit for the third quarter was a negative \$2.4 million. As compared with prior year period, the variance is primarily related to underutilized equipment and to crews idled when projects completed. Equipment costs, including depreciation expense, as a result of acquisitions completed in 2010 also increased between periods. Gross margin in the third quarter was a

Table of Contents

negative 4.5% as compared to a positive 18.4% in the prior year quarter. The variance between periods related to the factors described above, to pricing pressure, and to the mix and scope of the contracts in projects in the current year as compared with the third quarter of 2010. Our contract self-performance rate during the third quarter of 2011 was approximately 81% of costs, slightly higher than the prior year third quarter, when the rate was 79%, as measured by costs.

**Selling, General and Administrative Expense.** Selling, general and administrative ("SG&A") expenses decreased by \$0.3 million as compared with the third quarter of 2010, primarily due to cost cutting measures put in place during the year.

**Income Tax (Benefit) Expense** Our effective rate for the three months ended September 30, 2011 was 31.7% and in the three months ended September 30, 2010 was 37.8%, and differed from the statutory rate of 35% due to the loss in the current period, the non-deductibility of certain permanent tax items, to a state tax benefit in the current year period, and a true-up to the federal tax return. In the prior year period, our effective rate of 37.8% differed from the statutory rate of 35% primarily due to the non-deductibility of permanent tax items, such as incentive stock compensation expense.

Nine months ended September 30, 2011 compared with six months ended September 30, 2010

	Nine months ended September 30, 2011		2010		
	Amount	Percent	Amount	Percent	
	(dollar amounts in thousands)				
Contract revenues	\$204,539	100.0	% \$262,706	100.0	%
Cost of contract revenues	194,699	95.2	209,100	79.6	
Gross profit	9,840	4.8	53,606	20.4	
Selling, general and administrative expenses	21,643	10.6	25,490	9.7	
Operating (loss) income	(11,803	) (5.8	) 28,116	10.7	
Other income (expense)					
Gain from bargain purchase of a business	—	—	2,176	0.8	
Other income	44	—	—	—	
Interest income	22	—	43	—	
Interest (expense)	(263	) (0.1	) (322	) (0.1	)
Other (expense) income, net	(197	) (0.1	) 1,897	0.7	
(Loss) before income taxes	(12,000	) (5.7	) 30,013	11.4	
Income tax (benefit) expense	(4,104	) (2.0	) 11,125	4.2	
Net (loss) income	\$(7,896	) (3.7	)% \$18,888	7.2	%

**Contract Revenues.** Revenues for the nine months ended September 30, 2011 decreased approximately 22% as compared with the comparable period last year. The decrease was due to changes in the size, composition and schedules of the jobs in each period. During the second and third quarters of 2011, continued delays in the level of federal government funding for capital infrastructure projects slowed projects put out to bid, and created gaps between project ends and new project starts. Contract revenue generated from public agencies, including the US Corps of Engineers, represented 82% of total revenues in the first nine months of 2011, as compared with 60% of publicly funded projects in the prior year period. Revenue generated from the private sector was 18% and 40% in the first nine months of 2011 and 2010, respectively.

**Gross Profit.** Gross profit was \$9.8 million in the nine month period ended September 30, 2011, a decrease of \$43.8 million compared with the nine months ended September 30, 2010, primarily related to increased equipment costs, including an increase in depreciation as a result of acquisitions completed in 2010, and to maintenance and repairs,



mainly on dredging assets. Gross profit was impacted additionally by underutilized equipment and to crews idled when projects completed, and by an increase in our estimated for self-insurance claims, related to two non-fatal job related accidents. Gross margin in the in the first nine months of 2011 was 4.8%, as compared with 20.4% in the prior year period. The variance between periods related to the factors described above, to pricing pressure, and to the mix and scope of the contracts in projects in the current year as compared with the same period last year. Our contract self-performance rate during the period was approximately 85% of costs, slightly higher than the first nine months of 2010, when the rate was 83%, as measured by costs.

Selling, General and Administrative Expense. SG&A expenses were lower by approximately \$3.8 million in the nine months ended September 30, 2011 as compared with the nine months ended September 30, 2010, primarily related to cost cutting measures put in place during the year, including the elimination of bonus expense, offset in part by higher than expected group medical costs. In addition, SG&A expenses in the prior year included approximately \$1.7 million in costs related to the acquisitions of businesses in the first quarter of 2010.

## Table of Contents

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

Income Tax (Benefit) Expense Our effective rate for the nine months ended September 30, 2011 and 2010 was 34.2% and 37.1%, respectively and differed from the statutory rate of 35% due to the loss in the current year period, the non-deductibility of certain permanent tax items, to a state tax benefit in the current year period, and a true-up to the federal tax return. In the prior year period, our effective rate of 37.1% differed from the statutory rate of 35% primarily due to the non-deductibility of permanent tax items, such as incentive stock compensation expense.

## Backlog Information

Our contract backlog represents our estimate of the revenues we expect to realize under the portion of the contracts remaining to be performed. Given the typical duration of our contracts, which ranges from three to nine months, 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. In addition, 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 materially adversely affected by contract cancellations or modifications in the past, we may be, 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 given time.

Backlog at September 30, 2011 was \$146.1 million, as compared with \$217.3 million at September 30, 2010, and was below the comparable prior year period due primarily to delays in lettings by the Army Corps of Engineers. Ending third quarter backlog represents a sequential increase of \$26.3 million as compared to the second quarter 2011.

## Liquidity and Capital Resources

Our primary liquidity needs are to finance our working capital, invest in capital expenditures, and pursue strategic acquisitions. Historically, our source of liquidity has been cash provided by our operating activities and borrowings under our credit facility.

Our working capital position fluctuates from period to period due to normal increases and decreases in operational activity. At September 30, 2011, our working capital was \$76.8 million, as compared with \$76.7 million at December 31, 2010. As of September 30, 2011, we had cash on hand and availability under our revolving credit facility (including an accordion at the Lender's discretion) of \$134.3 million.

Continued pressures on revenue resulting from delays in project lettings by the Navy and Corps of Engineers and reduced margins due to increased competition and pricing pressure could have an adverse affect on liquidity in the future. However, we expect to meet our future internal liquidity and working capital needs, and maintain our equipment fleet through capital expenditure purchases and major repairs, from funds generated in our operating activities for at least the next 12 months. We believe our cash position, combined with the capacity available under our revolving credit facility, is adequate for our general business requirements.

The following table provides information regarding our cash flows and capital expenditures for the nine months ended September 30, 2011 and 2010 (unaudited):

Nine months ended September 30,

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

	2011	2010
Cash flows provided by operating activities	\$26,719	\$18,879
Cash flows used in investing activities	\$(11,887	) \$(95,198
Cash flows (used in) provided by financing activities	\$(2,818	) \$183

Operating Activities. During the nine months ended September 30, 2011, our operations provided approximately \$26.7 million in cash, as compared with \$18.9 million in the prior year period. This increase was achieved, despite the loss generated in the current period, primarily to changes in components of working capital, including strong collections of receivable balances, as well as a reduction in our level of payments due to third party vendors, reflecting the decrease in revenues in the period . 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. Significant changes in non cash items included increases in depreciation

## Table of Contents

and deferred income tax, resulting from the acquisitions in 2010. In the prior year, changes in non-cash items included a gain on the fair value in excess of the purchase price of a business acquired during the period.

**Investing Activities.** In the current year, additions to our capital assets were \$12.7 million, a decrease as compared with \$25.1 million in the prior year period. In January 2010, we purchased the membership interest of TW LaQuay Dredging for \$60.0 million with an additional \$4.0 million held in escrow. The escrow portion was settled for a final purchase price of \$60.9 million. In February 2010, we purchased a marine construction business for approximately \$7.0 million.

**Financing Activities.** In the nine months ended September 30, 2011, we purchased 305,500 shares of our common stock into treasury for a total cost of approximately \$3.0 million. In addition, we received proceeds from stock option exercises of \$185,000, as compared with \$528,000 in the prior year period.

### Sources of Capital

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

The Credit Agreement provides for borrowings of up to \$75,000,000 under revolving and swingline loans (as defined in the Credit Agreement) with a \$20,000,000 sublimit for the issuance of letters of credit. An additional \$25 million is available under the facility subject to the Lenders' discretion (together, the "Credit Facility"). The Credit Facility matures on June 30, 2013, and is guaranteed by the subsidiaries of the Company. The Credit Facility may be used to finance working capital, repay indebtedness, fund acquisitions, and for other general corporate purposes. Principal balances drawn under the Credit Facility may be prepaid at any time, in whole or in part, without premium or penalty. Amounts repaid under the Credit Facility may be re-borrowed.

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

▲ Fixed Charge Coverage Ratio of not less than 1.50 to 1.00 at all times;

▲ Leverage Ratio of not greater than 2.50 to 1.00 at all times;

Minimum Net Worth of not less than a base amount of \$180,000,000, plus the sum of 50% of each prior period consolidated net income plus 50% of the Borrower's and its subsidiaries consolidated net income for that quarter, plus 75% of all issuances of equity interests by Borrower during that quarter.

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

The Company is subject to a commitment fee, payable quarterly in arrears on the unused portion of the Credit Facility at a current rate of 0.25% of the unused balance. As of September 30, 2011, no amounts had been drawn under the Credit Facility, and the Company's availability under the Credit Facility was approximately \$74.9 million.

At September 30, 2011, the Company was in compliance with all its financial covenants with a sufficient margin as to not impair its ability to incur additional debt or violate the terms of the Credit Facility, and had outstanding letters of credit of \$979,221. Historically, the Company has not relied on debt financing to fund its operations or working capital.

### Bonding Capacity

We are generally required to provide various types of surety bonds that provide additional security to our customers for our performance under certain government and private sector contracts. Our ability to obtain surety bonds depends on our capitalization, working capital, past performance and external factors, including the capacity of the overall surety market. At September 30, 2011, our capacity under our current bonding arrangement with Liberty Mutual was in excess of \$400 million, of which we had approximately \$100 million in surety bonds outstanding. During the quarter ended September 30, 2011, approximately 82% of projects, measured by revenue, required us to post a bond.

#### Off-Balance Sheet Arrangements

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

Table of Contents

Inflation

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Commodity price risk

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

Interest rate risk

At September 30, 2011, we had no borrowings under our revolving credit facility or line of credit. Our objectives in managing interest rate risk are to lower our overall borrowing costs and limit interest rate changes on our earnings and cash flows. To achieve this, we closely monitor changes in interest rates and we utilize cash from operations to reduce our debt position.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As required, the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based on that evaluation, such officers have concluded that the disclosure controls and procedures are effective.

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.

Table of Contents

PART II – Other Information

Item 1. Legal Proceedings

For information about litigation involving us, see Note 12 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 2010 Form 10-K

Item 6. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Orion Marine Group, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Form S-1 filed with the Securities and Exchange Commission on August 20, 2007)
3.2	Amended and Restated Bylaws of Orion Marine Group, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Form S-1 filed with the Securities and Exchange Commission on August 20, 2007)
4.1	Registration Rights Agreement 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 Form S-1 filed with the Securities and Exchange Commission on August 20, 2007)
10.1+	Employment Agreement dated January 1, 2011 between Orion Marine Group, Inc. and Mark R. Stauffer (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 2011, filed with the Securities and Exchange Commission on August 5, 2011)
10.2+	First Amendment to Employment Agreement between Orion Marine Group, Inc. and James L. Rose dated March 30, 2011 (incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2011, filed with the Securities and Exchange Commission on August 5, 2011).
10.3+	First Amendment to Employment Agreement between Orion Marine Group, Inc. and Peter R. Buchler, dated June 30, 2011 (incorporated herein by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended June 30, 2011, filed with the Securities and Exchange Commission on August 5, 2011).
31.1*	Certification of the Chief Executive Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Chief Financial Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 20
32.1*	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INSXBRL Instance Document

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

101.SCHXBRL Taxonomy Extension Schema Document  
101.CALXBRL Taxonomy Extension Calculation Linkbase Document  
101.DEF XBRL Taxonomy Extension Definition Linkbase Document  
101.LABXBRL Taxonomy Extension Label Linkbase Document  
101.PREXBRL Taxonomy Extension Presentation Linkbase Document

\* filed herewith

+ management or compensatory arrangement

22

---



Table of Contents

SIGNATURES

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

ORION MARINE GROUP, INC.

By:  
November 3, 2011

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

By:  
November 3, 2011

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